



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)

Annual Report
2016



* For identification purpose only



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2 CHAIRMAN'S STATEMENT

*Chairman of the Board
Mr. Zhu Baoguo*

Dear shareholders,

In 2016, with implementing further healthcare reforms, promoting synergy effect between medical care, medical insurance and medicines, enhancing reform and innovation and carrying out the national strategy of health in China, the Company has taken the initiative to adapt to the development of the New normal, responded to challenges arising from the continual macroeconomic slow-down and more stringent regulation. Thanks to joint efforts of all staffs in Livzon, we are pleased to see a satisfactory growth on operating results in 2016.

2016 REVIEW

During the year, the operating income of the Group was RMB7,651.78 million, representing a year-on-year growth of 15.58%. The net profit was RMB829.92 million, showing year-on-year growth of 25.83%, and the net profit attributable to the shareholders of the Company was RMB784.35 million, registering a year-on-year growth of 25.97%. Excluding extraordinary gains and losses, the Company's net profit attributable to its shareholders generated from principal activities in the year of 2016 was RMB682.47 million, representing a year on-year growth of 26.77%.

Based on the operating results and the overall financial position of the Group for 2016, the Board proposed the 2016 Annual Profit Distribution as follows: 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, 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 2016 Annual Profit Distribution Plan is subject to shareholders' approval at the 2016 Annual General Meeting.

During the year of 2016, the Group has carried out various work focused on the following areas: firstly, continuing precision marketing, adopting targeted sales strategy to key products and strengthening promotion efforts; secondly, pushing forward R&D platform construction and strengthening R&D innovation; thirdly, planning layout in the precise pharmaceutical industry chain. During the year, we made a contribution to AbCyte Therapeutics Inc. (a company in US), set up Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司) as the access for precise pharmaceutical field., and established Zhuhai Livzon Gene Diagnostics Ltd. (珠海市麗珠基因檢測科技有限公司), thereby completing the preliminary layout of precise pharmaceutical industry chain consist of "Livzon Reagents (麗珠試劑) + Livzon MAB. (麗珠單抗) + Livzon Gene (麗珠基因)" Additionally, the Company successfully completed the Non-public Issuance of A shares of 29,098,203 A shares and raised net proceeds amounting to approximately RMB1.42 billion, which took advantage of capital market and promoted the transformation and upgrade of industry.

THE COMPANY MANAGEMENT TEAM



Mr. Tao Desheng
Vice Chairman, President



Mr. Yang Diahong
Executive Directors,
Vice President



Mr. Fu Daotian
Executive Directors,
Vice President



Mr. Xu Guoxiang
Vice President



Mr. Lu Wenqi
Vice President



Ms. Si Yanxia
Vice President,
Chief Financial Officer



Mr. Yang Liang
Company Secretary

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PROSPECTS

The pharmaceutical market demand in PRC keeps growing continually. However, difficulties and constraints are still obvious in view of medical insurance cost controls and pressure for price reductions imposed and more difficult to develop new products.

Under the situation nowadays, Livzon sticks to the "Transforming and upgrading standardized development" as its management discipline, initiates effective solutions towards changes. The Company focuses on adjustments of policies and developments of industry, innovating management modes and fully utilizes power of products. We will continue to focus on expanding sales, improving its work on market access continually, and conducting quality control, risk and cost management and enriching the product competitive advantages to establish its own position and core competitiveness and foster sustainable increase of profits.

Furthermore, we will also strive to complete the target of the issuance of the 2017 Restricted A-share Incentive Scheme and actively explore other share incentive schemes in the medium and long term, which will stimulate the enthusiasm and creativity of employees and complete long-term balance among shareholders, staffs and social responsibilities and shared mechanism.

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

24 March 2017



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 2016, which had been prepared in accordance with China Accounting Standards for Business Enterprises, was audited by Ruihua Certified Public Accountants (LLP), and a standard unqualified audit report thereon was issued.

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

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

The Board proposes the 2016 Annual Profit Distribution Plan as follows: 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, it is expected to distribute a cash dividend of RMB5 per 10 shares (tax inclusive) to all the shareholders of the Company on 28 July 2017. 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 "Dividend Distribution Plan for the year"). The Dividend Distribution Plan for the year is subject to approval at the 2016 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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6 I. IMPORTANT NOTICE AND DEFINITIONS

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 2016;
"Same Period Last Year" or "Last Year"	the twelve months from 1 January to 31 December 2015;
"End of Last Year" or "Beginning of the year"	31 December 2015;
"End of the year" or "End of the Reporting Period" or "End of the Period"	31 December 2016;
"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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I. IMPORTANT NOTICE AND DEFINITIONS

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"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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8 I. IMPORTANT NOTICE AND DEFINITIONS

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

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COMPANY INFORMATION

	A Shares	H Shares
Stock abbreviation	Livzon Group	Livzon Pharma <small>Note 1</small> , 麗珠H代 <small>Note 2</small>
Stock code	000513	01513 <small>Note 1</small> , 299902 <small>Note 2</small>
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 1702, Bayfield Building, 99-101 Hennessy Road, Wan Chai, Hong Kong	
Company's website	www.livzon.com.cn	
E-mail	LIVZON_GROUP@livzon.com.cn	
<i>Note 1:</i>	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.	
<i>Notes 2:</i>	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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10 II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

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

INFORMATION DISCLOSURE AND PLACE WHERE COPIES OF THIS REPORT ARE AVAILABLE

Media for information disclosure selected by the Company:	China Securities Journal, Securities Times
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

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



OTHER RELEVANT INFORMATION

Accounting Firm Appointed by the Company

Name of accounting firm	Ruihua Certified Public Accountants (LLP)
Address of accounting firm	4/F, Tower 2, No.16, Xishuanzhong Road, Haidian District, Beijing
Name of signing accountants	Li Encheng, Xiao Jingxiang

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
Assistant Company Secretary and Alternate to Authorised Representatives	Cheng Pik Yuk
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

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), Chen Si (陳斯)	From 20 September 2016 to 31 December 2017

Financial advisor appointed by the Company for continuing supervisory responsibilities during the year

Applicable Not applicable

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

Applicable Not applicable

According to the requirement of Cai Kuai [2016] No. 22, the item "Business taxes and surcharges taxes" in the income statement will be adjusted as "Taxes and surcharges", and related taxes items such as property tax payable, land use tax payable, vehicle and vessel usage tax payable and stamp duty payable reflected originally under the management fees will be adjusted as "Taxes and surcharges". Items of credit balance including "VAT payable", "outstanding VAT", "deductible VAT", "input VAT sit for certification", "VAT credit balance" are presented as "Other current assets" and "Other non-current assets" on the balance sheet as the case maybe.

II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

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

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

YES NO

Items	2016	2015	Year-on-year change (%)	Amount denominated: RMB'000		
				2014	2013	2012
Operating income	7,651,775.29	6,620,516.54	15.58%	5,544,233.78	4,618,680.04	3,943,525.31
Net profit attributable to shareholders of the Company	784,353.61	622,641.03	25.97%	515,978.43	487,502.35	441,671.52
Net profit attributable to the shareholders of the Company after deducting the extraordinary gain or loss	682,466.19	538,364.28	26.77%	463,031.47	462,159.19	396,190.25
Net cash from operating activities	1,279,215.04	927,788.46	37.88%	717,393.89	439,986.53	593,964.66
Total profit	1,005,061.18	807,921.30	24.40%	652,025.03	628,940.45	560,312.74
Items	At the end of 2016	At the end of 2015	Change compared with the end of last year (%)	At the end of 2014	At the end of 2013	At the end of 2012
	10,529,262.95	8,077,537.79	30.35%	7,302,605.06	6,566,006.12	5,633,753.96
Total assets	3,423,624.45	3,267,641.05	4.77%	3,220,183.53	2,961,486.64	2,453,634.71
Total liabilities	6,505,987.40	4,346,255.33	49.69%	3,696,516.57	3,344,648.58	3,008,015.81
Net assets attributable to the shareholders of the Company	425,730.13	396,889.55	7.27%	295,721.85	295,721.85	295,721.85
Shareholders' equity per share attributable to the shareholders of the Company (RMB)	15.28	10.95	39.54%	12.50	11.31	10.17

PRINCIPAL FINANCIAL INDICATORS

Items	2016	2015	Year-on-year change (%)	Amount denominated: RMB		
				2014	2013	2012
Basic earnings per share	1.98	1.62	22.22%	1.34	1.27	1.15
Diluted earnings per share	1.97	1.60	23.13%	1.34	1.27	1.15
Basic earnings per share after deducting extraordinary gain or loss	1.72	1.40	22.86% Down by 0.03	1.20	1.20	1.03
Weighted average return on net assets (%)	15.48%	15.51%	percentage points Down by 0.03	14.66%	15.34%	15.17%
Return on equity attributable to shareholders of the Company (%)	12.06%	14.33%	percentage points Down by 2.27	13.96%	14.58%	14.68%
Equity attributable to shareholders of the Company to total assets ratio (%)	61.79%	53.81%	percentage points Up by 7.98	50.62%	50.94%	53.39%

Whether corporate debts exist

YES NO

Whether the Company has continuous deficit in recent two years

YES NO Not applicable

DIFFERENCES IN ACCOUNTING DATA UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

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

Applicable Not applicable

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

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

Applicable Not applicable

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

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

Applicable Not applicable

QUARTERLY PRINCIPAL FINANCIAL INDICATORS

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	<i>Amount denominated: RMB'000</i>
Operating income	1,745,574.03	2,038,725.63	1,939,550.45	1,927,925.17	
Net profit attributable to shareholders of the Company	230,111.89	178,949.93	205,712.20	169,579.59	
Net profit attributable to shareholders of the Company after deducting the extraordinary gains or losses	189,314.72	174,527.15	173,889.75	144,734.57	
Net cash from operating activities	138,284.02	169,639.68	575,204.32	396,087.02	

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



14 II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

ITEMS AND AMOUNTS OF EXTRAORDINARY GAINS OR LOSSES

Applicable Not applicable

Items	Amount denominated: RMB		
	Amounts in 2016	Amounts in 2015	Amounts in 2014
Gains and losses from disposal of non-current assets (including those already written off in the provision for impairment of assets as provided)	5,309,155.74	-4,005,495.80	-999,029.93
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)	128,100,925.11	127,679,776.28	66,827,495.36
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)	-930,399.32	-182,343.23	-1,497,131.42
Other non-operating income and expenses apart from the above	-4,356,879.36	-8,552,063.55	1,688,027.35
Less: Effect on income tax	17,442,373.66	14,326,733.64	9,666,588.14
Effect on non-controlling interests (after tax)	8,793,009.36	16,336,387.58	3,405,813.53
Total	101,887,419.15	84,276,752.48	52,946,959.69

Note: Details concerning the government grant accounted in the current profit and loss please refer to the relevant set out in the section of "note VI. 48. Non-operating income" of the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises of the annual report.

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.



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(枸櫞酸鉍鉀)) products, Anti-viral Granules (抗病毒顆粒), Urofollitropin for Injection (麗申寶(注射用尿促卵泡素)), Menotropins for Injection (樂寶得(注射用尿促性素)), Ilaprazole (Ilaprazole Enteric Coated Tablet) (壹麗安(艾普拉唑腸溶片)), Voriconazole itraconazole for Injection (麗福康(注射用伏立康唑)) and Cefodizime Sodium for injection (Mouse Nerve Growth Factor for Injection) 麗康樂(注射用鼠神經生長因子) 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)).



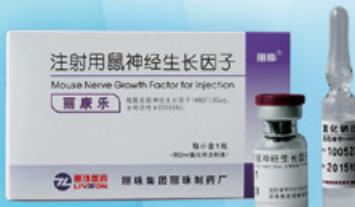
Ilaprazole Enteric Coated Tablets
For treatment of duodenal ulcers.



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



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



**Mouse Nerve Growth
Factor for Injection**
For treatment of traumatic
optic neuropathy.



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



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

MATERIAL CHANGES IN MAJOR ASSETS

Major assets	Details for material changes
Equity assets	A decrease of 4.19%, no material changes for this year
Fixed assets	An increase of 0.52%, no material changes for this year
Intangible assets	An increase of 15.20%, no material changes for this year
Construction in progress	A decrease of 41.91%, mainly due to construction in progress of disposed subsidiaries reduced and certain projects qualified for complement then transferring relevant assets
Cash at bank and on hand	An increase of 158.29%, mainly due to the increase in Cash at bank and on hand resulted from non-public issuance of A Shares during the year
Bills receivable	An increase of 49.54%, mainly due to the increased borrowings received, which is settled by bills
Other current assets	At the end of this period is 690 million (corresponding period: Nil), mainly due to the cash management in respect of idle raised proceeds to buy financial products with guaranteed interest with higher return and the classification of VAT credit balance to "other current assets" under Caikuai [2016] No. 22
Deferred tax assets	An increase of 46.73%, mainly due to the non-realization of the internal transaction profits arising from the deductible temporary differences
Other non-current assets	An increase of 92.00%, mainly due to the classification of VAT credit balance to "other current assets" under Caikuai [2016] No. 22
Long-term deferred expenses	An increase of 131.06%, mainly due to plants renovation classified into other current assets

Major foreign assets:

Applicable Not applicable



ANALYSIS OF CORE COMPETITIVENESS

The Group adheres to the development target of becoming a high-end specialty pharmaceutical enterprise, with the core business philosophy of "Transformation and Upgrade, Regularize development" for the future and constant pursues innovation. During the year, there were no major changes in the Group's core competitiveness, primarily reflected in the following areas:

1. Diversified product mix and business portfolio

Our products cover drug preparation products, raw material and intermediaries, diagnostic reagents and equipment in various pharmaceutical sub-sectors. In addition, the Group has established an advantageous position in the specialized pharmaceutical segments of anti-tumor supporting medicine, assisted reproduction, gastrointestinal drugs and neurology drugs.

2. Comprehensive marketing system and professional marketing team

The Group has a marketing network covering the majority of leading medical institutions, chain drugstores, disease control centres and health authorities in China. There are more than 9,000 staff members in the marketing team for various sections and providing professional sales services. The Group implements delicacy management of marketing and constantly optimizes incentive assessment mechanism, strengthens marketing promotion and enhances construction of sales system. Through optimizing resources allocation, a more complete marketing system is constructed.

3. Proven quality management system

The Group has established a three-dimensional quality management system covering production quality, scientific research and sales of products, and carried out various quality management tasks with the dual core philosophy of "comprehensive prevention of product quality risk, comprehensive prevention of system risk", effectively ensuring the safety and stability of products in various areas of the Group.

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

The Group has a diversified, multi-level R & D institution and has strong R&D capabilities and global R&D vision in areas such as chemical drugs, drug preparation products for traditional Chinese medicine, biopharmaceutical drugs and diagnostic reagent. With specialized products portfolio of anti-tumor, assisted reproduction, gastrointestinal and neurological drugs, it has established a clear R&D products management pipeline. Through approaches such as attracting experts and innovative talents from home and abroad and overseas, increasing R&D investment and forming overseas strategic alliances, R&D competitiveness of the Group is further enhanced.

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.

SUMMARY

As the healthcare reform has kept deepening in 2016 with various policies of the pharmaceutical industry continuously announced. Despite policies such as control on medical insurance fees, tender arrangements for price reduction, clinical reviews, consistency evaluation, production process verification, marketing standardization, B2V Reform for drug price reductions, the pharmaceutical industry continued its slow growth. Industry data above the scale of National Bureau of Statistics showed that operating income of principal activities of the whole pharmaceutical industry registered year-on-year growth of 9.7% and profit growth rate of 13.9% in 2016.

In the face of multiple challenges of constant slow-down economic trend, frequent introduction of industry operation policies and increasingly intense competition, the Group closely followed new trends in policy and industry development, implementing the management approach of "innovation, service, integration and development". Through continuous in-depth marketing reform, constant focus on R&D strategies adjustment and the efforts of various business enterprises, the annual business objectives were well completed.

During the year, the Group recorded an operating income of RMB7,651.78 million, representing an increase of 15.58% as compared with RMB6,620.52 million of the previous year. Net profit was RMB829.92 million, representing an increase of 25.83% as compared with RMB659.56 million of the previous year. Net profit attributable to shareholders of the Company was RMB784.35 million, representing an increase of 25.97% as compared with RMB622.64 million of the previous year. Excluding extraordinary gains and losses, the Company's net profit attributable to its shareholders generated from principal activities in 2016 was RMB682.47 million, representing an increase of 26.77% as compared with RMB538.36 million of the previous year, and overachieving the goal of the Restricted A Share Incentive Scheme.

During the year, the Group carried out various work steadily and achieved results in the following areas:

1. Continuing precision marketing, strengthening promotion efforts

During the year, the Group further integrated resources such as products, channels and terminals, with the guidelines of "everyone has their duties and are assessed, and every task is done and assessed" for its marketing work. Incentive assessment mechanism was optimized, delicacy management was implemented and sales system construction was strengthened. Firstly, to implement responsibilities and rights of various levels, leveraging the functions of organizational structures of provincial companies; secondly, to fully promote its products on the mass level and speed up the construction of primary health care sales network. Thirdly, to strengthen business control, timely optimize tender strategy and improve delivery system under the two-vote system; fourthly, to centre on end-users and strengthen marketing efforts within the academic field and end-users. For sales of key products, we will continue exploring the differentiation of products and expanding areas of specialist treatment, adopting targeted sales strategy, actively expanding the scope and depth of the market and further maintaining the market dominance of our products.

SUMMARY *(continued)*

1. Continuing precision marketing, strengthening promotion efforts *(continued)*

During the year, sales of our key product Shengqi Fuzheng Injection (參芪扶正注射液) grew steadily, with income from sales amounting to RMB1,679.63 million and year-on-year increase of 9.31%. Income from sales of Gonadotropic hormones are totaled to RMB 1,179.93 million and a year-on-year increased of 27.99%. Potential products, including gastrointestinal and neurological drug Ilaprazole Enteric Coated Tablets (艾普拉唑腸溶片) and Mouse Nerve Growth Factor (鼠神經生長因子) maintain further rapid growth, with year-on-year increase of 52.34% and 63.88%. Details please refer to "Income and Costs" in the Chapter IV of the annual report.

During the year, the Group continued to develop overseas market of preparations with the focus on registering and sales of the assisted reproduction, gastrointestinal, anti-viral and antibiotic products in the Philippines, Pakistan, the CIS countries and Central American countries or regions, with overseas sales of preparations amounting to RMB17.62 million.

2. Pushing forward R & D platform construction, strengthening R & D innovation

During the year, the Group continued to follow the breakthrough of specialist and innovative R&D platforms such as antibody, sustained release of microspheres. With specialized products portfolio of anti-tumor, assisted reproduction, gastrointestinal and neurological drugs, it has established a concentrated and clear R&D products management pipeline.

In 2016, we have commenced R&D work in the following five areas: (1) Strengthening construction of two key platforms: during the year, substantial progress in the platform of antibody was achieved, with four products reaching clinical stage currently; long-term Microsphere National and Local Joint Research Center was independently established from research institute with operation and management capacity strengthened. (2) Improving R&D management system: committee of scientific experts was formed to conduct a comprehensive review and re-assess existing scientific research projects, standardize processes such as registering, reporting and handling of R&D projects; enhancing quality control of scientific research, supervise on issues such as consistency of declared and actual production process and data completeness by quality management headquarter. During the year, verification was conducted on Leuprorelin Acetate Microspheres Sustained Release for Injection (注射用醋酸曲普瑞林緩釋微球) of research institute and the Anti-HER2 Humanized Monoclonal Antibody for Injection (重組人源化抗HER2單克隆抗體注射液) of Livzon MAB to ensure that research work is conducted orderly, effectively and compliant to rules. (3) Pushing forward the progress of on-going research projects, achieving remarkable results. (4) Pushing forward consistent assessment: office for consistent assessment was established to coordinate related projects of the Group, with the work of the first stage commenced by adopting various approaches of self-research, cooperation and commissioning. Currently, consistent assessment of 13 products has commenced. (5) increasing the reporting of technology projects and application for government subsidies.

For details of the progress of key R&D projects of the Group in 2016, please refer to "R&D Investment" of Chapter IV of this annual report.

SUMMARY *(continued)*

3. Strengthening management of quality control, implementing "monitoring, assisting and facilitating"

During the year, the Group focus on "lowering the risk and increasing the productivity" for each manufacturing enterprise and establish rules and systems, standardizing management.

For management of production quality, 17 audits were conducted on 11 units of 9 manufacturers of the Group, assisting them to conduct inspection of quality risks and formulate rectification measures. For management of sales quality, examination of pharmaceuticals before storing into inventory and monitoring and reporting of adverse reactions of pharmaceuticals was strengthened. Quality audit of carriers and third-party logistics enterprises of pharmaceuticals was completed.

Under the coordination and management of bulk medicines department, pharmaceutical enterprises of bulk medicines of the Group lowered consumption, adjusted products structure, improved technology levels, increase international certification and raise profitability substantially by effective integration of staff and resources.

By constantly improve the operational norms of the laboratory and accuracy of data, the Group focused on the Testing Center of Livzon Pharmaceutical Factory for drug preparation products. Accreditation certificates and laboratory accreditation certificates were granted by China National Accreditation Service for Conformity Assessment.

As at 31 December 2016, all 29 production lines of the four preparations enterprises of the Group and a total of 13 production lines of 30 products of bulk medicines enterprises passed the new GMP certification. With the new GMP improvement and certification, the capacity of technical equipment, production management and quality control has increased, ensuring the quality and safety of our drugs.

For international certification, as at 31 December 2016, on-site examination of 15 products from raw materials manufacturing enterprise of the Group passed international certification, among which 11 passed that of FDA and a total of 12 international accreditation certificates were attained.

4. Strengthening internal control management, improving governance standards

During the year, under the overall management approach of "innovation, service, integration and development", the Group strengthened work management of functional departments. Scientific and systematic development and standardization of the management system was further improved. Internal control of the Company was strengthened and business risks were systematically prevented, which mainly includes the following areas:

- (1) Pushing forward the construction of human resources system: to establish business schools and their branches, improve staff training management system; strengthen the construction of staffers system, establish preliminary administrative and technical dual-channel hierarchy; optimize and improve staff compensation system, formulate corresponding subsidy management approach;
- (2) Optimizing funds and tax management of the Group: through improving function of capital pool, focus on advantages of credit and reasonable planning of scale and approach of loans, further reduce cost of capital. Sort out tax risks and standardize handling of tax-related matters.
- (3) Actively respond to "the shift from sales tax to value-added tax" and "two-vote system": to cooperate with multiple departments while combining external professional advisory bodies, to study and formulate feasible plans respond to "the shift from sales tax to value-added tax" and "two-vote system", to speed up the information system tests for modules and flow of the business system;

SUMMARY (*continued*)**4. Strengthening internal control management, improving governance standards** (*continued*)

- (4) Strengthen resources management and internal audit: establish engineering department in addition to general engineer's office and audit department in addition to head office of market standards, consolidate assets management and construction projects management and construction of its information systems, while strengthening mechanisms of internal control and management of the Group and various units
- (5) Completion of relocation of the whole Group and approval of government's project planning. During the year, the Group moved from the old factory in Guihua North Street of Gongbei to the Livzon industrial park of Jinwan District. Meanwhile, we actively communicated and coordinated with Government authorities and the renovation of the lands for urban redevelopment has obtained government approval. The Group entered into a memorandum of understanding with Guowei Fortune Investment Group Limited in relation to co-operation in respect of a land renovation project to facilitate the smooth implementation.
- (6) Implementation of the Restricted A Shares Incentive Scheme to improve the incentive mechanism on market.

5. Planning layout in the precise and integral pharmaceutical industry chain and enhancing the position in capital market

Leveraging on the synergistic effect of the business of biological preparation and testing reagent in the precise pharmaceutical field, the Group actively explored and planned the layout of "patient-centered" personalized medical business. During the year, the Group increased investment, planned and improved precise medical industry chain.

In March 2016, Livzon MAB. (麗珠單抗), the Company's controlling subsidiary, subscribed 40% equity interests of AbCyte Therapeutics Inc., speeding up the internationalization of biopharmaceutical drugs;

In March 2016, Livzon Reagents (麗珠試劑), the Company's controlling subsidiary, jointly established Cynvenio Biosystems, Inc. with Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司), entering into precise pharmaceutical field

In December 2016, the registration of Zhuhai Livzon Genes Testing Technology Co., Ltd was completed, forming the preliminary layout of industrial chain of precise pharmaceutical of "Livzon Reagents+Livzon MAB+Livzon Shengmei+Livzon Genes";

During the year, the Company successfully implemented and completed the Non-public Issuance of A shares, which fully took advantage of capital market in financing and built up the solid foundation of development for endogenous development of the Company.

ANALYSIS OF PRINCIPAL ACTIVITIES

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.

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.

Income and Costs

1. Income composition of principal activities

Amount Denominated: RMB

	2016 Amount	2016 As a percentage of operating incomes (%)		2015 Amount	2015 As a percentage of operating incomes (%)		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	7,616,666,638.44	100%	100%	6,516,612,497.64	100%	100%	16.88%	
By sector								
Western drug preparation products	717,931,167.60	9.43%	565,563,104.27	8.68%	26.94%	2.33%	9.60%	
Gastrointestinal	166,515,377.99	2.19%	151,935,039.21	2.33%	6.25%	15.49%	27.99%	
Cardio-cerebral vascular	385,405,201.31	5.06%	362,726,418.43	5.57%	27.21%	1,179,932,094.53	22.79%	14.47%
Antibiotics	736,193,716.17	9.67%	578,726,700.46	8.88%	27.91%	2,125,646,915.66	27.91%	9.29%
Gonadotropic hormones	1,735,731,170.74	22.79%	1,516,340,625.44	23.27%	14.47%	567,885,603.44	7.46%	21.13%
Other	2,125,646,915.66	27.91%	1,944,881,787.18	29.84%	9.29%	1,425,391.00	0.02%	-74.97%
Bulk medicines and Intermediates	567,885,603.44	7.46%	468,829,234.88	7.19%	21.13%	Shengqi Fuzheng Injection	22.05%	23.58%
Chinese drug preparation products	1,425,391.00	0.02%	5,693,620.80	0.09%	-74.97%	1,679,634,525.58	9.31%	9.31%
Diagnostic products and equipment								
Other								
By product								
Domestic	6,867,344,285.36	90.16%	5,881,694,954.30	90.26%	16.76%	Overseas	9.84%	9.74%
Overseas	749,322,353.08	9.84%	634,917,543.34	9.74%	18.02%	Total	100%	100.00%
								16.88%

ANALYSIS OF PRINCIPAL ACTIVITIES (continued)

Income and Costs (continued)

2. Industries, products and areas represent over 10% of operating incomes or operating profit to the Company

	Operating Incomes	Operating Costs	Gross profit margin	Year-on-year change in operating income	Year-on-year change in operating costs	Amount Denominated: RMB Year-on-year change in gross profit margin
By sector						
Western drug preparation products	3,185,977,557.60	640,142,058.66	79.91%	23.45%	12.43%	Up by 1.97 percentage points
Bulk medicines and intermediates	1,735,731,170.74	1,402,062,076.58	19.22%	14.47%	8.56%	Up by 4.93 percentage points
Chinese drug preparation products	2,125,646,915.66	428,828,870.17	79.83%	9.29%	8.57%	Up by 0.14 percentage points
Diagnostic reagents and equipment	567,885,603.44	246,905,977.64	56.52%	21.13%	20.16%	Up by 0.35 percentage points
By product						
Shengqi Fuzheng Injection	1,679,634,525.58	269,261,843.28	83.97%	9.31%	8.72%	Up by 0.09 percentage points
By region						
Domestic	6,867,344,285.36	2,150,540,083.10	68.68%	16.76%	12.02%	Up by 1.39 percentage points

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

During the year, the Group's principal activities generated an operating income of RMB7,616.67 million, representing an increase of RMB1,100.06 million or 16.88% as compared with RMB6,516.61 million of the previous year. Among which, the sales growth in western drug preparation products increased by 23.45% year-on-year and sales growth in bulk medicines and intermediates increased by 14.47% year-on-year. The income and growth of key western drug preparation products are as follows: the income from sales of Ilaprazole Enteric Coated Tablets (艾普拉唑腸溶片) amounted to RMB284.67 million with a year-on-year increase of 52.34%; the income from sales of assisted reproduction product Urofollitropin (輔助生殖產品尿促卵泡素) amounted to RMB544.04 million, representing a year-on-year increase of 25.82%; the income from sales of Leuprorelin Acetate Microspheres (注射用醋酸亮丙瑞林微球) was RMB386.39 million, increased by 31.01% year-on-year; the income from sales of Mouse Nerve Growth Factor (注射用鼠神經生長因子) for injection amounted to RMB491.35 million with a year-on-year increase of 63.88%. The income and growth of key bulk medicines and intermediates are as follows: the income from sales of Acarbose (阿卡波糖) was RMB157.27 million, increased by 118.75% year-on-year; the income from sales of Mycophenolate (酶酚酸) was RMB129.47 million with an increase of 61.29% year-on-year; the income from sales of Ceftriaxone Sodium (頭孢夫辛鈉) was RMB92.49 million with an increase of 39.70% year-on-year; the income from sales of the Lincomycin (林可霉素) was RMB91.22 million, representing a year-on-year increase of 55.93%. The sales growth of products mentioned above was primarily due to continuous progress in marketing reform which improved channel penetration, and accelerated the assembling of sales specialty, and driven by favorable impacts of the state's policies on some key products. Meanwhile, it also reflected an improving product structure of the Group and its increasing competitiveness..

During the year, operating costs of the Group's principal activities amounted to RMB2,722.17 million, representing an increase of RMB243.66 million or 9.83% as compared with RMB2,478.51 million of the previous year, mainly due to income growth and corresponding cost increase.

ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

Income and Costs *(continued)*

3. Operating income of principal activities by regions

Regions	Amount incurred for the year (RMB)		Amount Denominated: RMB	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	6,867,344,285.36	2,150,540,083.10	5,881,694,954.30	1,919,700,353.77
Overseas	749,322,353.08	571,626,267.68	634,917,543.34	558,808,193.09
Total	7,616,666,638.44	2,722,166,350.78	6,516,612,497.64	2,478,508,546.86

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

6. Operating costs composition

By Industry

By industry	Item	Amount	Amount Denominated: RMB		
			2016	Proportion to operating costs	2015
Pharmaceutical industry	Material costs	1,841,542,300.71	67.02%	1,811,564,644.44	70.35%
	Labour costs	281,284,145.27	10.24%	245,726,494.69	9.54%
	Depreciation	226,255,270.76	8.24%	181,113,661.32	7.03%
	Energy and power	258,438,760.68	9.41%	251,849,299.04	9.78%
	Other	275,361,653.93	10.01%	202,781,562.59	7.87%
	Movement in inventories beginning of the period and end of the period	-135,093,748.74	-4.92%	-117,705,127.69	-4.57%
	Operating costs	2,747,788,382.61	100.00%	2,575,330,534.39	100.00%
					6.70%

ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

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 8.67% (2015: 7.26%) of the total operating income of the Group, while the purchases from the five largest suppliers of the Group contributed to approximately 37.37% (2015: 32.06%) of the Group's total purchase of raw materials.

Major Customers of the Company for the year

Total sales amount from top five customers (RMB)	660,545,995.85
Percentage of sales amount from top five clients to total sales of the year (%)	8.67%

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	180,191,474.32	2.37%
2	Second	157,111,055.93	2.06%
3	Third	123,852,672.23	1.63%
4	Fourth	104,165,583.56	1.37%
5	Fifth	95,225,209.81	1.25%
Total		660,545,995.85	8.67%

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)	688,012,768.20
Percentage of purchase amount from top five suppliers to annual total purchase (%)	37.37%
Percentage of purchase amount from related party among top five suppliers to annual total purchase (%)	15.56%

ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

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	286,611,011.97	15.56%
2	Second	155,206,589.05	8.43%
3	Third	119,843,268.78	6.51%
4	Fourth	63,999,343.67	3.48%
5	Fifth	62,352,554.73	3.39%
Total		688,012,768.20	37.37%

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).

ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

Expenses

During the year, the Group's three major expense items (selling expenses, administrative expenses and financial expenses) amounted to RMB3,800.39 million, representing a year-on-year increase of RMB625.20 million or 19.69%. Details are as follows:

Items	2016	2015	Year-on-year changes (%)	Amount denominated: RMB
				Reasons for material changes
Selling expenses	3,070,370,909.10	2,541,675,092.56	20.80%	Mainly due to the sales growth, increased efforts in development and expansion of focused and new markets as well as increased expenses in sales-related service fee
Administrative expenses	724,603,490.65	606,301,968.07	19.51%	Mainly due to the increase in the R&D input and the staffs' remuneration
Financial expenses	5,411,503.60	27,203,995.64	-80.11%	Mainly due to the fluctuation of exchange rate and exchange gains increased, as well as the decreased bank loans and interest expenses
Total	3,800,385,903.35	3,175,181,056.27	19.69%	

During the year, the total income tax expenses were RMB175.15 million, representing a year-on-year increase of RMB26.79 million or 18.06%, mainly due to the increase in revenue and gross profit.

Investment in research and development

Applicable Not applicable

During the year, the Group's expenditures related to research and development amounted to approximately RMB474.78 million (2015: RMB375.70million), representing a year-on-year increase of 26.37%. The amount accounted for approximately 7.30% of net assets attributable to shareholders of the Company and approximately 6.20% of the Group's total operating income for the year.

As at the end of the year, the analysis of overall progress of the Group's research and development by field is as follows: in respect of chemical drug and Chinese drug preparation products, a total of 24 projects have been registered and have begun preclinical studies, 3 projects have been reported to the competent authorities for preclinical studies, 5 projects are undergoing clinical studies and 8 projects have been reported to the competent authorities for production; in respect of biopharmaceutical drugs, a total of 9 projects are being researched, among which, 4 projects have been registered, 1 project has been reported to the competent authorities for clinical studies and 4 projects are undergoing clinical studies. In respect of diagnostic reagent, 7 in vitro products have completed registration tests and entered into clinical phase; 1 equipment has completed research and development and entered into phase of registration tests. In respect of long-term microsphere, 7 projects have been registered and have begun preclinical studies, 1 project has been reported to the competent authorities for clinical studies. In respect of Shengmei Medical Diagnosis, 6 diagnostic reagent projects based on LiquidBiopsy equipment have completed registration for preclinical studies, of which obtained 10 filling certificates (type I) to produce reagent for sample processing used in LiquidBiopsy equipment and production certificates for Type I-medical equipment.

ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

Investment in research and development *(continued)*

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

- (1) Chemical drugs and Chinese drug preparation products: the approval for clinical application has been obtained for Ticagrelor Tablets (替格瑞洛片), Fluvoxamine Maleate Sustained-release tablets (馬來酸氟伏沙明緩釋片), Clopidogrel Hydrogen Sulfate Tablets (硫酸氫氯吡格雷片), Ferric Citrate Tablets (枸櫞酸鐵片), Ferric Carboxymahose Injection (羧基麥芽糖鐵注射液), Pramipexole Dihydrochloride sustained-release Tablets (鹽酸普拉克索緩釋片); clinical application for Butylphthalide (丁苯酞) and Butylphthalide and Sodium Chloride Injection (丁苯酞氯化鈉注射液) have been filed to the Guangdong Food and Drug Administration and has passed on-site inspection.
- (2) Biopharmaceutical drug preparation products: phase II / III clinical trial approval for Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody for Injection (注射用重組人源化抗人腫瘤壞死因子 α 單克隆抗體) were obtained and completed discussion of phase II clinical researchers program; approval for clinical testing of the recombinant biosimilar human chorionic gonadotropin (rhCG) for injection (注射用重組人絨促性素(rhCG)) has been obtained, phase I of Pharmacokinetics(PK) testing has started and application for ethical registration of phase I has been completed; approval for clinical application of Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody for Injection (重組人鼠嵌合抗CD20單克隆抗體注射液) has been obtained, clinical research head unit has been confirmed and communication on test design of CDE (國家食品藥品監督管理總局藥品審評中心) has been completed; approval for clinical application has been obtained for the Recombinant Anti-HER2 Humanized Monoclonal Antibody for Injection project (重組人源化抗HER2單克隆抗體注射液項目), with cooperation intention of the main researcher unit reached and preparation for clinical test has commenced; application for clinical test of Recombinant Humanized Anti-PD-1 Monoclonal Antibody (重組人源化抗PD-1單克隆抗體) has been completed, information has been filed to the Guangdong Food and Drug Administration and preparation for clinical studies and production of first batch of clinical drugs have been completed aboard; Investigational New Drug reporting of pilot scale production of Recombinant Anti-RANKL Monoclonal Antibody (重組全人抗RANKL單克隆抗體) has been completed and commenced preparation of report information;
- (3) Diagnostic reagents: adenovirus gold standard rapid reagent, registration tests for joint detection reagents kits of MYCOII IgM and IgG Antibody (肺炎支原體IgM和IgG抗體聯檢試劑盒) has entered clinical phase; registration tests of concentration test reagent, Voriconazole Itraconazole reagents kit (伏立康唑測定試劑盒), Levetiracetam reagents kit (左乙拉西坦測定試劑盒), Lamotrigine reagents kit (拉莫三秦測定試劑盒) and Oxcarbazepine reagents kit (奧凱西平測定試劑盒), HTLV Enzyme-Linked ImmunoSorbent Assay (ELISA) reagents kit (HTLV酶聯免疫檢測試劑盒) have been completed and is entering clinical phase; research and development for reading instrument for gold standard rapid reagent (金標快速試劑) has completed and will undergo registration tests for the next phase.

ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

Investment in research and development *(continued)*

- (4) Long-term Microsphere: 3 tranches of pilot scale study and stability study of retained samples of Leuprorelin Acetate Microspheres (注射用醋酸亮丙瑞林微球) (3-month sustained release) have been completed and animal pK/pD studies have also been completed, with animal in vivo efficacy equivalent to original study medicine; primary pilot study of Goserelin Acetate Sustained-Release Depo (醋酸戈舍瑞林緩釋植入劑) is undergoing; Triptorelin Acetate Microspheres Injection (注射用醋酸曲普瑞林微球) (1 month) Sustained-Release project is undergoing technological optimization and related studies according to consistency requirements is undergoing; In vitro release and in vivo pharmacokinetics products fundamentally consistent with original study medicine of Octreotide Acetate Microspheres (醋酸奧曲肽微球) project has been obtained and is undergoing magnification research; Triptorelin Acetate Microspheres (醋酸曲普瑞林微球) (3-month Sustained-Release) project is undergoing prescription technological optimization and has commenced study on in vivo pharmacodynamics; primary pilot study of Aripiprazole Microspheres (阿立哌唑微球) project has completed and is undergoing pilot study on batch quantity;利培酮微球 (Risperidone for Depot Suspension) project is undergoing primary pilot technological study and animal tests.
- (5) Shengmei Medical Diagnosis: production transfer of LiquidBiopsy® equipment has been completed and a system of production quality of medical equipment in compliance with the latest GMP has been established to realize domestic production and testing. It has obtained the approval of Guangdong Food and Drug Administration according to special approval process of the Guangdong Category II Innovative Medical Equipment", have completed registration and obtained registered reports to conduct clinical testing shortly. An all-round pharmaceutical liquid biopsy testing centre has been founded and commenced cooperation with 3-5 tertiary hospitals in China to implement functions including preparing, testing and sequencing of liquid biopsy samples.

Major technical prizes awarded during the year are as follows: "Research on in-depth R&D cooperation between Key Technology Industrialization and Industry-Academia-Research of major types of Chinese medicine (Shengqi Fuzheng Injection (參芪扶正注射液), Anti-viral Granules (抗病毒顆粒))" was awarded the first class prize in Chinese Industry-Academia-Research cooperation innovation and promotion; "Technology development and commercialization application of Long-term Microsphere" was awarded the second class prize in Chinese Industry-Academia-Research cooperation innovation and promotion; the national quality application standards for Anti-viral Granules (抗病毒顆粒) has been raised and approval of Chinese Pharmacopoeia Commission has obtained.

Major government subsidies received by the Group during the year are as follows: (1) Talent Plan Application of Guangdong Province Pearl River, provincial subsidies of enterprise research and development in Guangdong Province in 2016, New R & D capital reporting in Zhuhai in 2016, introduction of innovative teams in Zhuhai, capital reporting of new R & D institutions to Jinwan District government in 2015, application of subsidy for R & D innovation in Jinwan District of Zhuhai in 2016, 10 projects of government technology and talents such as capital projects reporting of new R & D institutions in Zhuhai 2017, received a total of RMB7,594,350. (2) Standardization of Shengqi Fuzheng Injection (參芪扶正注射液), a national project for standardization of Chinese medicine, received supporting funds of RMB5 million (3) "Construction of production base for commercialization of local medicine astragalus GAP", a project supported by the Ministry of Industry and Information Technology, received supporting funds of RMB35,800,000. Chinese herbal medicine project supported

ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

Investment in research and development *(continued)*

Investment in R&D

	2016	2015	Amount denominated: RMB Change
Number of R&D staff (person)	356	373	-4.56%
	5.65%	6.31%	Down by 0.66 percentage points
Proportion of R&D staff to total employees			
Amount of investment in R&D (RMB)	474,776,639.72	375,704,450.61	26.37%
	6.20%	5.67%	Up by 0.53 percentage points
Proportion of investment in R&D to operating revenue			
Amount of capitalized investment in R&D(RMB)	1,568,805.95	13,252,992.01	-88.16%
Proportion of capitalized investment in R&D to the total investment in R&D	0.33%	3.53%	Down by 3.20 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

ANALYSIS OF NON-PRINCIPAL ACTIVITIES

Applicable Not applicable

	Amount	As a percentage of total profits	Reason for occurrence	Amount Denominated: RMB
Investment income	1,340,566.47	0.13%	Mainly due to the changes in gains and losses of invested associates	YES
Gains or losses arising from changes in fair value	-930,399.32	-0.09%	Mainly due to the vitality formation of the market value of the invested stock	YES
Impairment of assets	107,178,553.66	10.66%	Mainly due to the impairment of the Company's overseas equity investment incurred as a result of lower fair value than cost	NO
Non-operating Income	136,029,232.75	13.53%	Mainly due the government subsidies received	YES
Non-operating expenses	7,448,331.26	0.74%	Mainly due to the expenses from disposal of fixed assets	NO

ANALYSIS OF FINANCIAL CONDITIONS

Material changes in assets composition

	Amount denominated: RMB					
	At the end of 2016		At the end of 2015		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	2,061,923,004.89	19.58%	798,295,283.74	9.88%	9.70%	Mainly due to the increased proportion of cash at bank and on hand in total assets resulting from non-public issuance of A Shares
Receivables	1,464,366,229.78	13.91%	1,256,094,264.14	15.55%	-1.64%	
Inventories	1,099,199,376.02	10.44%	983,915,770.14	12.18%	-1.74%	
Investment properties	-	-	-	-	-	
Long-term equity investments	91,109,734.79	0.87%	68,908,511.07	0.85%	0.02%	
Fixed assets	3,340,977,856.91	31.73%	3,323,765,437.26	41.15%	-9.42%	Mainly due to the decrease of the proportion resulting from non-public issuance of A Shares, etc., and the increase in total assets
Constructions in progress	201,733,854.47	1.92%	347,248,914.85	4.30%	-2.38%	Mainly due to construction in progress of disposed subsidiaries reduced and certain projects qualified for complement then transferring relevant assets
Short-term loans	-	0.00%	250,000,000.00	3.10%	-3.10%	Mainly due to the payment of bank loan
Long-term Loans	700,000.00	0.01%	700,000.00	0.01%	0.00%	

Assets and liabilities measured at fair value

Applicable Not applicable

Item	At the beginning of the year	Change in fair value for the year	Accumulated change in fair value in equity	Impairment provision for the year	Amount denominated: RMB		
					Amount purchased during the year	Amount sold during the year	At the end of the year
Financial assets							
1. Financial assets at fair value through profit or loss for the current period (excluding derivative financial assets)	6,589,225.34	-930,399.32	-	-	-	-	6,019,067.02
2. Derivative financial assets	-	-	-	-	-	-	-
3. Available-for-sale financial assets	38,926,777.92	-	-769,690.73	31,422,602.28	-	-	6,598,657.13
Sub-total for financial assets	45,516,003.26	-930,399.32	-769,690.73	31,422,602.28	-	-	12,617,724.15
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	45,516,003.26	-930,399.32	-769,690.73	31,422,602.28	-	-	12,617,724.15
Financial liabilities	-	-	-	-	-	-	-

Whether there are material changes in measuring assets during the year

YES NO

ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

Material changes in assets

	At 31 December 2016	At 31 December 2015	Amount denominated: RMB Year-on-year change (%)
Cash at bank and on hand	2,061,923,004.89	798,295,283.74	158.29%
Bills receivables	512,986,726.32	343,042,435.08	49.54%
Long-term equity investments	91,109,734.79	68,908,511.07	32.22%
Constructions in progress	201,733,854.47	347,248,914.85	-41.91%
Other current assets	689,748,423.34	-	-
Long-term deferred expenses	92,477,000.88	40,023,456.83	131.06%
Deferred tax assets	153,099,708.49	104,338,481.98	46.73%
Other non-current assets	115,019,206.09	59,906,523.64	92.00%

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

- (1) Cash at bank and on hand recorded year-on-year growth of 158.29%, mainly due to the proceeds received from non-public issuance of A shares during the year;
- (2) Bills receivables recorded year-on-year growth of 49.54%, mainly due to increase in loans received which are settled by bills;
- (3) Long-term equity investment recorded year-on-year growth of 32.22%, mainly due to increase in equity investments;
- (4) constructions in process recorded year-on-year decrease of 41.91%, mainly due to construction in progress of disposed subsidiaries reduced and certain projects qualified for complement then transferring relevant assets;
- (5) Other current assets recorded a year-on-year growth, mainly due to the cash management in respect of idle raised proceeds to buy financial products with guaranteed interest with higher return, and classification of VAT credit balance to "Other current assets" under Caikuai [2016] No. 22;
- (6) long-term deferred expenses recorded year-on-year growth of 131.06%, mainly due to increase in transfer from completion of constructions in process such as renovation of plants;
- (7) deferred income tax assets recorded year-on-year growth of 46.73%, mainly due to deductible temporary difference arising from gains from unrealized intra-company transactions;
- (8) Other non-current assets recorded year-on-year growth of 92.00%, mainly due to classification of VAT credit balance to "other non-current assets" under Caikuai [2016] No.22;

ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

Material changes in liabilities and equity

	At 31 December 2016	At 31 December 2015	<i>Amount denominated: RMB</i> Year-on-year change (%)
Short-term loans	–	250,000,000.00	-100.00%
Employee benefits payables	113,279,912.95	71,848,597.13	57.66%
Taxes payables	292,306,699.79	130,034,879.53	124.79%
Interest payables	3,812,602.74	11,823,945.25	-67.76%
Non-current liabilities due within one year	400,000.00	400,400,000.00	-99.90%
Other current liabilities	350,000,000.00	–	–
Deferred tax liabilities	17,285,280.40	12,442,303.79	38.92%
Capital reserve	1,820,309,052.12	395,709,350.15	360.01%
Treasury shares	140,321,805.40	247,219,957.00	-43.24%

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

- (1) Short-term loans decreased by 100% year-on-year, which was mainly due to the repayments of bank borrowings;
- (2) Employee benefits payables increased by 57.66% year-on-year, which was mainly due to the improvement in performance and corresponding increase in salary;
- (3) Taxes payables increased by 124.79%, which was mainly attributable to the classification of VAT credit balance to "Other current assets"/"Non-current assets" under Caikuai [2016] No. 22, and no retrospective adjustments applied and enterprise income tax to be paid;
- (4) Interest payables decreased by 67.76% year-on-year, which was mainly due to repayments of due interest of 2013 First Tranche of Medium-term Financing Bills;
- (5) Non-current liabilities due within one year decreased by 99.90% year-on-year, which was mainly due to payment of 2013 first tranche mid-term notes due;
- (6) Other current liabilities increased, mainly due to the proceeds from issuance of 2016 first tranche short-term financing bills;
- (7) Deferred income tax liabilities increased by 38.92% year-on-year, which was mainly due to accelerated depreciation of fixed assets resulting in an increase in deferred income tax liabilities relationship;

ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

Material changes in liabilities and equity *(continued)*

- (8) Capital reserves increased by 360.01% year-on-year, which was mainly due to proceeds from non-public issuance of A shares and increase in capital premiums;
- (9) Treasury shares decreased by 43.24% year-on-year, which was mainly due to the decrease in repurchase obligation confirmed by the issuance of A Shares under the restricted shares incentive scheme as a result of the unlock of the first tranche.

Debt ratio

As at 31 December 2016 and 31 December 2015, 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 40.45% as at 31 December 2015 to 32.52% as at 31 December 2016.

Material changes in income statement items

	During the year	Same period last year	Year-on-year change (%)
Taxes and surcharges	120,352,338.58	81,008,459.65	48.57%
Financial expenses	5,411,503.60	27,203,995.64	-80.11%
Gain from changes in fair value	-930,399.32	-182,343.23	410.25%
Investment income	1,340,566.47	6,776,422.79	-80.22%
Non-operating expenses	7,448,331.26	15,564,685.82	-52.15%
Other comprehensive net income after taxation	13,470,447.03	34,927,687.80	-61.43%

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

- (1) Taxes and surcharges increased by 48.57% year-on-year, which was mainly due to the reclassification of taxes involving property tax, land use tax, vehicle and vessel usage tax, stamp duty in the administrative expenses as taxes and surcharges according to Cai Kuai 2016 No. 22) and increase in income, turnover tax and surcharges;
- (2) Financial expenses rose by 80.11% year-on-year, mainly due to the increase in exchange gains as a result of exchange rate fluctuations and decrease in interest expenses as a result of decrease in bank loans;
- (3) Gain from changes in fair value increased by 410.25% year-on-year, which was mainly due to fluctuation of market value of stocks held for trading at end of the period;
- (4) Investment income decreased by 80.22% year-on-year, mainly due to the loss of certain associates and corresponding decrease in results attributable to the Company;
- (5) Non-operating expenses decreased by 52.15% year-on-year, mainly attributable to the reduced loss of disposal of obsolete facilities as compared to Same Period Last Year;
- (6) Other comprehensive net income after taxation decreased by 61.43% year-on-year, mainly attributable to the impairment incurred to certain available-for-sale financial assets measured in fair value and assets transferred from other comprehensive income.

ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

Cash flow

Amount denominated: RMB

	2016	2015	Year-on-year change (%)
Net cash flows from operating activities	1,279,215,037.52	927,788,460.32	37.88%
Sub-total of cash inflows from investing activities	97,791,974.57	21,733,587.32	349.96%
Sub-total of cash outflows from investing activities	1,041,034,286.24	580,153,854.60	79.44%
Net cash flows from investing activities	-943,242,311.67	-558,420,267.28	-68.91%
Sub-total of cash inflows from financing activities	2,729,039,781.88	1,034,883,157.00	163.71%
Sub-total of cash outflows from financing activities	1,790,275,027.99	1,349,766,031.23	32.64%
Net cash flows from financing activities	938,764,753.89	-314,882,874.23	398.13%
Effect of foreign exchange rate changes on cash and cash equivalents	20,092,121.70	3,493,658.47	475.10%
Net increase in cash and cash equivalents	1,294,829,601.44	57,978,977.28	2,133.27%
Cash and cash equivalents at the end of the period	2,061,923,004.89	767,093,403.45	168.80%

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

- (1) Net cash flows from operating activities increased by 37.88% year-on-year, which was mainly due to the increase of sales receipt, procurement expenses settled by bills and decrease in procurement expenses settled by cash;
- (2) Sub-total of cash inflows from investing activities increased by 349.96% year-on-year, which was mainly due to the equity transfer amount received from disposal of subsidiaries' equities;
- (3) Sub-total of cash inflows from investing activities increased by 79.44% year-on-year, which was mainly due to the cash management in respect of funds and the increase in expenses used in financial products with guaranteed interest;
- (4) Net cash flows from investing activities decreased by 68.91% year-on-year, which was mainly due to the cash management in respect of funds and the increase in expenses used in financial products with guaranteed interest ;
- (5) Sub-total of cash inflows from financing activities increased by 163.71% year-on-year, mainly due to the proceeds from non-public issuance of A Shares and super short-term financing bills, and the increase in funds raised;
- (6) Sub-total of cash outflows from financing activities increased by 32.64% year-on-year, mainly due to the increase in repayment of bank loans and dividend;
- (7) Net cash flows from financing activities increased by 398.13% year-on-year, mainly due to the increase in proceeds from non-public issuance of A Shares and super short-term financing bills, and the increase in funds raised;
- (8) Effect of foreign exchange rate changes on cash and cash equivalents increased by 475.10% year-on-year , mainly due to the increase in exchange gain resulted from fluctuate exchange rate;
- (9) Net increase in cash and cash equivalents increased by 2,133.27% year-on-year , mainly due to proceeds from non-public issuance of A shares and super short-term financing bills;
- (10) Cash and cash equivalents at the end of the period increased by 168.80% year-on-year, mainly due to the increase in proceeds from non-public issuance of A shares and super short-term financing bills.

ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

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
1,279,215,037.52	829,915,508.92	54.14%	mainly due to depreciation fees, determined impairment reserve and increase in unpaid operating payables

Liquidity and financial resources

As at 31 December 2016, the Group's cash at bank and on hand amounted to RMB2,061.92 million (31 December 2015: RMB798.30 million) primarily arising from cash inflows from operations, short-term notes financing and non-public issuance of shares.

During the year, the Board and annual general meeting of the Group approved granted credit facilities of RMB6,470.00 million and US\$7.00 million may be applied for and the actual granted amount applied to banks was RMB1,569.70 million, US\$8.54 million and Euro 0.62 million.

Item	End of the year (31 December 2016)			End of last year (31 December 2015)		
	Foreign currency amount	Translation rate	Amount in RMB	Foreign currency amount	Translation rate	Amount in RMB
Cash on hand:			125,085.29			72,486.40
- RMB	-	-	87,874.60	-	-	71,706.84
- U.S. dollar	3,700.00	6.9370	25,666.90	109.87	7.0952	779.56
- Euro	1,579.87	7.3068	11,543.79			
Bank deposits:			2,060,784,878.76			766,211,133.63
- RMB	-	-	1,676,739,336.00	-	-	719,629,721.59
- HK dollar	259,790,066.68	0.89451	232,384,812.55	8,042,719.82	0.83778	6,738,029.81
- U.S. dollar	21,327,322.21	6.9370	147,947,634.17	2,921,811.01	6.4936	18,973,071.97
- Japanese Yen	21,111,307.00	0.059591	1,258,043.90	318,592,276.00	0.05388	17,164,158.87
- Euro	282,060.26	7.3068	2,060,957.91	454,256.12	7.0952	3,223,038.01
- MOP	452,565.72	0.8708	394,094.23	594,016.20	0.8133	483,113.38
Other monetary fund:			1,013,040.84			32,011,663.71
- RMB			329,886.07			32,011,663.71
- HKD	763,719.54	0.89451	683,154.77			
Total			2,061,923,004.89			798,295,283.74

ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

Liquidity and financial resources *(continued)*

As at 31 December 2016, the Group's borrowings balance amounted to RMB1.10 million (31 December 2015: RMB251.10 million), accounting for 0.01% of the total assets (31 December 2015: 3.11%), of which short-term borrowings to mature within one year amounted to RMB0.40 million (31 December 2015: RMB250.40 million), accounting for 0.005% of total assets (31 December 2015: 3.10%) and long-term borrowings balance to mature after one year amounted to RMB0.70 million (31 December 2015: RMB0.70 million), accounting for 0.01% of total assets (31 December 2015: 0.01%). Repayments of borrowings denominated in RMB and borrowings denominated in Hong Kong dollars during the year amounted to RMB1,110.00 million and HK\$0 million, respectively. There was no distinct seasonal demand for each of the above borrowings.

Capital structure

The Group's capital structure comprises the shareholders' equity and liabilities. As at 31 December 2016, the shareholders' equity amounted to RMB7,105.64 million, the total liabilities amounted to RMB3,423.62 million and the total assets amounted to RMB10,529.26 million. Among which, the current liabilities of the Group amounted to RMB3,310.64 million (31 December 2015: RMB3,154.94 million), which increased by 4.94% from the end of previous year; the aggregated non-current liabilities amounted to RMB112.98 million (31 December 2015: RMB112.70 million), which increased by 0.25% from the end of previous year. During the year, the Group repaid liabilities of RMB1,510.00 million (31 December 2015: RMB1,242.01 million).

Equity attributable to shareholders of the Company amounted to RMB6,505.99 million (31 December 2015: RMB4,346.26 million), which increased by 49.69% from the end of last year. Minority interests of the Group amounted to RMB599.65 million (31 December 2015: RMB463.64 million), which increased by 29.34% from the end of previous year.

Capital commitments

Item	Balance at the year end	Amount denominated: RMB	
		Balance at the beginning of the year	
Contracted but not recognised in the financial statements –			
Commitments for purchase and construction of long-term assets	37,696,879.21	51,405,931.81	
Total	37,696,879.21	51,405,931.81	

Interest rate

As at 31 December 2016, total interest-bearing bank borrowings and other borrowings were RMB350.00 million (31 December 2015: RMB250.00 million), among which RMB0.00 million carried interest at variable interest rate and RMB350.00 million carried interest at fixed interest rate. The annualized interest rate was 2.80%.

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

ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

Ageing analysis of outstanding liabilities

	Amount denominated: RMB million	31 December 2016	31 December 2015
Within one year	674.20	949.41	—
1-2 years	—	—	—
2-5 years	—	—	—
Over 5 years	0.70	0.70	—
Total	674.90	950.11	—

Capital commitments

As at 31 December 2016, the Group's capital commitments contracted in relation to the purchase of long-term assets amounted to RMB37.70 million (31 December 2015: RMB51.41 million).

Bank borrowings and other borrowings

Details of the bank borrowings and other borrowings of the Company and the Group as at 31 December 2016 are set out in "Note VI. 20, 21, 29, 30, 31, 32" to the financial statements in this annual report as prepared in accordance with the China Accounting Standards for Business Enterprises.

Gearing ratio

As at 31 December 2016 and 31 December 2015, the gearing ratios were calculated by dividing the Group's total debts as at each respective date by shareholders' equity. The gearing ratio was 19.75% as at 31 December 2015 and decreased to 9.50% as at 31 December 2016.

Issuance of super short-term financing bills

Details of super short-term financing bills issued by the Company during 2016 are set out as below:

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

Interest expenses and capitalisation

	Amount denominated: RMB	2016	2015
Interest expenses (Note)	26,966,564.17	31,329,411.11	—
Capitalised interest	1,312,613.42	13,408,148.23	—
Total interest expenses	28,279,177.59	44,737,559.34	—

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

ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

Foreign exchange risks

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

Contingent liabilities

As at 31 December 2016, the Group had no significant contingent liabilities.

Pledge of assets

The Group has no pledged assets during the year.

INVESTMENTS

Overall status

Applicable Not applicable

Investment during the year (RMB)	Investment during the same period in the previous year (RMB)		Change
204,113,250	83,831,500.00		143.48%

- Note: 1. Zhuhai Livzon Gene Detection Technology Co., Ltd (珠海市麗珠基因檢測科技有限公司) was established and yet to be contributed by the end of the year. Contribution amounted to RMB30,000,000.00 has been made as at the disclosure date of the annual report.
2. Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司) was yet to be contributed as at the disclosure date of the annual report.

INVESTMENTS (continued)

Material Equity Investment during the year

Applicable Not applicable

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)	Amount denominated: RMB	Index of disclosure (if any)
AbCyte Therapeutics Inc.	Mainly engaged in new-generation treatment platform for precision tumor-specific individual T cells in the individual platform and relevant R&D of innovative and multi-functional antibody for antibody and cell treatment of tumor and other severe diseases.	Other	RMB9,983,250.00 (USD1.53 million)	20.40%	Self-funding	ZhangYongke (張永克)	NOT APPLICABLE	NOT APPLICABLE	USD3 million invested	-	-	No	29 January 2016	"The announcement in relation to foreign investment by a controlling subsidiary issued by Livzon Pharmaceutical Group Inc." (No. 2016-02) ("麗珠醫藥集團股份有限公司關於控股子公司對外投資公告" (公告編號: 2016-02))	
Zhuhai Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司)	Biomedical technology, technological development of genes testing, technology transfer, technology service, technical consulting, genes testing and disease screening service; clinical examination service. Medical research and testing development; medical equipment leasing service; health consultation (Not to engage in psychological counseling, diagnosis and treatment activities); biomedical consultation (Not to engage in diagnosis and treatment activities); computer technology development, technical services; import and export business of aforementioned technologies and products (subject to the final approval regarding scope of business by the commerce authorities).	Establishment	RMB60,000,000	60.00%	Self-funding	珠海祥和泰投資管理有限公司 (珠海祥和泰投資管理有限公司), 珠海橫琴新區醫聯谷投資有限公司 (珠海橫琴新區醫聯谷投資有限公司)(Limited Partnership)	NOT APPLICABLE	NOT APPLICABLE	Yet to contribute	-	-	No	1 December 2016	"The resolution of the 32nd meeting of the 8th session of the Board of Livzon Pharmaceutical Group Inc." (No. 2016-102) ("麗珠醫藥集團股份有限公司第8屆董事會第32次會議決議公告" (公告編號: 2016-102)). "The announcement in relation to newly establishment of subsidiaries and related transactions of foreign investment" (No. 2016-107) ("麗珠醫藥集團股份有限公司關於對外投資新設子公司暨醫聯谷交易的公告" (公告編號: 2016-107))	
Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司)	Engaged in R&D, production and sales of pharmaceutical diagnostic equipment and reagents; development, consultancy, exchange and promotion of the in vitro diagnostic technology as well as transfer service of self-owned technologies; maintenance service of pharmaceutical diagnostic equipment; import and export of goods relevant to pharmaceutical diagnostic equipment, reagents, materials and softwares (except for the exclusively operated and managed commodities); research and trial development of pharmaceutical diagnostic technologies; clinical research and data processing services; biopharmaceutical laboratory services; development and services of computer technologies; development of software.	Establishment	RMB31,620,000.00	30.60%	Self-funding	Cynvenio Biosystems, Inc., Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	NOT APPLICABLE	NOT APPLICABLE	Contribution completed	-	-	No	24 February 2016	The resolution of the 20th meeting of the 8th session of the Board of Livzon Pharmaceutical Group Inc. (No.: 2016-09) ("麗珠醫藥集團股份有限公司第8屆董事會第20次會議決議公告")	
Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司)	Mainly engaged in technical development, technical consultation, technical transfer and services within biological science.	Establishment	RMB510,000.00	51.00%	Self-funding	Zhuhai Zheng He Co., Ltd. (珠海市正禾企業有限公司)	NOT APPLICABLE	NOT APPLICABLE	Yet to contribute	-	-	No	NOT APPLICABLE	NOT APPLICABLE	
Livzon MABPharm Inc. (珠海市麗珠抗生物技術有限公司)	Principally engaged in technological R&D for biopharmaceutical products and antibiotics.	Capital injections	RMB102,000,000.00	51.00%	Raised funds and self-funding	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元醫藥集團股份有限公司)	NOT APPLICABLE	NOT APPLICABLE	Contribution completed	-	-	No	27 September 2016	"The announcement in relation to the connected transaction regarding capital injections to Livzon MAB jointly made by Livzon and Joincare" (No. 2016-87) ("麗珠醫藥集團股份有限公司關於公司與健康元共同向麗珠重資公司增资的醫藥交易公告" (公告編號: 2016-87))	
Total	-	-	204,113,250.00	-	-	-	-	-	-	-	-	-	-	-	-

INVESTMENTS *(continued)*

Material Equity Investment during the year *(continued)*

Establishment of Livzon Shengmei

On 22 February 2016, Zhuhai Livzon Diagnostics Inc.* ("Livzon Diagnostics"), the Company's controlling subsidiary, and Cynvenio Biosystems, Inc. ("Cynvenio") (a U.S. company), entered into the "Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司) Joint Venture Operation Agreement" (the "Joint Venture Agreement") 《珠海麗珠聖美醫療診斷技術有限公司合資經營合同》(「《合資經營合同》」), where Livzon Diagnostics made a cash contribution in the sum of RMB62,000,000, representing 60% of the registered capital; Cynvenio made a contribution in the form of valuation of the patent in LiquidBiopsy and relevant technical know-how as well as other intellectual properties in the sum of RMB41,333,333, representing 40% of the registered capital.

On 14 March 2016, Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司) ("Livzon Shengmei") completed matters related to the business registration and was thus formally established and will submit application for the registration of LiquidBiopsy and respective reagents to the State Food and Drug Administration as soon as possible pursuant to the Joint Venture Agreement. If the application is successful, Livzon Shengmei will be responsible for the commercialization and sales of the above products in China. Please refer to "Investment in research and development" of Chapter IV of the annual report for details of Livzon Shengmei's overall operation during the year.

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

Equity participation in ABCYTE Company

On 3 March 2016, Livzon MAB, the Company's controlling subsidiary, and AbCyte Therapeutics Inc. ("AbCyte Company") (a U.S. company), entered into the Purchase Agreement of Series A Preferred Shares. Pursuant to the Purchase Agreement of Series A Preferred Shares, Livzon MAB intended to invest USD3 million to subscribe 30,000,000 Series A Preferred Shares issued by AbCyte Company, which constitute 40% of all issued shares of AbCyte Company, and the capital to be invested would be mainly applied into the research and development of antibodies and cell therapy products, as well as the application for antibody patents; and Livzon MAB would be prioritized to develop the cell-individualized treatment technology platform researched and developed by AbCyte Company in the PRC. Meanwhile, Livzon MAB could exercise its priority to develop the first three antibody projects developed by AbCyte Company in the international market. During the Reporting Period, Livzon MAB has completed the subscription of Series A Preferred Shares issued by AbCyte Company this time.

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

Establishment of a gene company

Please refer to "CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES" of Chapter V of the annual report for details in relation to establishment of Zhuhai Livzon Gene Detection Technology Co., Ltd (珠海市麗珠基因檢測科技有限公司) . (the "Gene Company") during the year.

Establishment of Shanghai Lihang Company

On 18 November 2016, Livzon Diagnostics, the Company's controlling subsidiary, set up Shanghai Lihang Biotechnology Co., Limited ("**Shanghai Lihang**") (上海麗航生物技術有限公司) by way of cash amounted to RMB1,000,000, which is primarily engaged in technical development, technical consultation, technical transfer and technology services within biological science.

As a platform enterprise of R&D center of Livzon Diagnostics, Shanghai Lihang will further enhance R&D of reagent diagnostics.

Capital Injections to Livzon MAB

For details of capital injections to Livzon MAB of the year, please refer to "CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES" in Chapter V of the annual report.

INVESTMENTS *(continued)*

Material non-equity investment ongoing during the year

Applicable Not applicable

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	5,780,682.00	-952,765.00	-	-	-	-900,796.00	5,188,158.00	Financial assets at fair value through profit or loss	Self funding
Funds	206001	Penghua Fund	150,000.00	Measured at fair value	808,543.34	22,365.68	-	-	-	22,365.68	830,909.02	Financial assets at fair value through profit or loss	Self funding
Other securities investment held at the end of the year	-	-	-	-	-	-	-	-	-	-	-	-	-
Total			4,393,647.64	-	6,589,225.34	-930,399.32	-	-	-	-878,430.32	6,019,067.02	-	-
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

The Company has no derivatives investment during the year.

INVESTMENTS *(continued)*

Utilization of raised funds

Applicable Not applicable

1. Overall use of proceeds

Applicable Not applicable

Unit: RMB'0000

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	41,641.88	41,641.88	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE	100,388.16	Those unused proceeds are deposited into the special account for proceeds-funded or cash management and will continue to be used for proceeds-funded projects	NOT APPLICABLE
Total	-	142,030.04	41,641.88	41,641.88				100,388.16	-	

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

Overall use of proceeds

With the "Approval in relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc." (Zheng Jian Xu Ke 2016 No. 1524) issued by the China Securities Regulatory Commission (the "CSRC"), the Company has issued 29,098,203 A Shares with a nominal value of RMB1.00 per share at RMB50.10 per share and raised proceeds amounted to RMB1,457,820,000.00 (excluding underwriting and sponsorship fees of RMB36,903,300.00). On 2 September 2016, the Company received RMB1,420,916,700.00 net of other issuance expenses (RMB616,300.00) and net proceeds raised totaled to RMB1,420,300,400.00. The proceeds are mainly used to research and develop and commercialise the upgrade of innovative product of Ilaprazole series, increase investment to Livzon MAB's construction of "R&D and Industrialization of therapeutic antibody-based drugs", construction of R&D platform of prolonged-action microsphere technologies and supplement to working capital (used for operating expenses) and repayment of bank borrowings, consistent with use passed by the Board meeting of the Company. As at 31 December 2016, unused proceeds were deposited in the special account designated for raised fund or cash management and will continue to be used in proceeds-funded project.

INVESTMENTS (continued)

Utilization of raised funds (continued)

2. Particulars of projects undertaken with the use of proceeds

Applicable Not applicable

Unit: RMB'0000

Investment projects undertaken and the use of the excess funds	Project change (including partially changed projects)?	Total amount of proceeds undertaken for investment	Total investment amount after adjustment ⁽¹⁾	Invested amount during the reporting period	Cumulative invested amount as of end of the period ⁽²⁾	Progress of investment as of end of the period ^{(3) = (2)/(1)}	Date of project reaching the working condition for its intended use	Results realised during the reporting period	Achieving its estimate results?	Any material change in feasibility of project?		
Investment projects undertaken												
Deeper Development and Industrialization Upgrade of the innovative Ilaprazole product series	No	45,000.00	45,000.00	1,850.91	1,850.91	4.11%	31 December 2018	-	No	No		
Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	No	30,600.00	30,600.00	2,099.12	2,099.12	6.86%	31 December 2022	-	-	No		
Construction of Research & Development Platform of sustained release Microsphere Technologies	No	30,182.00	30,182.00	1,443.81	1,443.81	4.78%	31 December 2021	-	-	No		
Supplementary working capital and banking loan repayment	No	36,248.04	36,248.04	36,248.04	36,248.04	100.00%	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE	No		
Subtotal of the investment projects undertaken	-	142,030.04	142,030.04	41,641.88	41,641.88	-	-	-	-	-		
Use of the excess proceeds												
Not applicable												
Banking loan repayment (if any)	-					-	-	-	-	-		
Supplementary working capital (if any)	-					-	-	-	-	-		
Subtotal of the use of the excess proceeds	-					-	-	-	-	-		
Total	-					-	-	-	-	-		
Particulars of and reasons for not meeting schedule or estimated income (by specific projects)						I. Ilaprazole Project : 1. Due to the introduction of regulations in centralized assessment and clinical verification etc., the progress of obtaining approval of new indications of Ilaprazole Sodium Injection project and Ilaprazole Enteric Coated Tablet was affected, relevant funds used thus did not reach the expected amount; 2. As for industrialization Upgrade, upgrade and modification of Drying Workshop was completed in 2016 whereas Solid Preparations Workshop had not started due to the delay in obtaining approval. The project was planned to commence in 2017 and the corresponding use of funds will reach the expected amount. II. Capital injections to MABPharm investment in construction projects: 1. As the time of obtaining approval was later than planned, funds used had yet to reach the expected amount; 2. Affected by the time of obtaining approval later than planned, construction investment has not been carried out on a large scale. III. Construction of Research & Development Platform of sustained release Microsphere Technologies: The overall project was in accordance with the expected progress, slight savings in the use of funds was achieved due to factors such as the actual prices of some materials were lower than expected.						
Particulars of material change in feasibility of project						Not applicable						
Amount and uses of the excess proceeds and the progress of uses						Not applicable						
Particulars of change in place of application of proceeds						Not applicable						
Particulars of adjustment to way of application of proceeds						The project financed by funds raised of R&D and Industrialization upgrade of innovative product of Ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目) was executed by Livzon Pharmaceutical Group Inc. and upon review and approval of "the resolution on replacement of self-raised funds invested in advance to projects financed by proceeds raised from issuance of preference shares" at the third Extraordinary Shareholders' Meeting in 2016, Livzon Pharmaceutical Factory, a wholly owned subsidiary of the Company, was added as another executor of the project to facilitate effective implement, improve production abilities and quality of such project, and keep technical advantages of the Company. It is not expected to have any change on investment of funds or impact on the project's operation and 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 issuance of preference shares amounted to RMB41,857,100 million were used by the Company. On 4 January 2017, the Company has transferred the funds from special account.						
Particulars of application of idle proceeds for temporary replenishment of working capital						Not applicable						
Amount of positive balance of proceeds upon commencement of project and its reason						Not applicable						
Uses and whereabouts of unused proceeds						Those unused proceeds are deposited into the special account for proceeds-funded or cash management and will continue to be used for proceeds-funded projects.						
Issues and other particulars of use of proceeds and its disclosure						Not applicable						

DISPOSAL OF SUBSTANTIAL ASSETS AND EQUITY

Disposal of substantial assets

Applicable Not applicable

Counterparty	Disposed Assets	Date of Disposal	Trading Price (RMB'0,000)	Date of Disposal (RMB'0,000)	Net profit from disposal of the assets to the listed company from the Beginning of the Period to the End of the Period	The proportion of the net profit from disposal of assets of the listed company to the total net profit	Effect of the Disposal on the Company (Note 3)	Pricing Principle for disposal of assets	Connected Transaction	Relationships with connected persons (applicable for connected transactions)	Full Transfer of property rights in the assets	Full transfer of rights and debts	Implemented as scheduled? If not, shall provide the reasons and measures taken by the Company	Date of disclosure	Index of disclosure
Foshan City Nanhai District Longqu Trade Co. Ltd.	Qingyuan Xinteng Enterprise Company Limited (清遠市信騰企業有限公司)	14 March 2016	8300	-	RMB4,278,200	1.05%	Based on negotiation	No	No	Yes	Yes	Yes	Not applicable	Not applicable	

Disposal of substantial equity

Applicable Not applicable

ANALYSIS OF MAJOR HOLDING AND INVESTEE COMPANIES

Applicable Not applicable

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

Company names	Company categories	Principal business	Amount denominated: RMB				
			Registered capital	Total assets	Net assets	Operational income	Operational profit
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Subsidiary	Principally engaged in production and sale of self-made chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	450,000,000.00	2,648,827,048.37	1,977,553,903.00	1,932,615,641.05	493,870,934.57
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Subsidiary	Principally engaged in R&D, production and sale of traditional Chinese medicine, major products include Anti-viral Granules, Dexalitin Oral Paste, etc.	149,000,000.00	812,540,602.92	715,029,485.92	358,323,201.54	87,376,310.75
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Subsidiary	Principally engaged in production and operation of Chinese drug preparations and pharmaceutical raw materials, etc., major products include Shengqi Fuzheng Injection, Xueshuantong, etc.	61,561,014.73	881,091,464.53	497,093,486.76	792,236,544.85	378,138,187.59
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Subsidiary	Principally engaged in production of biochemical and polypeptide bulk medicines, major products include biochemical bulk medicines such as Human Menopausal Gonadotropin and Human Chorionic Gonadotropin.	87,328,900.00	457,303,270.95	305,423,827.53	567,373,981.69	129,589,862.46
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	Principally engaged in production and operation of chemical bulk medicines, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium, etc.	128,280,000.00	675,190,311.30	243,403,228.22	612,551,563.04	7,021,803.97
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	Principally engaged in sale of bulk medicines, intermediate products and export of related technologies, major products include Pravastatin, Mevastatin, Salinomycin, etc.	134,925,200.00	551,336,130.12	385,221,687.58	483,981,708.77	95,598,148.36
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Subsidiary	Principally engaged in production of antibiotics bulk medicines, intermediate and drug preparation products and chemical raw materials for pharmaceutical production, major products include Colistin, Vancomycin, Phenylalanine, etc.	USD41,700,000	556,345,998.29	471,189,240.53	361,583,285.29	41,238,276.13
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Subsidiary	Principally engaged in production and sale of diagnostic reagents, major products include Chlamydia Trachomatis Antigen Diagnostic Kit and ELISA HIV Testing Reagents Kit.	46,450,837.00	662,743,761.55	408,507,047.89	568,312,860.07	105,356,688.26
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary	Principally engaged in technological R&D for biopharmaceutical products and antibiotics.	533,330,020.00	446,497,897.52	400,110,085.92	-	-133,358,542.54
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Subsidiary	Principally engaged in production and sale of medical intermediates, chemical raw materials	100,000,000.00	765,401,998.00	22,204,864.39	328,586,139.39	1,131,876.48

- Note:
1. Livzon MABPharm Inc. (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) achieved a turnaround from loss to profit, mainly attributable to the increased gross profit margin as a result of the decrease in purchase prices of major raw materials including glucose.

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

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
Qingyuan Xinteng Enterprise Company Limited (清遠市信騰實業有限公司)	Disposal	No material impact
Zhuhai Livzon Cynvenio Dignosis Ltd. (珠海麗珠聖美醫療診斷技術有限公司)	Establishment	No material impact
珠海市麗珠基因檢測科技有限公司	Establishment	No material impact
Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司)	Establishment	No material impact

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.

STRUCTURAL BODY CONTROLLED BY THE COMPANY

Applicable Not applicable

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.

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.

PROSPECTS FOR FUTURE DEVELOPMENT

Key risks and opportunities and relevant solutions

In 2016, the State Council, the State Food and Drug Administration, the Ministry of Human Resources and Social Security and other departments launched a series of policies such as reform of pharmaceuticals review and approval, implementation of quality consistency evaluation for generic drugs, second price negotiations and two-invoice system to further regulate the market in PRC. In the medium and long term, stable development of the pharmaceutical industry will be supported by improving consumption and population aging. As the medical policies continue to reform and progress, the pharmaceutical industry in PRC still shall face major structural adjustments in 2017 that have significant effect on each component of the industry chain and investment and funding, market supply and demand, pharmaceutical business model, production and operation, technology research and development and product prices. Meanwhile, industrial upgrading and innovation will gradually become the industry development direction, which are not only risks but also challenges and opportunities. The Company will carry out effective measures to cope with risks of pharmaceutical policies like control on medical insurance fees, tender arrangements for price reduction, clinical reviews, consistency evaluation, production process verification, marketing standardization and VAT Reform by planning, transforming and compliance in advance to respond to major changes in industry policies. The Company also should be exposed to risks arising from policies such as environmental policies, price reduction of drugs, restricted use and changes of tax policy, and operation risks including competing market, withdrawal or failure to renewal of GMP certificates, elimination of products and technology, R&D and safety products.

The Group is still in an important stage of strategic adjustment, and has set up a preliminary market layout led by special preparations with synergy of biological drugs and precision medicine. In order to meet market requirements and respond to potential risks better, the Company will enhance its R&D and innovation, improve its work on market access continually, pay attention to promoting its products on the mass level to increase sales, enrich the product competitive advantage, improve production quality control, standardize the safety and environmental protection production to establish its own position and core competitiveness.

PROSPECTS FOR FUTURE DEVELOPMENT *(continued)*

Future development strategy

In 2017, the Group will uphold the management approach of "Transformation and Upgrade, Standardizing development". It will keep close eyes on changes of industry policy, formulate and carry out responsive strategies, further improve the efficiency of management and governance standards, steadily pushing forward the development of various businesses, expediting the progress of research projects, focusing on marketing key products and constantly building on its advantageous position and core competitiveness.

In 2017, the main focus activities of the Company include the following aspects:

Marketing and sales management

In 2017, the Group will actively build up "widen environment, build mechanism, emphasize responsibilities and tighten assessments" for sales activities, speeding up building marketing teams, strengthening marketing efforts within the academic field as well as to the end-users. It will look into the bidding policies of each region, further implementing and optimizing the response plan of the shift from sales tax to value-added tax and the change to the two-vote system, endeavoring to expand the market share of key products. The Company's major objectives planned are as follows:

- (1) Fully promoting products' channel on the mass level: promote the coverage and sales of products to medical institutions under grade 2, implement development assessment to fill the gap within the market, formulate replicable standardized process.
- (2) Planning the launch of new products: actively plan the launch of Ilaprazole for Injection, prepare pharmacoeconomics studies before the launch, actively respond to the additions tender in various provinces.
- (3) Identifying new potential varieties of products: conduct assessment analysis in depth to existing products, identify their strength and potentials, make timely adjustment to structure of products in response to market demand and raise new resources of revenue and profits.
- (4) Improving delivery service and linkage between production and sales: continue to improve the layout of national logistics system, adjust business delivery network under the two-vote system in various provinces, focus on pushing forward the setting up of points of outpatient sales, smoothen delivery channels and improve control process.
- (5) Stepping up promotion efforts of non-prescription drugs: adopt the management model of distinct operation of clinic and chain for OTC, refine marketing assessment, breakthrough with gastrointestinal drugs, launch into chain drugstores, give priority to build promotion model of gastrointestinal specialty line.

PROSPECTS FOR FUTURE DEVELOPMENT *(continued)*

Future development strategy *(continued)*

R&D management

In 2017, the Group will further improve R&D innovation system, closely keeping with the advanced international level and continue to introduce and develop high-end talents. It will continue to step up R&D efforts, expedite layout in the business related to biomedicine and precise pharmaceutical field, ensure the smooth implementation of research projects; as for R&D of new products, focus on incorporating the long, medium and short term development of products while pushing forward the secondary development of products already launched incorporating market demands. The Company's major activities are mainly of the following four aspects:

- (1) Speeding up the progress of our key products under development: follow up the progress of assessment of Ilaprazole Sodium Injection (注射用艾普拉唑鈉) and clinical progress of biomedicine such as Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody for Injection (注射用重組人源化抗人腫瘤壞死因子 α 單克隆抗體) and registration and reporting of related testing platform and reagents of "Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司)";
- (2) Stepping up the expansion and development of key products: carry out in-depth development such as re-evaluation of some key products after launching in market and increase clinical indications, further raising competitiveness of products and provide support to marketing in academic field and to end-users;
- (3) Innovating and upgrading technology platform: leverage on the existing proven innovation technology platform, strictly regulate scientific research using the global "dual reporting" model. Research institutions, microspheres centres and level -2 enterprises establish clear positioning according to market demands and establish R&D objectives; Livzon MAB captures key research projects, speed up clinical progress; Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司) and Zhuhai Livzon Genes Testing Technology Co., Ltd. (珠海市麗珠基因檢測科技有限公司) expedite progress of registration and reporting as well as accumulation of clinical data for full implementation of layout; R&D of bulk medicines take R&D of single product project as breaking point, establish sound R&D management system;
- (4) Standardizing management of R&D team: improve management methods, team composition and assessment mechanism of R&D teams. Keep recruiting and nurturing high-end staffers, step up construction of management structure, establish various incentives for research staff, build research team of high quality.

Production quality

In 2017, the Company will step up risks inspection and rectifications supervision of quality control system of each manufacturing enterprises, eliminate significant quality-related incidents or crises while stepping up management efforts of sales quality.

For management of production quality, internal audit or unannounced inspections will incorporate product features and quality management of various manufacturing enterprises, with particular attention to the following aspects: acquisition of key materials and management of suppliers, major deviation and products release after update, data reliability, control of high risk factors of various enterprises, implementation of new pharmaceutical policies and regulations etc. while stepping up EHS audit and assisting manufacturing enterprises in addressing issues such as environmental evaluation and treatment of "three wastes".

PROSPECTS FOR FUTURE DEVELOPMENT *(continued)*

Future development strategy *(continued)*

Production quality *(continued)*

For management of sales quality, we will continue to step up GSP daily supervision and management, handle enquiries and complaints on quality timely and properly, step up monitoring and reporting of adverse reactions of drugs; tighten quality audit of logistics enterprise and carriers for joint manufacturers, ensuring the quality and safety of drugs in storage and transportation.

In 2017, the fermented and bulk medicines business of the Group and Hecheng Co., Ltd. will formally merge operation, establish bulk medicines business of the Group, set up production management centre, under which management functions of EHS (environment, health and safety), production technology and equipment projects is established. The Group will further improving technology optimization, quality, market coverage of key products, lower costs, step up development and upgrade of specialty quality products, increase proportion of income from overseas standardized market and continue standardization development.

Management of Internal operation

In 2017, the Group will, based on the core operation and management approach of "Transformation and Upgrade, Standardize Development", continue to improve and implement various regulations and systems, step up internal control, standardize management, enhance awareness of service and raise service standards. Firstly, step up management of functional departments, increase management efficiency and work quality, achieve smooth process standardization and quality service. Secondly, improve human management system, implement information management, step up assessment, quantify indicators; Thirdly, optimize information management system, improve information management, improve precision management capability; Fourthly, actively push forward the substitution and disposal of the lands for urban redevelopment, actively communicate with the Government authorities and cooperate with various approval work.

Internal and external strategic development

In 2017, the Group will continue to step up exploration and development of capital markets, actively leverage on the resources advantage of internal and external business cooperation, closely follow new business and new technology opportunities in pharmaceutical industry home and abroad, continue to enhance its competitive edge in specialty areas, expedite the development in precision pharmaceutical business.

In summary, the Company will stick to "Transformation and upgrading for standardized development" as its management policy, adopt effective measures to actively respond to changes in the industry in 2017, make an all-out effort to achieve the Restricted A Shares Incentive Scheme (2017) and look into equity incentive scheme for medium and long term, motivate staff members and stimulate their creativity, further improve balance of long-term interests and common mechanism of the responsibilities of shareholders, staff members and the community.

OTHER EVENTS

Reserves

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

Distributable Reserves

As at 31 December 2016, the distributable reserves of the Company calculated in accordance with China Accounting Standards for Business Enterprises amounted to RMB913 million (31 December 2015: RMB746 million).

Fixed Assets

Details of the movements in fixed assets during the year are set out in Note VI "11. Fixed assets" to the financial statements in this annual report.

Connected/Related Party Transactions

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

Management Contracts

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

Repurchase, sale or redemption of securities

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

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

Save as disclosed above, throughout the period from 1 January 2016 to 31 December 2016, 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 "Restricted A Shares Incentive Scheme" of this annual report.

Review by Audit Committee

The financial results for the year ended 31 December 2016 have been reviewed by the Audit Committee of the Company. Details of "KEY AUDIT MATTERS" please refer to Chapter XI "AUDITORS' REPORT".

OTHER EVENTS *(continued)*

Relationships with employees, customers and suppliers

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

Permitted indemnity provisions

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

Compliance with rules and regulations

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

Environmental policies and performance

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.

PROFIT DISTRIBUTION PLAN

For profit distribution plan for 2016, 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.

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.

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 2016. 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.

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 are eligible to apply for a tax refund (if any) in accordance with relevant tax requirements, such as tax agreements (arrangements), upon receipt of any dividends.

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

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

Each of the Directors and Supervisors has entered into a respective Director and Supervisor service contract with the Company. Contents of such contracts are the same in all material respects. The service contracts of the Directors and Supervisors will expire upon the expiry of the term of the current Board in place (i.e. 30 June 2017). Save as the aforesaid 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 2016.

ARRANGEMENT OF PURCHASING SHARES OR BONDS BY DIRECTORS

Save as disclosed in the Restricted A Shares Incentive Scheme and this annual report regarding establishment of Zhuhai Livzon Gene Detection Technology Co., Ltd (珠海市麗珠基因檢測科技有限公司) by joint contribution of the Company Zhuhai Hengqin New Area Guanlian Gu Investment Partnership (Limited Partnership) (珠海橫琴新區觀聯谷投資合夥企業(有限合夥)) ((hereinafter as "Guan Lian Gu") and Zhuhai Xianghetai Investment Management Partnership (Limited Partnership) (珠海祥和泰投資管理合夥企業(有限合夥)) (hereinafter as "Xianghetai") this year (as Ms. Li Lin (李琳), a director of Zhuhai Livzon Diagnostics Inc. (the Company's controlling subsidiary) and Mr. Xu Guoxiang (徐國祥) is a partner of Guan Lian Gu and Xianghetai respectively, they hold shares of the gene company indirectly through Guan Lian Gu and Xianghetai), 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. Please refer to "CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES" for details in relation to establishment of a gene company during the year of Chapter V of the annual report.

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, the Restricted A Shares Incentive Scheme was considered, approved and authorized by the 2015 First Extraordinary General Meeting, the 2015 First Class Meeting of H Shareholders and the 2015 First Class Meeting of A Shareholders held on 13 March 2015. The Company implemented the Restricted A Shares Incentive Scheme and approved 27 March 2015 as the date of the first grant and 12 November 2015 as the date of the reserved grant respectively, and 11,258,520 Restricted Shares (adjusted) were granted to 458 incentive participants (adjusted) under the first grant and 1,285,700 Restricted Shares (adjusted) were granted to 177 incentive participants under the reserved grant (based on the adjustment upon voluntary waived-up from incentive participants), respectively. The price of the first grant was determined based on the 50% of average price (RMB50.40) of Shares for 20 trading days prior to the date of the initial draft of the Restricted A Share Incentive Scheme, i.e. RMB25.20 per share. The price of the reserved grant was determined based on the 50% of average price (RMB49.21) of Shares for 20 trading days prior to the date of Board resolution, i.e. RMB24.61 per share. The validity period of the Restricted A Shares Incentive Scheme shall commence on the date of the Proposed Grant of the Restricted Shares and end on the date on which all the Restricted Shares granted have been unlocked or otherwise repurchased and cancelled with a period for less than 5 years.

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

On 28 March 2016, as the Twenty-third Meeting of the Eighth Session of the Board considered and approved, the Company processed the matters regarding the unlocking of the first unlocking period under the First Grant of the Restricted A Shares Incentive Scheme. The number of participants who satisfy the incentive conditions was 450, the number of unlocked Restricted Shares was 4,453,176, representing 1.05% of the Company's total share capital with the listing date of such shares being 5 April 2016. Meanwhile, 32,500 Restricted Shares granted to one Incentive Participants in the First Grant at RMB19.308 per share who no longer satisfy the incentive conditions have been repurchased and the cancellation has been completed on 13 July 2016.

On 16 May 2016, as the Twenty-sixth Meeting of the Eighth Session of the Board considered and approved, the Company repurchased 215,124 Restricted Shares granted to 13 Incentive Participants under the first grant at RMB19.308 per share and 10,000 Restricted Shares granted to one Incentive Participant under the reserved grant that no longer satisfy the unlocking conditions under the Restricted A Shares Incentive Scheme at RMB24.61 per share. On 13 July 2016, the cancellation of the repurchased shares has been completed.

THE RESTRICTED A SHARES INCENTIVE SCHEME *(continued)*

On November 30 2016, as the Thirty-second Meeting of the Eighth Session of the Board considered and approved, the Company (i) since the completion of the 2015 cash dividend distribution, the repurchase price of the first grant restricted shares will be adjusted as RMB18.81 per share and the repurchase price of the reserved grant restricted shares will be adjusted as RMB24.11 per share; (ii) repurchased 103,974 shares of the first granted to 9 Incentive Participants that no longer satisfy the unlocked conditions at RMB18.81 per share and 29,300 shares of the reserved grant that no longer satisfy the unlocking conditions granted to 5 Incentive Participants at RMB24.11 per share, the repurchase cancellation has been completed on 8 February 2017; (iii) the Company processed the matters regarding the unlocking of the first unlocking period under the First Grant of the Restricted A Shares Incentive Scheme. The number of participants who satisfy the incentive conditions was 171, the number of unlocked Restricted Shares was 498,560, representing 0.12% of the Company's total share capital with the listing date of such shares being 16 December 2016.

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 amount is proposed to be adjusted to no more than 38,000,000 shares (inclusive) and the pricing benchmark date was 9 March 2016 with the issue price no less than RMB38.36 per share. The final issue price will be determined by auction after the Issuance is approved by the China Securities Regulatory Commission ("CSRC") whereas the general meeting has authorized the Board to finalize the number of shares to be issued after discussing with the sponsor (the lead underwriter) according to relevant facts. The Issuance shall proceed by way of non-public issuance, and such shares shall be issued to no more than 10 specific individuals within six months after the approval of CSRC is granted. All subscriptions shall be made in cash for the purpose of the issuance. Shares subscribed by the investors cannot be transferred during the twelve months from the completion date of the Issuance. Upon expiry of the lock up period, shares issued under the Issuance shall be listed on the Shenzhen Stock Exchange.

On 18 May 2016, the Issue Review Committee of CSRC reviewed and approved the application for the Issuance.

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

On 1 August 2016, the Company received "Approval in Relation to the Non-public Issuance of Shares by Livzon Pharmaceutical Group Inc." (Zheng Jian Xu Ke [2016] No. 1524) from the CSRC.

On 19 September 2016, the Company completed the registration of custody in relation to the new shares of the Issuance at the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited. Accordingly, the new shares under the Issuance were duly listed in the register of members of the Company. The number of shares under the Issuance was 29,098,203 A shares.

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

On 20 September 2016, 29,098,203 A shares under the Issuance were listed at an issue price of RMB50.10 per share. The lock-up period of the new A shares under the Issuance is 12 months and the estimated circulation date of the listed new shares shall be 20 September 2017. The total proceeds of the Issuance were RMB1,457,819,970.30. The net proceeds of the Issuance after deducting issuance fees were RMB1,420,300,366.77. Upon completion of the Issuance, the Company's total share capital changed to 425,730,126 shares (including 280,138,766 A shares and 145,591,360 H shares).

The registered share capital will be increased by RMB29,098,203 by the non-public issuance of shares. As at the disclosure date of the Annual Report, the registration procedures for the increase of the Company's registered share capital at the Administration of Industry and Commerce have not been completed.

PRE-EMPTIVE RIGHTS

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

CHARITABLE DONATION

During the year, the expenditure of charitable donation of the Group amounted to RMB539,400.00 (2015: RMB87,820.00).

HOSTING RESEARCHES, COMMUNICATIONS AND INTERVIEWS

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
13 January 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 13 January 2016 which the Company posted on the cninfo website on 14 January 2016 for detail of said research
14 January 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 14 January 2016 which the Company posted on the cninfo website on 15 January 2016 for detail of said research
17 February 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 17 February which the Company posted on the cninfo website on 18 February 2016 for detail of said research
6 May 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 6 May 2016 which the Company posted on the cninfo website on 9 May 2016 for detail of said research
10 May 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 10 May 2016 which the Company posted on the cninfo website on 11 May 2016 for detail of said research
24 May 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 24 May 2016 which the Company posted on the cninfo website on 25 May 2016 for detail of said research
30 June 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 30 June 2016 which the Company posted on the cninfo website on 30 June 2016 for detail of said research
24 August 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 24 August 2016 which the Company posted on the cninfo website on 25 August 2016 for detail of said research

HOSTING RESEARCHES, COMMUNICATIONS AND INTERVIEWS *(continued)*

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
26 August 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 26 August 2016 (1) which the Company posted on the cninfo website on 29 August 2016 for detail of said research
26 August 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 26 August 2016 (2) which the Company posted on the cninfo website on 29 August 2016 for detail of said research
12 September 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 12 September 2016 which the Company posted on the cninfo website on 13 September 2016 for detail of said research
20 September 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 20 September 2016 which the Company posted on the cninfo website on 20 September 2016 for detail of said research
27 October 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 27 October 2016 which the Company posted on the cninfo website on 28 October 2016 for detail of said research
31 October 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 31 October 2016 which the Company posted on the cninfo website on 1 November 2016 for detail of said research
1 November 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 1 November 2016 which the Company posted on the cninfo website on 2 November 2016 for detail of said research
3 November 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 3 November 2016 which the Company posted on the cninfo website on 3 November 2016 for detail of said research
9 November 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 9 November 2016 which the Company posted on the cninfo website on 9 November 2016 for detail of said research
10 November 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 10 November 2016 which the Company posted on the cninfo website on 10 November 2016 for detail of said research
11 November 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 11 November 2016 which the Company posted on the cninfo website on 14 November 2016 for detail of said research
25 November 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 25 November 2016 which the Company posted on the cninfo website on 25 November 2016 for detail of said research
2 December 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 2 December 2016 which the Company posted on the cninfo website on 5 December 2016 for detail of said research
6 December 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 6 December 2016 which the Company posted on the cninfo website on 6 December 2016 for detail of said research
14 December 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 14 December 2016 which the Company posted on the cninfo website on 15 December 2016 for detail of said research
28 December 2016	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 28 December 2016 which the Company posted on the cninfo website on 29 December 2016 for detail of said research

HOSTING RESEARCHES, COMMUNICATIONS AND INTERVIEWS (continued)

Registration Form for hosting researches, communications and interviews during the year (continued)

Number of reception	24
Number of institution reception	101
Number of individual reception	0
Number of others reception	0
Whether disclose, reveal or leak undisclosed information	No

Registration Form for hosting researches, communications and interviews from the year end to disclosure date

Applicable Not applicable

Date of reception	Type of reception	Type of guests	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
Number of reception			3
Number of institution reception			20
Number of individual reception			0
Number of others reception			0
Whether disclose, reveal or leak undisclosed information	No		

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

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

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

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

Non-Executive Directors

Mr. Zhu Baoguo (朱保國先生) (Chairman)

Mr. Qiu Qingfeng (邱慶豐先生)

Mr. Zhong Shan (鍾山先生)

Independent Non-Executive Directors

Mr. Xu Yanjun (徐焱軍先生)

Mr. Guo Guoqing (郭國慶先生)

Mr. Wang Xiaojun (王小軍先生)

Mr. Zheng Zhihua (鄭志華先生)

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) (appointed on 26 February 2016)

Mr. Yuan Huasheng (袁華生先生) (resigned as the Supervisor on 20 November 2015 effected since 26 February 2016)

By order of the Board

Chairman

Zhu Baoguo

24 March 2017

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

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:

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 2016 is as follows: 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, 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 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 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.

The profit distribution plan for 2014 was as follows: based on the Company's total share capital of 304,382,252 shares (including 192,388,898 A Shares and 111,993,354 H Shares), to distribute cash dividend of RMB1.00 (tax inclusive) for every 10 shares held to all shareholders of the Company and make a bonus issue by way of capitalizing our capital reserve on the basis of 3 shares for every 10 shares held to all shareholders.

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

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	Amount denominated: RMB	
				Cash dividend amount by other means	Proportion of cash dividend by other means
2016 (Proposed)	212,798,426	784,353,607.06	27.13%	-	-
2015	198,315,961.50	622,641,033.06	31.85%	-	-
2014	30,438,225.20	515,978,431.82	5.90%	-	-

Note: The amount of 2016 cash dividend (tax inclusive) in the above table is based on 425,596,852 shares of the total share capital of the Company on the publication date of this annual report and the actual cash dividend is 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.

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

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	5
Converted shares per every 10 shares (share)	3
Equity base (share) for distribution proposal	425,596,852
Total cash dividends (RMB) (tax inclusive)	212,798,426
Distributable Profit (RMB)	913,371,349.46
Proportion of cash dividends of the total profit distribution	100%

The Cash Dividends

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 RMB5 per 10 shares (tax inclusive) would be distributed to all the shareholders of the Company.

Particulars of Profit Distribution or Proposal on Conversion of Capital Reserves

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, 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.

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 project 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

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>			

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 Covenanters 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 Daohong, Fu Daotian, Qiu Qingfeng, Zhong Shan, Xu Yanjun, Guo Guoqing, Wang Xiaojun, Zheng Zhihua, Xie Yun, Xu Guoxiang, Lu Wengqi, 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

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	Performing
	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	Performing
	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	Performing
	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	Performing
	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	Performing

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	<p>Joincare, the Company's controlling shareholder, has made undertakings during the elimination of trading moratorium of shares. Details are as follows:</p> <p>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 CSRC when transferring the Group's shares subject to trading moratorium held by it.</p> <p>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.</p>	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

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.

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

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

Applicable Not applicable

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

Applicable Not applicable

On 14 March 2016, Qingyuan Xinbeijiang (清遠新北江), a controlling subsidiary of the Company, disposed of 100% equities of Qingyuan Xinteng Enterprise Company Limited (清遠市信騰實業有限公司) at the consideration of 83,000,000.00, losing its control over Qingyuan Xinteng Enterprise Company Limited, which have been excluded for accounting consolidation of the Company for the year.

Livzon Reagents (麗珠試劑), a controlling subsidiary of the Company, entered into "Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司) Joint Venture Operation Agreement" 《珠海麗珠聖美醫療診斷技術有限公司合資經營合同》with Cynvenio Biosystems, Inc. on 22 February 2016. The registered capital of the joint venture company amounts to RMB103,333,333, among which Livzon Reagents contributes RMB62 million in cash, constituting 60% of the registered capital, and Cynvenio Biosystems, Inc. contributes RMB41,333,333 by means of intellectual properties (converted into price upon assessment) such as LiquidBiopsy patent and relevant franchised technologies, constituting 40% of the registered capital. Zhuhai Livzon Cynvenio Diagnostics Ltd. is consolidated into the financial statements of the Company for the year.

Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司) was founded with 100% registered capital by from a controlling subsidiary of the Company, Livzon Reagents (麗珠試劑) on 18 November 2016 and was included in the scope of combination during the year.

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

The Company and Zhuhai Hengqin New Area Guanlian Gu Investment Partnership (Limited Partnership) (珠海橫琴新區觀聯谷投資合夥企業(有限合夥)) (hereinafter as "Guan Lian Gu") and Zhuhai Xianghetai Investment Management Partnership (Limited Partnership) (珠海祥和泰投資管理合夥企業(有限合夥)) (hereinafter as "Xianghetai") entered into shareholders agreement and all parties collectively contribute funds to establish Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司), among which the Company contribute with cash at bank and on hand amounting RMB60,000,000, representing 60% of its registered capital; 觀聯谷contribute with cash at bank and on hand amounting RMB25,000,000, representing 25% of its registered capital; 祥和泰contribute with cash at bank and on hand amounting RMB15,000,000, representing 15% of its registered capital. Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司) consolidated into the financial statements of the Company for the year.

APPOINT, DISMISS CERTIFIED PUBLIC ACCOUNTANTS

Current appointed Certified Public Accountants (auditors) and remuneration

On 27 May 2016, after consideration and approval at the 2015 Annual General Meeting of the Company the appointment of Ruihua Certified Public Accountants (LLP) as the auditors firm of the Company for the year 2016 has been approved. As at the end of the year, remunerations payable to Ruihua Certified Public Accountants (LLP) for its audit services and non-annual audit services to the Group in 2016 amounted to RMB1.64 million (tax inclusive) and RMB0.655 million (tax inclusive), respectively. The non-annual audit services include annual internal control audit, review of half yearly financial statements non-public issuance of shares audit and high and new technology enterprises review audit.

Name of domestic Certified Public Accountants	Ruihua Certified Public Accountants (LLP)
Remuneration of domestic Certified Public Accountants (RMB0'000)	2016 annual remuneration total RMB1.64 million and internal control audit total RMB0.36 million (tax inclusive)
Continuous years of audit service of domestic Certified Public Accountants	5 years
Name of Certified Public Accountants of domestic Certified Public Accountants	Li Encheng, Xiao Jingxiang
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

APPOINT, DISMISS CERTIFIED PUBLIC ACCOUNTANTS *(continued)*

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.

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 for the year 2016 due to the need of internal control.

SUSPENDED AND TERMINATED LISTING AFTER THE DISCLOSURE OF ANNUAL REPORT

Applicable Not applicable

MATTERS RELATED TO BANKRUPTCY RECTIFICATION

Applicable Not applicable

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

MATERIAL LITIGATION AND ARBITRATION

Applicable Not applicable

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

PUNISHMENT AND RECTIFICATION

Applicable Not applicable

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

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

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.

SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES

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
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	Sale of finished goods	Determined by negotiation based on market price	1.60	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 goods	Determined by negotiation based on market price	1,474.36	0.19%	Bank settlement		
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of raw material	Determined by negotiation based on market price	29.94	0.00%	Bank settlement		"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2015 and Connected Transactions in the Ordinary Course of Business for 2016 Announcement (Announcement No.: 2016-31)
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 commodities	Determined by negotiation based on market price	48.15	0.01%	Bank settlement	25 March 2016	
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Subcontracting charge	Determined by negotiation based on market price	146.23	67.56%	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	617.86	91.26%	Bank settlement		
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	Water, electricity and power	Determined by negotiation based on market price	57.67	8.52%	Bank settlement		

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

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 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	Procurement of raw materials	Determined by negotiation based on market price	28,661.10	15.56%	Bank settlement		"Resolution announcement of the 2016 Third Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-118)
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	3,219.16	1.75%	Bank settlement	24 December 2016	
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	0.43	0.00%	Bank settlement		
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	51.03	0.03%	Bank settlement		
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	2.00	0.00%	Bank settlement		"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2015 and Connected Transactions in the Ordinary Course of Business for 2016 Announcement (Announcement No.: 2016-31)
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	1.17	0.00%	Bank settlement	25 March 2016	
Joincare Pharmaceutical Industry Group Co., Ltd (健康元藥業集團股份有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of finished good	Determined by negotiation based on market price	38.68	0.02%	Bank settlement		
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Acceptance of services	Water, electricity and power	Determined by negotiation based on market price	947.20	3.67%	Bank settlement		

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

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
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫療有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	Renting out of office premise	Determined by negotiation based on market price	17.74	9.50%	Bank settlement		"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2015 and Connected Transactions in the Ordinary Course of Business for 2016 Announcement (Announcement No.: 2016-31)
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	Renting out of office premise	Determined by negotiation based on market price	6.50	3.48%	Bank settlement	25 March 2016	
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Hiring of assets	Hiring of office premises	Determined by negotiation based on market price	70.07	37.52%	Bank settlement		
Cynvenio Biosystems, Inc.	The company in which Directors are holding position	Procurement of goods	Procurement of equipment	Determined by negotiation based on market price	1,855.88	9.95%	Bank settlement	Not Applicable	Not Applicable
Total				—	37,246.77	—	—	—	—

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 RMB372.4677 million. Among which, the amount of connected transactions actually conducted between the Company and controlling shareholders (Joincare) and their subsidiaries was RMB332.4764 million, representing 57.18% of the projected amount (RMB581.4734 million) approved by the general meeting of shareholders and the Board of the Company; the amount of connected transactions actually conducted between the Company and Blue Treasure Pharmaceutical (藍寶製藥) was RMB21.4325 million, representing 37.59% of the projected amount (RMB57.0240 million) approved by the Board of the Company and neither exceeding the Limited; connected transactions with Cynvenio Biosystems, Inc. of RMB18.5588 million have been considered and approved by the Company's operational management

Not applicable

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

Connected Transactions relating to Acquisition and Disposal of Assets or Equity

Applicable Not applicable

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

Connected Transactions on Joint External Investment

Applicable Not applicable

Related party	Relationship	Name of investee	Principal Business	Registered capital (RMB'000)	Total assets (RMB'000)	Net assets (RMB'000)	Net profits (RMB'000)
Cynvenio Biosystems, Inc.	A company in which Directors are holding position	Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗聖美醫療診斷技術有限公司)	R&D, production and sales of pharmaceutical diagnostic equipment and reagents; development, consultancy, exchange and promotion of the vitro diagnostic technology as well as transfer service of self-owned technologies; maintenance service of pharmaceutical diagnostic equipment; import and export of goods relevant to pharmaceutical diagnostic equipment, reagents, materials and softwares (except for the exclusively operated and managed commodities); research and trial development of pharmaceutical diagnostic technologies; clinical research and data processing services; biopharmaceutical laboratory services; development and services of computer technologies; development of software.	10,333.33	9,564.85	9,357.83	-975.50
珠海祥和泰投資管理合夥企業	A company in which Senior Management are holding position	Zhuhai Livzon Genes Testing Technology Co., Ltd. (珠海市麗珠基因檢測科技有限公司)	Biomedical technology, technological development of genes testing, technology transfer, technology service, technical consulting, genes testing and disease screening service; clinical examination service. Medical research and testing development; medical equipment leasing service; health consultation (Not to engage in psychological counseling, diagnosis and treatment activities); biomedical consultation (Not to engage in diagnosis and treatment activities); computer technology development, technical services; import and export business of aforementioned technologies and products	10,000.00	0.00	0.00	0.00
Joincare Pharmaceutical Industry Group Co., Ltd.(健康元藥業集團股份有限公司)	Controlling shareholder	Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Principally engaged in technological R&D for biopharmaceutical products and antibiotics.	53,333.00	44,649.79	40,011.01	-13,335.85
Progress of significant construction in progress of the investee company	Nil						

Credits and Debts with Connected Persons

Applicable Not applicable

Non-operating credits and debts with connected persons

Yes No

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

Credits and Debts with Connected Persons (continued)

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)
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Sales of goods, provision of services, leasing of assets	No	7.55	89.86	97.41	-	-	-	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of goods	No	1,741.00	1,725.00	2,776.00	-	-	-	690.00
深圳市有實科技有限公司	Associate	Sale of fixed assets	No	-	2.42	2.42	-	-	-	-
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sales of goods	No	-	35.03	35.03	-	-	-	-
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	No	3.31	0.05	0.09	-	-	-	3.27
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	No	0.83	9.16	6.66	-	-	-	3.33
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Provision of services	No	116.78	706.45	611.42	-	-	-	211.80
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Subcontracting charge	No	48.97	180.02	228.99	-	-	-	0.00
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Procurement of goods	No	-	10.80	-	-	-	-	10.80
Effect of creditors with connected parties on the operating results and financial position of the Company		The creditors mainly arose from ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company.								

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

Credits and Debts with Connected Persons (continued)

Liabilities payable to the connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Balance at the beginning of the period (RMB'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)
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	11,927.79	33,463.79	29,550.84	-	-	15,840.75
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	601.84	3,771.02	4,372.52	-	-	0.34
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	-	0.50	0.50	-	-	-
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	-	1.37	1.37	-	-	-
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of goods	6.56	59.71	49.99	-	-	16.28
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Procurement of goods	-	112.23	112.23	-	-	-
Shenzhen Taitali Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods, hiring of assets	-	2.34	2.34	-	-	-
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, etc	71.23	1,147.78	973.01	-	-	246.00
EPIRUS SWITZERLAND GmbH	A company in which Directors are holding position	R&D funding	949.55	-	949.55	-	-	0.00
Topsino Industries Limited (天誠實業有限公司)	Subsidiary of the controlling shareholder	Dividends payables	-	324.85	324.85	-	-	-
Cynvenio Biosystems, Inc.	A company in which Directors are holding position	Purchase of equipment	-	1,855.88	1,855.88	-	-	-

Effect of creditors with connected parties on the operating results and financial position of the Company

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

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

Other Major Connected Transactions

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.

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

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.

One-Off Connected Transactions

Capital Injections to Livzon MAB

On 26 September 2016, the Company and Joincare (健康元) signed the "Agreement on the Capital Injections to Zhuhai Livzon MABPharm Inc." ("Agreement on the Capital Injections"), and agreed to increase capital of RMB200,000,000 in Livzon MAB on pro-rata basis according to the proportion of the respective existing shareholding (the "Capital Injection"). The amount of capital injections is determined through fair negotiation pursuant to the increase of financial status of Livzon MABPharm Inc. and the need of "Research & Development and Industrialization of therapeutic antibody-based drugs" constructed by Livzon MAB.

The Capital Injection is based on the principle of "voluntary contribution, fair and reasonable, interest and risk sharing", of which the Company and Joincare (健康元) will make capital injections in cash on pro-rata basis according to the proportion of their existing shareholdings, details are as follows: (i)the Company will inject capital to Livzon MAB in a total amount of non-public A shares fund of RMB40,800,000, and self own internal resources fund of RMB61,200,000, in total RMB102,000,000, of which RMB16,998,300 will become the paid-in registered capital, and the remaining RMB85,001,700 will be accounted as capital reserves; (ii) Joincare (健康元) will inject RMB98,000,000, of which RMB16,331,700 will become the paid-in registered capital, and the remaining RMB81,668,300 will be accounted as capital reserves. After the Capital Injection, the registered capital of Livzon MAB will increase to RMB533,330,000, the shareholding of the Company and Joincare (健康元) in Livzon MAB will remain unchanged as 51% and 49% respectively.

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

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

One-Off Connected Transactions (continued)

Capital Injections to Livzon MAB (continued)

Joincare (健康元) is the Controlling Shareholder of the Company, as at the date of the Annual Report, it directly and indirectly held and controlled a total of 44.80% equity interests in the issued share capital of the Company, since Joincare (健康元) directly held 49% equity interests in Livzon MAB, therefore, pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules, Joincare (健康元) and Livzon MAB are Connected Persons of the Company. Therefore, pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules, the Capital Injection constitutes a connected transaction of the Company. Since the Company will make capital injections on pro-rata basis (as defined in Hong Kong Listing Rules), which is more than 0.1% but less than 5%, therefore pursuant to Rule 14A of the Hong Kong Listing Rules, the Capital Injection is exempted from the reporting, announcement and shareholders' approval requirements.

Since Joincare (健康元) is the Controlling Shareholder of the Company, the Capital Injection also constitutes a connected transaction of the Company under the Shenzhen Listing Rules. The capital injection amount to Livzon MAB of the Company is RMB61,200,000, from self own fund, attributing to 1.41% of the latest audited net asset value of the Company (RMB4,346,255,331.26). Pursuant to the Shenzhen Listing Rules and other relevant laws and regulations and relevant requirements of the Articles of Association, the Capital Injection is not required to be submitted to the Company's general meeting for consideration.

Set up Gene Company

Based on our needs of development, on 30 November 2016, the Company held a Board meeting and the Board resolved and approved the Company to set up Zhuhai Livzon Gene Detection Technology Co., Ltd (the "Gene Company") with Guanliangu Investment Partnership (Limited Partnership) ("Guanliangu") in Hengqin New District in Zhuhai and Zhuhai Xianghetai Investment Management Partnership (Limited Partnership) ("Xianghetai") by means of joint contribution. Among which, the Company made a contribution of RMB60,000,000 in cash, representing 60% of the registered capital of the Gene Company, and Guanliangu contributed RMB25,000,000 in cash, representing 25% of the registered capital of the Gene Company while Xianghetai made a contribution of RMB15,000,000 in cash, accounting for 15% of the registered capital of the Gene Company.

The purpose of the Company's investment in establishing the Gene Company is to further improve its layout in the field of precision diagnosis. After the establishment of Zhuhai Livzon Cynvenio Diagnostics Ltd., the Company is dedicated to setting up a marketing platform for clinical application of precision pharmacy. By providing various kinds of services, including the R&D, production and sales of precision diagnosis equipment and reagents and precision pharmacy testing, the Company is trying to achieve a greater industrial chain advantage.

The Gene Company is a joint-stock company established by Xianghetai (comprised of the core staff from the sales team of prescription medicine) and Guanliangu (comprised of the management team of diagnosis reagents). This community of shared interests shares benefits and risks, stimulating every member's enthusiasm, initiative and innovation. The promotion of the Company's precision diagnosis and testing services lays a great foundation for achieving the Company's development goal in precision medication.

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

One-Off Connected Transactions *(continued)*

Set up Gene Company *(continued)*

As Ms. Li Lin, a partner of Guanliangu, is a director of Zhuhai Livzon Diagnostics Inc. (the Company's controlling subsidiary), and hold 76% of Guanliangu's shares, thus, Guanliangu constitutes a connected person of the Company under the Hong Kong Listing Rules. The transaction constitutes a connected transaction of the Company under the Hong Kong Listing Rules. As all the applicable percentage ratios for the connected transaction under the Rule 14A.76 of the Hong Kong Listing Rules do not exceed 1%, and the transaction is a connected transaction only because it involves connected person at the subsidiary level. Therefore, the connected transaction will exempt from the reporting, announcement and Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

As Mr. Xu Guoxiang, the partner of Xianghetai, is the vice president of the Company, the transaction also constitutes a connected transaction of the Company under the Shenzhen Listing Rules. The Company contributed RMB60,000,000 in the establishment of the Gene Company, representing 1.38% of the audited net asset in the latest period (RMB4,346,255,331.26) of the Company. The connected transaction is not required to be submitted to the Company's general meeting for consideration according to relevant requirements of the laws and regulations including the Rules Governing Listing of Stocks on Shenzhen Stock Exchange and the Company's Articles of Association.

On 30 December 2016, the Gene Company was established, completed the procedure of Industrial and Commercial registration and acquired the business license issued by Jinwan Branch of Zhuhai Administrative Bureau for Industry and Commerce of Guangdong Province.

Continuing Connected Transactions

On 5 September 2014 and 24 September 2015, the Company and Joincare (健康元) entered into the 2014 Joincare (健康元) Purchases Agreement and Supplementary Agreement respectively, pursuant to which, the Company and Joincare (健康元) revise the annual caps of the continuing connected/transactions for the three years ending 31 December 2014, 2015 and 2016.

With the continuous development of business, the Group will develop and produce various products in relation to antifungal and antibiotics and new products from time to time. Given the expiry of 2014 Joincare (健康元) Purchases Agreement on 31 December 2016, for the purpose of renewing the 2014 Joincare (健康元) Purchases Agreement, on 25 October 2016, the Company and Joincare (健康元) entered into the 2017 Joincare (健康元) Purchases Framework Agreement to ensure the current transactions pursuant to present raw material procurement agreement between the Company and Joincare (健康元). Pursuant to which, both parties have conditionally agreed Joincare (健康元) to sell products and raw material in relation to the production of antifungal and antibiotics reagents to our partial members under the terms of 2017 Joincare (健康元) Purchases Framework Agreement for the three years ending 1 January 2017 to 31 December 2019, from time to time, and receive the annual cap of proposed continuing connected transactions for the three years ending 31 December 2019 of RMB382.00 million, RMB421.00 million and RMB473.00 million.

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

Continuing Connected Transactions (continued)

As at the date of this annual report, Joincare (健康元) directly and indirectly owned approximately 44.80% share interest of the Company and therefore is the controlling Shareholder of the Company. Accordingly, Joincare (健康元) and its associates are connected persons of the Company and the transactions contemplated under the 2017 Joincare (健康元) Purchases Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the maximum applicable percentage ratios for the annual cap under the 2017 Joincare (健康元) Purchases Framework Agreement exceed 5%, the contemplated transactions under the 2017 Joincare (健康元) Purchases Framework Agreement shall comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The 2017 Joincare (健康元) Purchases Framework Agreement has been approved and effected on the 2016 Third Extraordinary Meeting of the Company convened on 23 December 2016. For details of the transaction mentioned above, please refer to the announcement dated 25 October 2016 and the Circular dated 5 December 2016 of the Company.

The annual cap of products to be procured from the Joincare Group by the Group for the year ended 31 December 2016 is RMB572.00 million, while the aggregate amount of purchase arising from the transaction between the Group and Joincare (健康元) constituting "continuing connected transactions" under Chapter 14A of the Hong Kong Listing Rules was RMB319.23 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 and supplementary agreement when undergoing the above continuing connected transactions.

Connected Persons	Relationships	Type of connected transactions	Pricing principle of connected transactions	Amount of connected transactions in 2016 (RMBO'000)	Proportion to transaction amount of the same category (%)
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	1.60	0.00%
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Determined by negotiation based on market price	29.94	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	48.15	0.01%
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	146.23	67.56%
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	57.67	8.52%
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	28,661.10	15.56%

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

Continuing Connected Transactions *(continued)*

Connected Persons	Relationships	Type of connected transactions	Pricing principle of connected transactions	Amount of connected transactions in 2016 (RMBO'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 goods	Determined by negotiation based on market price	3,219.16	1.75%
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	0.43	0.00%
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	2.00	0.00%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	1.17	0.00%
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	38.68	0.02%
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Acceptance of services	Determined by negotiation based on market price	947.20	3.67%
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	Determined by negotiation based on market price	17.74	9.50%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	Determined by negotiation based on market price	6.50	3.48%
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Hiring of assets	Determined by negotiation based on market price	70.07	37.52%
Total				33,247.64	-

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

Continuing Connected Transactions (continued)

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

In respect of the abovementioned continuing connected transactions between the Group and Joincare (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 2016.

Connected Transactions and Related Party Transactions

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

MAJOR CONTRACTS AND ITS ENFORCEMENT

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

During the year, the Company has no leasing.

Major Guarantees

Applicable Not applicable

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

MAJOR CONTRACTS AND ITS ENFORCEMENT *(continued)*

Major Guarantees *(continued)*

Guarantees

Unit: RMBO'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)

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)	2016.05.17	5,000.00	2016.6.22	382.52	Joint obligation guarantee	2016.6.22-2019.6.22	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2016.03.25	9,000.00	2016.11.30	EUR62.23 454.70	Joint obligation guarantee	2016.11.30-2019.11.30	No	No
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2016.03.25	USD700 4,855.90	2013.02.05	USD243.96 1,692.35	Joint obligation guarantee	2013.02.05-2018.02.04	No	No
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2016.03.25	4,000.00	2015.09.11	160.00	Joint obligation guarantee	2015.09.11-2018.09.11	No	No
Total of guaranteed amount to its subsidiaries approved during the year (B1)		RMB170,543.91		Total of actual guaranteed amount to its subsidiaries approved during the year (B2)				7,841.24
Total of guaranteed amount to its subsidiaries approved at the end of the year (B3)		RMB170,543.91		Total of actual guaranteed amount to its subsidiaries approved at the end of the year (B4)				2,689.58

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)

MAJOR CONTRACTS AND ITS ENFORCEMENT *(continued)*

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)	170,543.91	Total of actual guaranteed amount approved during the year (A2+B2+C2)		7,841.24
Total of guaranteed amount approved at the end of the year (A3+B3+C3)	170,543.91	Total of actual guaranteed amount approved at the end of the year (A4+B4+C4)		2,689.57
Total of actual guaranteed amount (A4+B4+C4) proportion to the net assets of the Company				0.41%
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.

Entrusted cash assets management

Entrusted wealth management

Applicable Not applicable

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 reporting period	Gains or losses recovered during the reporting period
China Resources Bank of Zhuhai Co., Ltd.(Gongbei Branch)	No	Principal-protected with variable income	25,000.00	2016.10.26	2017.10.09	By agreement	-	-	Not applicable	Not applicable	Not applicable
Xiamen International Bank Co., Ltd. (Zhuhai Branch)	No	Principal-protected with variable income	30,000.00	2016.10.26	2017.10.06	By agreement	-	-	Not applicable	Not applicable	Not applicable
China Zheshang Bank Co., Ltd. (Shenzhen Branch)	No		10,000.00	2016.10.26	2017.10.26	By agreement	-	-	Not applicable	Not applicable	Not applicable
Total			65,000.00	-	-	-	-	-			
Source of funds for entrusted investment			Funds raised								
Aggregate amount of overdue and outstanding principal and gain			Nil								
Litigation incurred (if applicable)			No								
Date of announcement of the Board of Directors regarding the approval of entrusted investment (if any)			27 October 2016								
Date of announcement of the general meeting regarding the approval of entrusted investment (if any)			Not applicable								
Whether there are entrusted investment plans in future			No								

Entrusted loans

Applicable Not applicable

During the year, the Company had no entrusted loans.

MAJOR CONTRACTS AND ITS ENFORCEMENT *(continued)*

Other Major Contracts

Applicable Not applicable

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

Other Material Transactions

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

SHARES PLEDGED BY THE CONTROLLING SHAREHOLDER

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

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

As at the reporting date of the year, Joincare (健康元), the Company's controlling shareholder, directly and indirectly, holds and controls a total of 190,659,367 Shares of the Company, representing 44.80% of the Company's total issued shares. Among which, Topsino directly holds 74,358,067 H Shares of the Company, representing 17.47% of the Company's total issued shares, and a total of 16,250,000 H Shares of the Company are subject to pledge, representing 3.82% of the Company's total issued shares.

SIGNIFICANT EVENT OF SUBSIDIARIES OF THE COMPANY

Applicable Not applicable

SOCIAL RESPONSIBILITY

Applicable Not applicable

Fulfilling social responsibility of targeted poverty alleviation

1. Summary of annual targeted poverty alleviation

Applicable Not applicable

2. Annual targeted poverty alleviation of Listing Company

Applicable Not applicable

3. Follow up program of targeted poverty alleviation

Applicable Not applicable

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 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.

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 2016 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.

SOCIAL RESPONSIBILITY *(continued)*

Fulfilling other social responsibilities *(continued)*

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 First Unlocking of initial and reserved grant under Restricted 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 the year, the Group strictly implemented and abided by the laws and regulations on safe production and environmental protection such as the Environmental Protection Law of the People's Republic of China and the Cleaner Production Promotion Law of the People's Republic of China. In order to ensure the production enterprises meeting the national standards in environmental protection in terms of waste water discharge, exhaust emission, noise control and waste disposal, the Group has continuously increased the investment in environmental protection and effectively ensure the smooth launch of EHS.

Sewage treatment and exhaust gas treatment facilities have been set up under various production enterprises of the Group. In order to further strengthen environmental protection, the Group has actively implemented cleaner production and "resources-recycling, amount-reduction and harmless" treatment of waste, improved overall utilization of resources, reduced the concentration and total amount of pollutants emission, strived to achieve coordinated development of enterprise economic benefits and social and environmental protection through energy saving and emission reduction measures.

Various environmental protection systems developed by the production enterprises of the Group have been registered with the local environmental protection departments. Emergency leadership and working groups have been set up with various emergency measures learnt and professional training and emergency drills regularly organized. During the year, there were no major environmental and production incidents occurred at various enterprises the Group, and annual EHS targets and plans of various production enterprises were effectively implemented.

SOCIAL RESPONSIBILITY *(continued)*

Fulfilling other social responsibilities *(continued)*

3. Safe production and environmental protection *(continued)*

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

Yes No Not applicable

Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), a wholly-owned subsidiary of the Group, is an integrated pharmaceutical enterprise which mainly produces and sells bulk medicines and is a model enterprise of technological innovation and enterprise of advanced technology in Fujian Province. Jiangyin new factory of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd., located at Jiangyin industrial centralised area in Fuqing City, strictly followed the requirements of "Environmental Protection Law of the People's Republic of China", "Environmental Impact Assessment Law of the People's Republic of China" and "Regulations on the Administration of Environmental Protection of Construction Projects" after construction and successful production trial, had conducted environmental impact assessment of the construction project. The environmental protection facilities of the supporting construction was designed, constructed and put into trial run at the same time with the main project.

Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. belongs to key units discharging pollutants announced by the Ministry of Environmental Protection of the State, announced the focus of the sewage unit, with COD and ammonia nitrogen as key national control indicators. The method of sewage discharge is piped discharge and after treatment, sewage is collected and discharged to the treatment plant at the industrial park area for second treatment. Discharge standards entered into with Jiangyin sewage plant is as follows: COD ≤ 500mg/L, ammonia nitrogen: ≤ 60mg/L, total phosphorus ≤ 8mg/L and SS ~ 400mg/L.

Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. currently have 1 discharge outlet of industrial waste water, 1 discharge outlet of boiler flue gas and 4 discharge outlets of process exhaust gas. Details of the major pollutants and related measures of governance, prevention and control are as follows:

1. Exhaust gas

Exhaust gas pollution mainly comes from the ingredients dust and fermented tail gas of fermentation engineering department, boiler flue gas and process exhaust gas in sewage treatment. Fermented exhaust gas collected is sprayed with water and treated at absorption tower and discharged at high altitude; dried tail gas is directed to the inlet of boiler for treatment and discharged at high altitude. Boiler flue gas is discharged from 50-meters high chimneys at high altitude after desulfurization by HCWS series of granite water film dust collector and double alkali method. Due to the change in standards of flue gas emissions in 2016, transformation of the system has started. Sewage treatment process exhaust is absorbed and treated by CST purification tower. Through the control of various pollution sources by exhaust hoods, exhaust gas collected is pressurized into 50-meters high boiler chimneys and discharged at high altitude into the atmosphere after treated by purification tower.

SOCIAL RESPONSIBILITY *(continued)*

Fulfilling other social responsibilities *(continued)*

3. Safe production and environmental protection *(continued)*

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

2. Waste water

Waste water mainly comes from waste water of auxiliary workshops such as fermentation workshops, refining workshops, circulating water systems, boiler dust removal as well as domestic sewage. After treatment at internal sewage treatment station, waste water is discharged to Jiangyin industrial area for re-treatment. Total investment of the internal sewage treatment facilities amounted to RMB15 million, with processing capacity lower than 4000m³/d. The designed COD concentration of influent is lower than 3370mg/L and the total treatment capacity of COD is lower than 13.48t/d. The treatment process is as follows: Sewage → Regulating pool → Hydrolysis acidification tank → SBR pool → Middle tank → Air float tank → Discharge to Jiangyin sewage treatment plant.

3. Solid Waste

Solid waste is mainly dregs of bacteria and ash, waste organic solvents, liquid waste at pipes, sludge and domestic waste produced in the antibiotic production process.

- 1) Bacteria dregs: A product of the fermentation liquid after filtration. At present, it is dried and then stored temporarily as hazardous waste in warehouse for dangerous waste at about 200-300 tons annually and is regularly disposed of by Fujian Solid Waste Disposal Co., Ltd.
- 2) Ash dregs: A biomass fuel produced from the boiler combustion with annual production of about 100 tons, it is regularly disposed of by garbage disposal stations as landfill.
- 3) Biochemical sludge: Produced by sewage treatment systems. The COD removal efficiency of existing sewage treatment systems is more than 93% with monthly production of wet sludge at about 500 tons. It is handled by qualified units for usage as organic fertilizer.
- 4) Other hazardous waste: Hazardous waste such as waste organic solvents, liquid waste at pipes and waste oil is entrusted to the disposal of Fujian Province Solid Waste Disposal Co., Ltd. and Special Oil Co., Ltd. of Fuqing City (福清市發強特種油有限公司) respectively.
- 5) Domestic waste: With an annual production of about 120 tons by enterprises, domestic waste is disposed of by environmental and health department of Jiangyin centralized industrial area as landfill after centralized collection.
- 6) Noise: Enterprise noise comes from mixing noise of fermentation workshops, noise from power equipment of refining workshops, frozen air compressors, air compressors, circulating water pumps and fans at boiler rooms and sewage treatment stations as well as pumps. Noise is reduced by noise reduction measures. At present, noise levels of our factories meet the national standards.

SOCIAL RESPONSIBILITY *(continued)*

Issue social responsibility report

Yes No

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.

CHANGES IN SHARES

Changes in Shares

As at 31 December 2016, 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	New Shares issued	Others	Sub-total	Number	Percentage
I.	Shares subject to selling restrictions	20,328,396	5.12%	+29,098,203	-5,034,169	+24,064,034	44,392,430	10.43%
1	State-owned shares	-	-	-	-	-	-	-
2	State-owned legal person shares	7,877,256	1.98%	+3,900,000	-	+3,900,000	11,777,256	2.77%
3	Other domestic shares	12,451,140	3.14%	+25,198,203	-5,034,169	+20,164,034	32,615,174	7.66%
	Of which: Domestic legal person shares	-	-	-	-	-	-	-
	Domestic natural person shares	12,451,140	3.14%	-	-5,034,169	-5,034,169	7,416,971	1.74%
	Funds and asset management products	-	-	25,198,203	-	25,198,203	25,198,203	5.92%
4	Foreign shares	-	-	-	-	-	-	-
	Of which: Overseas legal person shares	-	-	-	-	-	-	-
	Overseas natural person shares	-	-	-	-	-	-	-
II.	Shares not subject to selling restrictions	376,561,151	94.88%	-	+4,776,545	+4,776,545	381,337,696	89.57%
1	Ordinary shares denominated in Renminbi	230,969,791	58.19%	-	+4,776,545	+4,776,545	235,746,336	55.37%
2	Domestically listed foreign shares	-	-	-	-	-	-	-
3	Overseas listed foreign shares	145,591,360	36.68%	-	-	-	145,591,360	34.20%
4	Others	-	-	-	-	-	-	-
III.	Total number of shares	396,889,547	100.00%	+29,098,203	-257,624	+28,840,579	425,730,126	100.00%

Reasons for changes in equity

Applicable Not applicable

The Company has completed the First Unlocking in March 2016 under the Restricted A Shares Incentive Scheme and 4,453,176 shares have been unlocked with 160,191 locked shares held by the senior management, resulted in an actual increase of 4,292,985 non-restricted shares of the Company and listed on 5 April 2016.

On 13 July 2016, the Company repurchased and cancelled 257,624 Restricted Shares held by 15 Participants.

On 19 September 2016, the Company's non-public issuance of A shares raised a total of 29,098,203 shares and listed on 20 September 2016 with a twelve month's locked-up period.

Mr. Zhoupeng was appointed as the Vice President of the Company in November 2016 and granted additional 15,000 locked shares held by the senior management.

The Company has completed the First Unlocking under Reserved Restricted A Shares Incentive Scheme in December 2016 with 498,560 Shares unlocked and listed on 16 December 2016.

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

Applicable Not applicable

On 28 March 2016, the “Resolution on Granting Shares to be Unlocked during the First Unlocking Period under the Restricted Shares Incentive Scheme of the Company” and “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” were being passed at the Twenty-third Meeting of the Eighth Session of the Board and the Twentieth Meeting of the Eighth Session of the Supervisory Committee of the Company.

On 16 May 2016, “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” was being passed at the Twenty-sixth Meeting of the Eighth Session of the Board and the Twenty-second Meeting of the Eighth Session of the Supervisory Committee of the Company.

On 30 November 2016, the “Resolution for the Unlocking of the First Unlock Period for the Reserved Grant under the Restricted Shares Incentive Scheme” was considered and adopted in the Thirty-second meeting of the Eighth session of the Board and Twenty-fifth meeting of the Eighth session of the Supervisory Committee.

Transfer of changes in equity

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

CHANGES IN SHARES *(continued)*

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
Penghua Asset Management (Shenzhen) Co., Ltd.	-	-	14,900,000	14,900,000	non-public issuance of locked shares	Not applicable
Caitong Fund Management Co., Ltd.	-	-	5,200,000	5,200,000	non-public issuance of locked shares	Not applicable
Da Cheng Fund Management Co.,Ltd.	-	-	4,100,000	4,100,000	non-public issuance of locked shares	Not applicable
China Huarong Asset Management Co., Ltd.	-	-	3,900,000	3,900,000	non-public issuance of locked shares	Not applicable
China Merchants Wealth Asset Management Co., Ltd	-	-	998,203	998,203	non-public issuance of locked shares	Not applicable
Total 604 of the incentive participants (middle management, core technology (business) staff)	11,509,222	4,951,736	-	6,557,486	restricted shares under the share incentive scheme	5 April 2016; 16 December 2016
Lu Wengqi	176,540	70,616	26,481	132,405	restricted shares under the share incentive scheme, locked shares held by the senior management	5 April 2016
Tao Desheng	275,990	110,396	41,398	206,992	restricted shares under the share incentive scheme, locked shares held by the senior management	5 April 2016
Si Yanxia	110,370	44,148	16,555	82,777	restricted shares under the share incentive scheme, locked shares held by the senior management	5 April 2016
Yang Daihong	176,540	70,616	26,481	132,405	restricted shares under the share incentive scheme, locked shares held by the senior management	5 April 2016
Yang Liang	52,520	21,008	7,878	39,390	restricted shares under the share incentive scheme, locked shares held by the senior management	5 April 2016
Xu Guoxiang	275,990	110,396	41,398	206,992	restricted shares under the share incentive scheme, locked shares held by the senior management	5 April 2016
Zhou Peng	72,540	29,016	15,000	58,524	restricted shares under the share incentive scheme, locked shares held by the senior management	5 April 2016
Total	12,649,712	5,407,932	29,273,394	36,515,174	-	-

CHANGES IN SHARES *(continued)*

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.

ISSUE AND LISTING OF SECURITIES

Issue of securities (excluding preferred shares) during the year

Applicable Not applicable

The Company completed the non-public issuance of A Shares on 19 September 2016, please refer to the Section IV "The Non-Public Issuance Of A Shares" of this annual report for details.

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

SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER

Number of Shareholders of the Company

as of the end of the year, the Company had a total of 13,319 Shareholders which included 5 H Shareholders (*Note 1*) and 13,314 A Shareholders.

Unit: Share

Total number of ordinary shareholders as at the end of the year	13,319 holders (13,314 A shareholders)	Total number of ordinary shareholders as at the end of the month prior to the disclosure date of the annual report	15,729 holders (15,724 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
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SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER (continued)

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%	145,588,070	0	16,250,000 ^(Note 2)	129,338,070	Pledge	16,250,000 ^(Note 2)	
Joincare Pharmaceutical Industry Group Co., Ltd.	Domestic non-state owned legal person	A Share	23.67%	100,763,218	0	-	100,763,218	-	-	
Penghua Asset Management-SPDB-Hwabao Trust – Hwabao-Kang Sheng Tian Tian	Others	A Share	3.50%	14,900,000	14,900,000	14,900,000	-	-	-	
Xiang Shang Assembled Funds Trust Scheme ^(Note 2)	Others	A Share	2.24%	9,557,156	9,557,156	1,700,000	7,857,156	-	-	
National Social Security Fund 113 ^(Note 3)	State owned legal person	A Share	1.85%	7,877,256	0	7,877,256	-	Pledge and lock up	7,877,256	
Guangzhou Begol Trading Corporation	Others	A Share	1.80%	7,660,826	0	-	7,660,826	-	-	
Shenzhen Haibin Pharmaceutical Co., Ltd.	State owned legal person	A Share	1.29%	5,487,820	0	-	5,487,820	-	-	
China Construction Bank Corporation -Boshi Industry Mixed Securities Investment Fun (LOF)	Others	A Share	0.94%	4,000,603	3,195,838	-	4,000,603	-	-	
China Huarong Asset Management Co., Ltd. ^(Note 3)	State owned legal person	A Share	0.92%	3,900,000	3,900,000	3,900,000	-	-	-	
Da Cheng Fund Management Co., Ltd. ^(Note 3)	Others	A Share	0.82%	3,494,046	3,494,046	600,000	2,894,046	-	-	

Description on strategic investors or general legal persons becoming the top ten shareholders by placing of new shares (if any) ^(Note 3)

Not applicable

Description on connection and concert in actions among the aforesaid shareholders

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

SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER (continued)**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>	129,338,070	Overseas listed foreign shares	129,338,070
Joincare Pharmaceutical Industry Group Co., Ltd.	100,763,218	Ordinary shares denominated in Renminbi	100,763,218
National Social Security Fund 113 <i>(Note 3)</i>	7,857,156	Ordinary shares denominated in Renminbi	7,857,156
Shenzhen Haibin Pharmaceutical Co., Ltd.	7,660,826	Ordinary shares denominated in Renminbi	7,660,826
Central Huijin Investment Company Limited	5,487,820	Ordinary shares denominated in Renminbi	5,487,820
China Construction Bank Corporation – Boshi Industry Mixed Securities Investment Fun (LOF)	4,000,603	Ordinary shares denominated in Renminbi	4,000,603
Da Cheng Fund Management Co., Ltd. <i>(Note 3)</i>	2,894,046	Ordinary shares denominated in Renminbi	2,894,046
China Securities Finance Corporation Limited	2,674,614	Ordinary shares denominated in Renminbi	2,674,614
Bank of China Limited – Castrol healthcare equity securities investment fund	2,410,430	Ordinary shares denominated in Renminbi	2,410,430
National Social Security Fund 403	2,354,658	Ordinary shares denominated in Renminbi	2,354,658

SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)*

Shareholdings of Top Ten Shareholders Without Selling Restrictions *(continued)*

Description on connection and concert in actions among top ten shareholders without selling restrictions themselves and between top ten shareholders without selling restrictions and top ten shareholders

(1) On 2 January 2004, Joincare (健康元) and Begol entered into a share transfer and custody agreement and a share pledge agreement, pursuant to which the 6,059,428 original domestic legal person shares (the number of shares was increased to 7,877,256 shares after the Company's implementation of 2014 Equity Distribution) of the Company held by Begol have been directly transferred, entrusted and pledged to Joincare (健康元); (2) Haibin Pharmaceutical Co., Ltd. (海濱製藥有限公司) is Joincare's directly and indirectly wholly-owned subsidiary; (3) both National Social Security Fund 113 and National Social Security Fund 403 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.

Description of the top ten shareholders of ordinary shares involved in the margin financing and securities lending business (if any) Not Applicable

Note 1: Total number of H Shareholders is calculated based on the record of Tricor Investor Services Limited, the H Share Registrar of the Company.

Note 2: HKSCC Nominees Limited is a nominee holder of H Shares of the Company and the shareholdings under its name for others include 74,358,067 H Shares held by Topsino Industries Limited (天誠實業有限公司), which is a wholly-owned subsidiary of Joincare (健康元), the Company's controlling shareholder (Topsino Industries Limited has entered into an equity interest pledge agreement with Nanyang Commercial Bank to pledge its 16,000,000 H Shares (the number of shares was increased to 20,800,000 shares after the Company's implementation of 2014 Equity Distribution) held in the Company to Nanyang Commercial Bank. The effective date of the pledge is 11 June 2014. In September 2016, Topsino released its 4,550,000 H shares of the Company pledged to Nanyang Commercial Bank. Upon the completion of release, the number of H shares pledged by Topsino totaled to 16,250,000. Please see the section headed "Shares Pledged by the Controlling Shareholder" in Chapter V of this annual report for details.

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

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

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	RMB1,587,139,292	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 2016 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.

SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)*

Ultimate Beneficial Owner of the Company

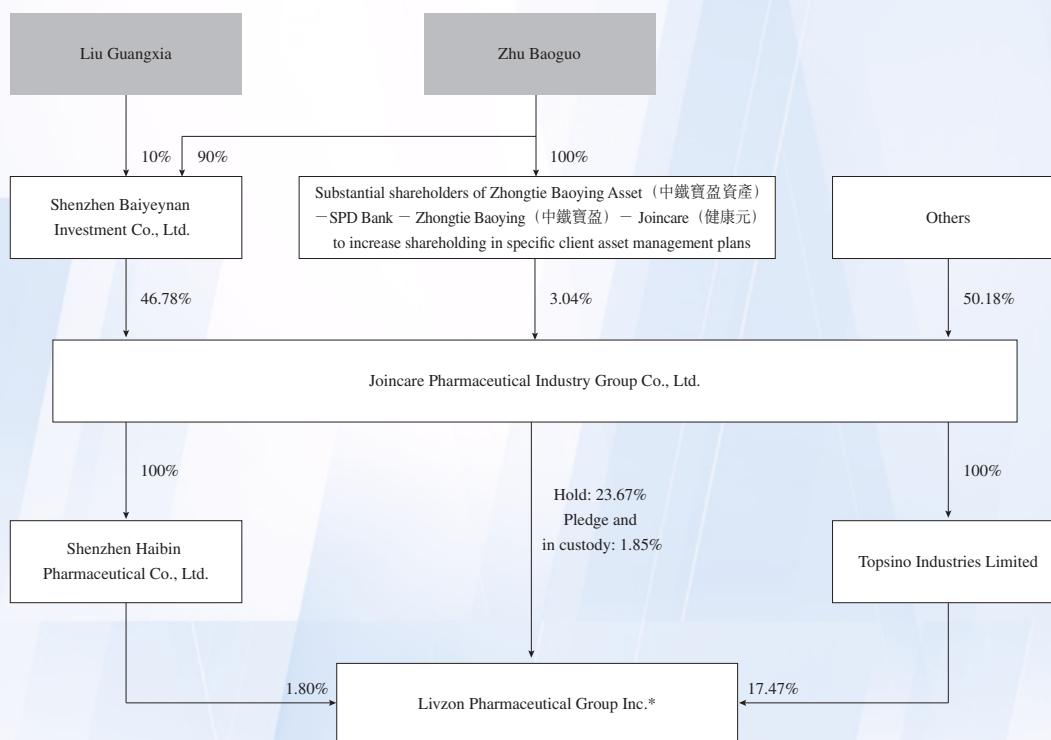
Name of the ultimate beneficial owner	Nationality	Obtain any right of residence of other countries or regions
Zhu Baoguo (朱保國)	Chinese	No
Careers and duties		Please see related details in the paragraph headed "DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES" of the Chapter VIII in this annual 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



SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)***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 1 February 2016 and 25 July 2016, the first and second reserved grant under the restricted A shares incentive scheme of Joincare have been registered with Shanghai Branch of China Securities Depository and Clearing Corporation Limited, through which the share capital of Joincare increased by 3,150,000 shares and 1,360,000 shares, respectively from 1,583,879,292 shares to 1,588,389,292 shares. 1,250,000 restricted shares have been repurchased and cancelled by Joincare, of which share capital decreased from 1,588,389,292 shares to 1,587,139,292 shares. As such, the shareholding of Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) in Joincare decreased to 46.78% from 46.87%. Mr. Zhu Baoguo holds 48,277,046 shares in Joincare (健康元) in the form of targeted asset management scheme(s), with a decrease in the proportion to the total share capital of Joincare from 3.05% to 3.04%.

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

Applicable Not applicable

Other legal shareholders holding more than 10%

Applicable Not applicable

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

Applicable Not applicable

SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)*

As at 31 December 2016, 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
Substantial shareholders					
Baiyeyuan (百業源)	Interest of controlled corporations	116,301,300 A Shares ⁽¹⁾	Long position	41.52%	27.32%
	Interest of controlled corporations	74,358,067 H Shares ⁽²⁾	Long position	51.07%	17.47%
Ms. Liu Guangxia (劉廣霞女士)	Spouse interest	116,301,300 A Shares ⁽³⁾ 74,358,067 H Shares ⁽³⁾	Long position Long position	41.52% 51.07%	27.32% 17.47%
Joincare (健康元)	Beneficial owner	100,763,218 A Shares	Long position		
	Interest of controlled corporations	7,660,826 A Shares ⁽⁴⁾	Long position		
	Person having a security interest in shares	7,877,256 A Shares ⁽⁵⁾	Long position		
	Interest of controlled corporations	116,301,300 A Shares 74,358,067 H Shares ⁽²⁾	Long position	41.52% 51.07%	27.32% 17.47%
Topsino (天誠實業)	Beneficial owner	74,358,067 H Shares ⁽²⁾	Long position	51.07%	17.47%
Other persons					
UBS Group AG	Person having a security interest in shares	358,910 H Shares ⁽⁶⁾	Long position		
	Interest of controlled corporations	9,244,995 H Shares ⁽⁶⁾	Long position		
		9,603,905 H Shares		6.60%	2.26%
	Interest of controlled corporations	63,200 H Shares ⁽⁷⁾	Short position	0.04%	0.01%

SHAREHOLDERS AND ULTIMATE BENEFICIAL OWNER *(continued)*

As at 31 December 2016, the following major shareholders and other persons (other than the Directors, supervisors or chief executives as defined in the SFO) had interests and short positions in the Shares and underlying shares of the Company which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO: *(continued)*

Notes:

- (1) Among these shares, 108,640,474 shares and 7,660,826 shares are held directly by Joincare (健康元) and its wholly-owned subsidiary, Haibin (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, a wholly-owned subsidiary of Joincare (健康元).
- (5) These shares were directly transferred from, entrusted and pledged by Begol (保科力) in favor of Joincare (健康元) in accordance with the share transfer, custody and pledge agreement with Joincare (健康元) and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司) dated 2 January 2004, the share transfer and custody agreement and the share pledge agreement with Joincare (健康元).
- (6) These shares include 358,910 shares attributable to security interest and 9,244,995 shares attributable to interest in controlled corporations, among which 4,180 shares are derivatives settled by cash. Interest in controlled corporations is held as to 30,183 shares, 2,067,122 shares, 190,980 shares, 6,925,310 shares, 1,400 shares and 30,000 shares by its wholly-owned entities, namely UBS AG, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd, UBS Fund Management (Luxembourg) S.A., UBS Fund Management (Switzerland) AG and UBS Securities LLC, respectively.
- (7) These short positions are held by its wholly-owned UBS AG (33,200 shares) and UBS Securities LLC (30,000 shares) respectively, among which 33,200 shares are derivatives settled by cash.

Applicable Not applicable

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

CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Applicable Not Applicable

On 18 November 2016, Topsino (a wholly-owned subsidiary of Joincare, our controlling shareholder) increased its shareholding in the Company by 8,500,000 H shares via OTC. Prior to such increase in shareholding, Topsino held 65,858,067 H shares in the Company, representing 15.47% of the total shares of the Company. Following such increase in shareholding, Topsino holds 74,358,067 H shares in the Company, representing 17.47% of the total shares of the Company. Since Mr. Zhu Baoguo, the chairman of the Board is deemed to be interested in Topsino indirectly through his shareholding in Joincare held by Baiyeyuan, therefore H shares of the Company held by Mr. Zhu are deemed to increase accordingly.

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	52	July 2009	-	275,990	-	-	-	275,990
Yang Daihong (楊代宏)	Executive Director, Vice President	Current	Male	50	May2006	-	176,540	-	-	-	176,540
Xu Guoxiang (徐國祥)	Vice President	Current	Male	54	December 2007	-	275,990	-	-	-	275,990
Lu Wengqi (陸文岐)	Vice President	Current	Male	49	October 2006	-	176,540	-	-	-	176,540
Si Yanxia (司燕霞)	Vice President	Current	Female	48	June2014	-	110,370	-	-	-	110,370
Zhou Peng (周鵬)	Vice President	Current	Male	54	November 2016	-	63,524	-	-	-	63,524
Yang Liang (楊亮)	Secretary to the Board	Current	Male	33	June2014	-	52,520	-	-	-	52,520
Total	-	-	-	-	-	-	1,131,474	-	-	-	1,131,474

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

As at 31 December 2016, 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	Interest of controlled corporations	116,301,300 A Shares ⁽¹⁾⁽²⁾ 74,358,067 H Shares ⁽¹⁾⁽³⁾	41.52%	27.32%
Mr. Tao Desheng	Beneficial owner Spouse interest	275,990 A Shares 48,360 A Shares ⁽⁴⁾ 324,350 A Shares	0.12%	0.08%
Mr. Yang Daihong	Beneficial owner	176,540 A Shares	0.06%	0.04%

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

As at 31 December 2016, the interests or short positions of the Directors, Supervisors or chief executives of the Company, in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows: (continued)

Interest in shares of associated corporations of the Company

Name of Director	Name of associated corporation	Capacity	Equity interest (RMB)	As a percentage of the equity interest of associated corporation
Mr. Zhu Baoguo (朱保國先生)	Baiyeyuan (百業源)	Beneficial owner	72,000,000	90.00%
	Joincare (健康元)	Beneficial owner Interest of controlled corporations	48,277,046 742,415,520 ⁽⁵⁾	
	Livzon MAB (麗珠單抗)	Interest of controlled corporations	790,692,566 261,331,700 ⁽¹⁾⁽⁶⁾	49.92% 49.00%

Notes:

- (1) Joincare (健康元) is 46.78% held by Baiyeyuan which is in turn 90% held by Mr. Zhu Baoguo (朱保國). Mr. Zhu Baoguo (朱保國) is deemed to be interested in the shares of the Company and the equity interest of its associated corporations in which Joincare (健康元) is or is deemed to be interested by virtue of the SFO.
- (2) Among these shares, 108,640,474 shares and 7,660,826 shares are held directly by Joincare (健康元) and its wholly-owned subsidiary, Haibin Pharmaceutical (海濱製藥), respectively.
- (3) These shares are held directly by Topsino Industries, 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).

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Occupation	Type	Date	Reason
Mr. Yuan Huasheng	Supervisor	Resigned	26 February 2016	Due to personal work arrangement, his resignation with effect from 26 February 2016.
Mr. Tang Yin	Supervisor	Appointed	26 February 2016	Mr. Tang Yin was appointed as Supervisor of the Company after the approval at the 2016 First Extraordinary General Meeting of the Company.

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:

Brief Biography of Executive Director

Mr. Tao Desheng (陶德勝先生), aged 52, who joined the Company in 1985 is currently our Executive Director, Vice Chairman, President, authorised representative and a committee member of Strategic Committee, Nomination Committee and Remuneration and Assessment Committee, and also served as a Director in other subsidiaries of the Group. Mr. Tao graduated with a bachelor's degree in chemistry from the faculty of pharmaceutical chemistry of the Nanjing School of Pharmaceutical Sciences (南京藥學院). From 2000 to 2002, Mr. Tao attended a postgraduate advanced course in enterprise management organised by Sun Yat-Sen University (中山大學). Mr. Tao obtained his licensed pharmacist qualification (執業藥師) in October 2002 and the title of senior engineer in pharmaceutical manufacturing (professor) (製藥專業高級工程師 (教授) 職稱) in 2013. Mr. Tao has been the vice president and president of our Company since June 2005 and March 2014, respectively. He has been our Vice Chairman and our Executive Director from August 2014 and July 2009 onwards, respectively.

Mr. Yang Daihong (楊代宏先生), aged 50, who joined the Company in 1997 is currently our Executive Director, Vice President, pharmaceutical engineer and a licenced pharmacist. He studied at China Pharmaceutical University (中國藥科大學) from 1984 to 1988 and was awarded a bachelor's degree in science. From 2000 to 2002, Mr. Yang attended a course in enterprise management organised by the Business School of Sun Yat-Sen University (中山大學). Mr. Yang obtained qualifications as a pharmaceutical engineer and a licenced pharmacist. From 1999 to 2009, Mr. Yang was the deputy factory manager and factory manager of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠). Mr. Yang has been our Vice President and Executive Director from May 2006 to present and from October 2014 to present, respectively.

Mr. Fu Daotian (傅道田先生), aged 54, 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 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).

HOLD POSITION *(continued)*

Brief Biographies of Non-executive Directors

Mr. Zhu Baoguo (朱保國先生), aged 54, 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 45, 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 deputy general manager 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.

Mr. Zhong Shan (鍾山先生), aged 45, is currently our Non-executive Director and a committee member of our Strategic Committee. Mr. Zhong graduated from the applied chemistry profession of the Faculty of Applied Chemistry of Huaqiao University (華僑大學) and obtained a bachelor's certificate in 1993. From July 1994 to April 2000, Mr. Zhong worked in the Guangzhou branch of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu (Hong Kong) which provide auditing and accounting consultancy services. Mr. Zhong joined Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) in 2001 and is currently the vice general manager of Joincare (健康元). Mr. Zhong has been our Non-executive Director from April 2007 to present.

Brief Biographies of Independent Non-executive Directors

Mr. Xu Yanjun (徐焱軍先生), aged 44, is currently our Independent Non-executive Director, chairman of our Audit Committee and a member of our Remuneration and Assessment Committee and an associate professor and a postgraduate tutor at the International Business School of Jinan University (暨南大學), and an external expert of Zhuhai Science, Industry, Trade & Information Technology Bureau as well as Zhuhai Finance Bureau. He is also a member of China Association Promoting Democracy and a Chinese certified public accountant. Mr. Xu graduated from Wuhan University (武漢大學) and obtained his bachelor degree of science in 1995, graduated from Zhongnan University of Economics and Law (中南財經政法大學) and obtained his master degree in accounting in 2003, and graduated from Jinan University (暨南大學) and obtained his doctorate degree in management (accounting) in 2010. He had served as a quality controller at Wuhan Research Institute of Biological Products of Sinopharm Group, a project manager of Huibei An Yong Xin Accounting Firm (湖北安永信會計師事務所), a project manager at Guangdong Branch of Zhongxingcai Guanghua CPA (formerly Zhuhai Yoanda CPA) and the department head of Finance Department at Zhuhai College of Jinan University (暨南大學). He has been an independent director of Zhuhai Hokai Medical Instruments Co., Ltd. (300273.SZ) from April 2013 to present. He has been our Non-executive Director from June 2014 to present.

HOLD POSITION *(continued)*

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), a member of the 11th National People's Congress (全國人民代表大會) and a member of the Democratic League of China (中國民主同盟) Central Committee. He was one of the experts entitled to special subsidy granted by the State Council of the PRC. Mr. Guo has successively been a deputy director of the School of Trade Economics, the vice-president of the Faculty of Business Administration of Renmin University of China and the vice chairman of China Marketing Association of University (中國高校市場學研究會). Mr. Guo is currently a professor and doctoral tutor of the School of Business of Renmin University of China (中國人民大學) and the director of PRC marketing research centre of Renmin University of China (中國人民大學). Mr. Guo is also a consultant of China Marketing Association of University (中國高校市場學研究會), the vice-president of PRC Business History Society (中國商業史學會), 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 62, 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 Zihua (鄭志華先生), aged 46, 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.

HOLD POSITION *(continued)*

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

Mr. Xie Yun (謝耘先生), aged 46, 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 executive deputy general manager in 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. (002782.SZ) since 27 May 2016.

Brief Biographies of Supervisors of the Company

Mr. Wang Maolin (汪卯林先生), aged 51, 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 of Gree Real Estate Co., Ltd. (格力地產股份有限公司) and vice president of Gree Real Estate Co., Ltd. (格力地產股份有限公司) from May 2009, October 2009 and March 2016 to March 2017, respectively. Mr. Huang has been the Supervisor of our Supervisory Committee from June 2013 to present.

Mr. Tang Yin (湯胤先生), aged 42, 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.

HOLD POSITION *(continued)*

Brief Biographies of Other Senior Management of the Company

Mr. Xu Guoxiang (徐國祥先生), aged 54, is currently our Vice President. From November 2010 to November 2011, Mr. Xu attended an advanced EMBA course in PRC's pharmaceutical industry organised by the Medical School of Peking University (北京大學醫學部) and obtained a completion certificate. From 2000 to 2005, Mr. Xu was the director of Yangtze River Pharmaceutical Co., Ltd. (揚子江製藥股份有限公司). In March 2007, Mr. Xu was our Chief Sale Supervisor and the general manager of our branch company in Henan Province. Mr. Xu has been our Vice President from December 2007 to present. He is currently the vice president of China Association of Pharmaceutical Commerce, and the executive director of the Chinese Hospital Association.

Mr. Lu Wenqi (陸文岐先生), aged 49, 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 48, is currently the Vice President and Chief Financial Officer of the Company. She graduated from the Department of Accounting at Shanxi University of Finance and Economics (山西財經學院) with a bachelor degree in July 1990. She is an accountant and finished part-time CFO study at China Europe International Business School (中歐國際工商學院) from July 2005 to November 2005. She joined the Company since April 1993 and was the manager of the Capital Settlement Center and the manager of the Accounting Center of the Finance & Accounting Head Office of the Group. She has been our Director of Finance & Accounting Head Office from April 2004 to June 2014 and our Vice President and Chief Financial Officer since June 2014 to present.

Mr. 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.

HOLD POSITION *(continued)*

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

Mr. Yang Liang (楊亮先生), aged 33, 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 been the Secretary to the Board since August 2011 at the Company Secretary and authorised representative of the Company since June 2014 to present.

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	End of period	Whether receive remuneration allowance at shareholder's company
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-general manager	August 2015	August 2018	Yes
Zhong Shan (鐘山)	Joincare (健康元)	Vice-general manager	August 2015	August 2018	Yes

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.

HOLD POSITION (*continued*)**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
Fu Daotian (傅道田)	EPIRUS 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
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
Xie Yun (謝耘)	Leaguer Stock Co., Ltd. (力合股份有限公司)	Executive Deputy General Manager	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 (九三學社珠海市委員會)	Deputy chairman	July 2016		No

HOLD POSITION (*continued*)**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
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
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
Wang Xiaojun (王小軍)	OP Financial Investments Limited (東英金融投資有限公司) (01140.HK)	Independent Non-executive Director	August 2004		Yes
	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		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
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
		Vice President	March 2016	March 2017	Yes
Xu Guoxiang (徐國祥)	Chinese Hospital Association (中國醫院協會)	Executive Director	January 2012		No
	China Association of Pharmaceutical Commerce (中國醫藥商業協會)	Vice President	November 2012		No

Note to positions held in other companies

Not applicable

HOLD POSITION (*continued*)

Punishment of current and resigned directors, supervisors and senior management during the year from securities regulatory institution in recent three years

Applicable Not Applicable

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

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

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

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

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

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 Share Incentive Scheme was implemented to align the interests of the senior management with the shareholders of the Company so as to achieve mid- to long-term incentive effect. The Company will actively explore and implement a more effective incentive and restriction mechanism, in order to further motivate the senior management and implement the Company's development strategies to facilitate the sustainable and healthy development of the Company.

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

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

Name	Position	Gender	Age	Status	Total amount of remuneration before tax from the Company	Unit: RMB'000 Whether receive remuneration from related party of the Company
Zhu Baoguo (朱保國)	Chairman of the Board	Male	54	Current	9.00	Yes
Tao Desheng (陶德勝)	Vice Chairman, President	Male	52	Current	125.34	No
Yang Daihong (楊代宏)	Director, Vice President	Male	50	Current	114.66	No
Fu Daotian (傅道田)	Director, Vice President	Male	54	Current	115.03	No
Qiu Qingfeng (邱慶豐)	Director	Male	45	Current	7.20	Yes
Zhong Shan (鍾山)	Director	Male	45	Current	7.20	Yes
Xu Yanjun (徐焱軍)	Independent Director	Male	44	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	62	Current	9.60	No
Zheng Zhihua (鄭志華)	Independent Director	Male	46	Current	9.60	No
Xie Yun (謝耘)	Independent Director	Male	46	Current	9.60	No
Wang Maolin (汪卯林)	Chief Supervisor	Male	51	Current	62.55	No
Huang Huamin (黃華敏)	Supervisor	Male	46	Current	3.60	No
Tang Yin (湯胤)	Supervisor	Male	42	Current	3.00	No
Yuan Huasheng (袁華生)	Supervisor	Male	54	Resigned	0.00	No
Xu Guoxiang (徐國祥)	Vice President	Male	54	Current	116.99	No
Lu Wenqi (陸文岐)	Vice President	Male	49	Current	103.26	No
Si Yanxia (司燕霞)	Vice President	Female	48	Current	85.85	No
Zhou Peng (周鵬)	Vice President	Male	54	Current	64.40	No
Yang Liang (楊亮)	Secretary of the Board	Male	33	Current	49.49	No
Total	-	-	-	-	915.57	-

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

Applicable Not Applicable

EMPLOYEES OF THE COMPANY

As of the end of the year, the Company, its wholly-owned subsidiaries and controlling subsidiaries had a total of 6,297 current employees (31 December 2015: 5,913).

Current employees' number, speciality composition and education level

Number of current employees of parent company	1,129
Number of current employees of principal subsidiaries	5,168
Total of current employees	6,297
Total of employees receive remuneration during the year	6,297
Total of retired employees to whom parent company and its principal subsidiaries had distributed pension	637

Speciality composition

Speciality composition type	Speciality composition number
Production staff	3,250
Sales staff	1,027
Technical staff	1,015
Financial staff	835
Administrative staff	170
Total	6,297

Education level

Education level type	Number
Below post-secondary	2,822
Post-secondary	1,603
Undergraduate	1,598
Postgraduate	243
Doctor	31
Total	6,297

EMPLOYEES OF THE COMPANY *(continued)*

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 grant and first tranche of unlock of the Restricted Shares Incentive Scheme in 2015 and 2016. Please refer to "THE RESTRICTED A 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 RMB575.45 million (31 December 2015: RMB502.71 million).

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.

Employees' Training Plan

In 2016, the Company continued to proceed toward the learning structural construction and achieved good outcome. Based on the talent cultivation notion of people first, the Company has constructed a learning platform for the staff, focused on employees' personal quality cultivation and talent team building and actively developed on-the-job training. Meanwhile, the company has assigned employees for learning and advanced study and held continuing education training for professional technicians. During the year, for the purpose of improving the quality of middle-level management, Livzon Business School has formulated management courses accordingly, strengthened offline communication of management cases and carried out various salons combined with work content. The Group has selected a number of experts as our internal tutors, and to encourage the communication and sharing of knowledge, experiences and skills of our staff. By fully integrating our internal and external resources, the Livzon Business School contributes to the improvement and development of our human resources, and encourages active and motivated learning for our staff members.

Labour outsourcing

Applicable Not Applicable

BASIC CORPORATE GOVERNANCE

During the year ended 31 December 2016, 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

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;

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 Joincare (健康元) (the controlling shareholder of the Company) and its controlling shareholder, namely Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) (collectively the "Covenantors") entered into the non-competition undertakings 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 2016, 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".

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	Resolution(s)	Disclosure index
The 2016 First Extraordinary General Meeting	Extraordinary General Meeting	26 February 2016	27 February 2016	"the appointment of Mr. Tang Yin (湯胤) as a Supervisor of the eighth session of the Supervisory Committee of the Company"	"Resolution announcement of the 2016 First Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-13), announcement website: http://www.cninfo.com.cn/
The 2016 Second Extraordinary General Meeting	Extraordinary General Meeting	25 April 2016	26 April 2016	"the Company's fulfilment of the conditions of the non-public issuance of A shares", "the adjustments to the proposal of non-public issuance of A shares of the Company: adjustment to the amount to be issued; adjustments to the pricing method and issuing price, "the amendments to the feasibility analysis report on the usage of the funds raised by the non-public issuance of A shares of the Company", "the risk warning on the dilution on current returns of the non-public issuance of A shares and implement remedial measures for current returns", "the undertakings by relevant entities in relation to the concrete implementation of the remedial measures for the returns by the Company", "the amendments to the plan on the non-public issuance of A shares of the Company", "the authorization proposed to be granted to the Board at the shareholders' meeting to be fully in-charge of the management of the relevant matters on the non-public issuance of A shares and "the application for the issue of super short-term financing bills by the Company"	"Resolution announcement of the 2016 Second Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-53), announcement website: http://www.cninfo.com.cn/

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
The Annual Meeting for the year 2015	Annual Meeting	27 May 2016	28 May 2016	"the work report of the Board of the Company for the year 2015", "the work report of the Supervisory Committee of the Company for the year 2015", "the financial accounts report of the Company for the year 2015", "the 2015 Annual Profit Distribution Plan of the Company", "the reappointment of Ruihua Certified Public Accountants (LLP) (瑞華會計師事務所(特殊普通合夥)) as the auditor of the Company for the year 2016 and fix its remuneration", "the 2015 annual report of Livzon Pharmaceutical Group Inc", "the grant of general mandate to the Board for issuing of shares"	"Resolution announcement of the Annual Meeting for the year 2015 of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-66), announcement website: http://www.cninfo.com.cn/
The 2016 Third Extraordinary General Meeting	Extraordinary General Meeting	23 December 2016	24 December 2016	"a three-year continuing connected transactions framework agreement for 2017-2019 entered into between the Company and Joincare Pharmaceutical Industry Group Co., Ltd.* (健康元藥業集團股份有限公司) and the transactions contemplated thereunder and the related annual caps", "the addition of implementation subject for the fundraising investment project of the Company"	"Resolution announcement of the 2016 Third Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-118), announcement website: 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

PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS

Attendance of Board meetings and general meetings by Independent Directors

Name of Independent Director	Attendance of Board meetings during their term of office						Attendance of general meeting(s) during their term of office
	Required attendance at Board meetings during the year	Attendance in person	Attendance by communication	Attendance by proxy	Absence	Unable to attend in person for two consecutive meetings	
Guo Guoqing (郭國慶)	14	1	13	0	0	No	4/4
Wang Xiaojun (王小軍)	14	0	14	0	0	No	1/4
Xu Yanjun (徐焱軍)	14	0	14	0	0	No	2/4
Zheng Zihua (鄭志華)	14	0	14	0	0	No	1/4
Xie Yun (謝耘)	14	1	13	0	0	No	1/4

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

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.

Other explanations about performance of duties by Independent Directors

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

The prior recognition and independent opinion in relation to Livzon Diagnostic Reagents (麗珠試劑) (the subsidiary of the Company) jointly set up corporation with Cynvenio Biosystems, Inc. and connected transactions: we have agreed Livzon Diagnostic Reagents to sign "Zhuhai Livzon Cynvenio Dignosis Ltd. JV Operation Contract" with Cynvenio Biosystems, Inc. and found JV Company.

The prior recognition and opinion in relation to adjustments to the proposal of non-public issuance of A shares of the Company: we have agreed to submit "the adjustments to the proposal of non-public issuance of A shares of the Company" (among other things) to the 21st meeting of the eighth session of the board of Directors, connected persons of which shall avoid voting.

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

The independent opinion in relation to adjustments to the proposal of non-public issuance of A shares of the Company: we have agreed the matters regarding the adjustments to the proposal of non-public issuance of A shares of the Company.

The special instruction independent opinion in relation to use of capital and external guarantee of controlling shareholders and other connected parties during the year of 2015: we consider the guarantee to our subsidiary is of the interest of the Company as a whole, without damage to the interest of minority shareholders.

The independent opinion in relation to internal control self-evaluation during the year of 2015: we consider the internal control self-evaluation report during the year of 2015 issued by the Company is in line with the actual situation of internal control of the Company.

The independent opinion in relation to the 2015 Annual Profit Distribution Plan of the Company: we have agreed the 2015 Annual Profit Distribution Plan presented by the Board and agreed to submit it to General Meeting for consideration.

The independent opinion in relation to the remuneration of senior management of the Company during the year of 2015: we consider the remuneration of senior management of the Company during the year of 2015 reasonable, in line with the Company's actual situation and agree to implement the remuneration of senior management during the year of 2015.

The independent opinion in relation to the Company's provision of financing guarantees to its subsidiaries: we consider the Company's guarantees will not affect our continuing operation; the decision-making procedure of the guarantees is in line with relevant laws, regulations and related rules of the Company, without damage to the interest of minority shareholders, and guarantee the lawful rights and interests of the shareholders of the Company, and thus we agree the guarantees of the company.

The independent opinion in relation to the expected matters in the Company's normal connected transactions during the year of 2016: we consider the expected normal connected transactions during the year of 2016 is based on the actual operation need of the Company, without violating relevant laws and regulations and the provisions of the Company. We have agreed to submit the above normal connected transactions to the Board for consideration and implement connected transactions during the year of 2016 pursuant to need after the Company performs necessary approval procedures.

The independent opinion in relation to the reappointment of Ruihua Certified Public Accountants (LLP) (瑞華會計師事務所(特殊普通合夥)) : we have agreed unanimously the reappointment of Ruihua Certified Public Accountants (LLP) (瑞華會計師事務所(特殊普通合夥)) as the auditor of financial statements and internal control of the Company for the year 2016.

The independent opinion in relation to the matters considered at the 23rd meeting of the eighth session of the board of Directors: we have agreed unanimously the first grant of the restricted shares to be unlocked during the first unlocking period under the provisions of Incentive Scheme and the Measures for the Administration; regarding repurchase and cancellation of the restricted shares granted but not yet unlocked to incentive participants who are no longer qualified, we have agreed unanimously to repurchase and cancellation of the shares under the provisions of repurchase and cancellation of Incentive Scheme.

PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS *(continued)*

Other explanations about performance of duties by Independent Directors *(continued)*

The independent opinion in relation to the repurchase and cancellation of the restricted shares granted but not yet unlocked to incentive participants who are no longer qualified: we have agreed unanimously repurchase and cancellation of the shares under the provisions of repurchase and cancellation of "The Restricted Shares Incentive Scheme (Revised Draft)".

The independent opinion in relation to the Company's provision of financing guarantees to Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司): we consider the Company's guarantees are in line with relevant laws, regulations and related rules of the Company, without damage to the interest of minority shareholders, and guarantee the lawful rights and interests of the shareholders of the Company, and thus we agree the guarantees of the company.

The special instruction and independent opinion in relation to the use of capital and external guarantee of controlling shareholders and other connected parties during the first half of 2016: during the reporting period, we consider the Company complies with relevant provisions of the "notice of regulating listed companies' capital transaction with related parties and certain issues regarding external guarantees of listed companies", without damage to the interest of minority shareholders; relevant decision-making procedure is in line with the relevant requirements under CSRC and the Shenzhen Stock Exchange, which is lawfully effective.

The prior recognition and independent opinion in relation to the Company and Joincare's capital injections to Livzon MAB: we consider the Company and Joincare's capital injections to Livzon MAB do not damage the interest of minority shareholders, and relevant decision-making procedure is in line with the relevant requirements under CSRC and the Shenzhen Stock Exchange, which is lawfully effective.

The independent opinion in relation to the matters considered at the 30th meeting of the eighth session of the board of Directors: we have agreed a three-year continuing connected transactions framework agreement for 2017-2019 entered into between the Company and Joincare Pharmaceutical Industry Group Co., Ltd.* (健康元藥業集團股份有限公司); agreed to add Livzon Pharmaceutical Factory as executor of fund for R&D and commercialisation upgrade of innovative product of Ilaprazole series (艾普拉唑系列創新產品深度開發及產業化升級項目) and submit the proposal to general meeting of the Company for consideration; agreed the Company to use idled fund to execute cash management scheme.

The independent opinion in relation to the appointment of vice president of the Company: we have agreed to appoint Mr. Zhou Peng as our vice president and his term will expire until the eighth session of the board of Directors.

The prior recognition and opinion in relation to the Company's investment to set up Zhuhai Gene Test Science and Technology Co., Ltd. and connected transactions: we have agreed unanimously to submit "the proposal of the Company's investment to set up Zhuhai Gene Test Science and Technology Co., Ltd. and connected transactions" to the board of Directors.

The independent opinion in relation to the matters considered at the 32nd meeting of the eighth session of the board of Directors: we have agreed unanimously to adjust the repurchase price of the first grant and reserved grant of the restricted shares; agreed unanimously to repurchase and cancellation of partial restricted shares under relevant provisions; agreed the Company to deal with the reserved grant of the restricted shares to be unlocked during the first unlocking period under the provisions of Incentive Scheme and the Measures for the Administration; agreed the connected transactions of Zhuhai Gene Test Science and Technology Co., Ltd. from the Company's external investment.

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

The independent opinion in relation to the matters considered at the 33rd meeting of the eighth session of the board of Directors: we have agreed the Company to use fund to substitute the prior self-raised fund of RMB41,857,100 in fund investment scheme; agreed the Company to write off partial fixed assets.

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

Yes No Not applicable

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES**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 2016 up to 31 December 2016, 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 2015 due to urgent business trip.

Securities Transactions of Directors and Supervisors

The Company adopted the Model Code as set out in Appendix 10 of the Hong Kong Listing Rules as its own code of conduct regarding the securities transactions in the H Shares of the Company by the Company's Directors, Supervisors and the "Relevant Employees" as defined in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. After making sufficient and specific enquiries to all of the Directors and Supervisors of the Company, the Company was not informed of any information which reasonably revealed that each of the Directors and Supervisors had not complied with the standard required by the above codes during the period from 1 January 2016 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 2016 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.

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

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.

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

- (1) formulated and reviewed the Company's policies, practices and procedures on corporate governance;
- (2) reviewed and monitored the training and continuous professional development of directors and senior management;

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

Board of Directors *(continued)*

- (3) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- (4) formulated, reviewed and monitored the code of conduct of directors and employees; and
- (5) reviewed the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

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

During the year, the Company convened a total of fourteen 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	14/14	4/4
Fu Daotian (傅道田)	Vice President	14/14	1/4
Yang Daihong (楊代宏)	Vice President	14/14	2/4
II. Non-executive Directors			
Zhu Baoguo (朱保國)	Chairman	14/14	0/4
Qiu Qingfeng (邱慶豐)	Director	14/14	1/4
Zhong Shan (鍾山)	Director	14/14	0/4
III. Independent Non-executive Directors			
Xu Yanjun (徐焱軍)	Independent Director	14/14	2/4
Guo Guoqing (郭國慶)	Independent Director	14/14	4/4
Wang Xiaojun (王小軍)	Independent Director	14/14	1/4
Zheng Zhihua (鄭志華)	Independent Director	14/14	1/4
Xie Yun (謝耘)	Independent Director	14/14	1/4

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

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

Board of Directors *(continued)*

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

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

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 2016 and attended trainings rendered by professional groups and/or learned books and 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)	✓	✓
Non-Executive Directors		
Zhu Baoguo (朱保國)	✓	✓
Qiu Qingfeng (邱慶豐)	✓	✓
Zhong Shan (鍾山)	✓	✓
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)	✓	✓

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

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.

Directors' Term of Office

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

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

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

Special Committees of the Board

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

Audit Committee

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

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

During the year, the Audit Committee had discussed the Group's annual, interim and quarterly financial statements, review the accounting principles and practices, internal supervision system and consider audit conducted and fees charged by auditors. On 7 March 2017, the Committee reviewed the 2016 Self-Evaluation Report on Internal Control.

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

- (1) On 29 February 2016 the Tenth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held in the meeting room on the ninth floor of our office building, during which the resolution on consideration of the draft financial auditors' report for the year 2015 and the resolution on consideration of the final financial report were considered and approved.
- (2) On 7 March 2016 the Eleventh Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held in the meeting room on the ninth floor of our office building, during which the resolution on consideration of the auditors' report for the year 2015, the resolution on consideration of the results announcement for the year 2015 and the draft of the annual report, the resolution on consideration of continuing connected transactions, the resolution on consideration of the 2015 Self-Evaluation Report On Internal Control, the resolution in relation to review arrangements of employees to raise concern about improprieties and the resolution of the evaluation report on the audit work carried out by Ruihua Certified Public Accountants (LLP) for the year 2015 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 2016 were considered and approved.
- (3) On 20 April 2016 the Twelfth 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 2016 were considered and approved.
- (4) On 5 August 2016 the Thirteenth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held in the meeting room on the ninth floor of our office building, during which the resolution on consideration of the Company's unaudited half-yearly results announcement, the half-yearly report and consolidated financial reports for the six months ended 30 June 2016 were considered and approved.
- (5) On 21 October 2016 the Fourteenth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held through written communication and voting, during which the resolution on consideration of the Company's and its subsidiaries' unaudited consolidated financial statements and the quarterly results announcement for nine months ended 30 September 2016 and the save and use inspection result report of fund raised by non-public issuance of A Shares were considered and approved.
- (6) On 28 December 2016 the Fifteenth Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held in the meeting room on the fourth floor of our office building, during which the resolution on consideration of the Financial Audit Plan of Livzon Pharmaceutical Group Inc. for the year 2016 was considered and approved.

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

Special Committees of the Board *(continued)*

Remuneration and Assessment Committee

The Remuneration and Assessment Committee under the Eighth Session of Board is comprised of three Directors. The Chairman of the committee is Mr. Guo Guoqing (Independent Non-executive Director), and other committee members are Mr. Tao Desheng (Executive Director) and Mr. Xu Yanjun (Independent 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 three meetings to assess, review and make recommendations to the Board on remuneration, remuneration policy and framework of the Directors and senior management of the Company and the interests of the Company as a whole, terms of the service contract of newly elected directors and the Restricted A Shares Incentive Scheme.

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

During the year, the Nomination Committee held two meetings to 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, and consider matters on re-election and appointment of Directors.

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

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

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

Strategic Committee

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

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

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	2/2	3/3	0/0
Zhu Baoguo (朱保國)	Non-executive Director/ Chairman	N/A	N/A	N/A	0/0
Zhong Shan (鍾山)	Non-executive Director	N/A	N/A	N/A	0/0
Xu Yanjun (徐焱軍)	Independent Non-executive Director	6/6	N/A	3/3	N/A
Xie Yun (謝耘)	Independent Non-executive Director	6/6	2/2	N/A	N/A
Guo Guoqing (郭國慶)	Independent Non-executive Director	6/6	2/2	3/3	N/A

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.

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***Communication with Shareholders** *(continued)***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.

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.

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

Shareholders' Rights *(continued)*

Procedure for convening shareholders' general meetings by shareholders *(continued)*

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."

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."

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***Shareholders' Rights** *(continued)***Investors' relations**

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

Articles of Association

During the year, the Company amended the Articles of Association twice.

- (1) The board has been granted mandate to handle matters related to the Restricted A Shares Incentive Scheme (including appropriate amendments to the Articles of Association) by the Company on the 2015 First Extraordinary General Meeting, the 2015 First Class Meeting of A Shareholders and the 2015 First Class Meeting of H Shareholders convened on 13 March 2015. On 4 July 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 Incentive Scheme, the Company held a Board meeting and provisions in relation to share capital and registered capital in the Articles of Association were amended by the Company on the date of the meeting, details of which is available in the announcement of the Company dated 4 July 2016 as posted on <http://www.cninfo.com.cn/>, the websites of the Company and the Hong Kong Stock Exchange.
- (2) The board has been granted mandate to handle matters related to the Non-public A Shares (including appropriate amendments to the Articles of Association according to the result of actual non-public issue of A shares) by the Company on the 2015 Third Extraordinary General Meeting, on 21 December 2015. Since there were changes in the share capital and the registered capital of the Company as a result of the completion of non-public A shares on 19 September 2016. On 26 September 2016, provisions in relation to share capital and registered capital in the Articles of Association were amended by the Company on the date of the meeting, details of which is available in the announcement of the Company dated 26 September 2016 as posted on <http://www.cninfo.com.cn/>, the websites of the Company and the Hong Kong Stock Exchange.

AUDITORS' REMUNERATION

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

COMPANY SECRETARY

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

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

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.

RISK MANAGEMENT AND INTERNAL CONTROL

During the year, the Company has set up and adopted risk management procedures and guidelines across various terms of reference, and enhance the completeness of risk management and internal control. Risk management and internal control 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. Departments have performed self-assessments to ensure compliance of control policies, identify any potential risk which may affect business and other operations of the Group by internal assessment under instruction and review from the management. Meanwhile, the Company has established the Department of Audit and Integrity and set up a project committee, mainly responsible to audit risk management and internal control implemented at department and subsidiary level, supervise any remedy, report to the management and keep supervising and reviewing regularly. 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 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.

RISK MANAGEMENT AND INTERNAL CONTROL *(continued)*

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.

INTERNAL CONTROL

The material weakness discovered in internal control during the year

Yes No

Self-Evaluation Report on 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 2016, 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	25 March 2017
The index of the text of Evaluation Report on Internal Control	Please refer to the 2016 Self-Evaluation Report on 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	97.46%
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%

INTERNAL CONTROL *(continued)*

Self-Evaluation Report on Internal Control *(continued)*

Type	Weakness identification standard	
	Financial statement	Non-financial statement
Qualifying standard	<p>1. Weakness with the following character shall be identified as material weakness:</p> <ul style="list-style-type: none"> 1) ineffective control environment; 2) the management of the Company has fraud at any degree; 3) the material mistakes found by external auditor were not first found by the Company; 4) the weakness relating to the total of affected connected transactions exceeds the quota of connected transactions approved by the shareholders; <p>2. 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.</p> <p>3. General weakness: represent other control weaknesses other than material or significant weaknesses.</p>	<p>1. Weakness with the following character shall be identified as material weakness:</p> <ul style="list-style-type: none"> 1) severe violation against laws and regulations; 2) the material weaknesses of internal control already found and reported to the management are not corrected after a reasonable period of time; 3) other than losses permitted by policy, the Company's continuing operation is subject to challenges, with losses in successive years; 4) failure of merger and acquisition reorganization, or the newly expanded subsidiaries are difficult to sustain the operation; 5) the management of the Company resigned or severe brain drain of critical position, repeated negative news coverage by the media. <p>2. 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.</p> <p>3. General weakness: represent other control weaknesses other than material or significant weaknesses.</p>

INTERNAL CONTROL *(continued)*

Self-Evaluation Report on Internal Control *(continued)*

Type	Weakness identification standard	
	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

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 [2017] No. 40050001 endorsed by Ruihua for the Company during the year of 2016, with the following auditing opinion: on 31 December 2016, 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	25 March 2017
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

Note: the disclosure index can disclose announcement number, company name and the website of the disclosed announcement.

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 is 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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 郵政編碼 (Post Code) : 100077
 電話 (Tel) : +86(10)88095588
 傳真 (Fax) : +86(10)88091199

AUDITORS' REPORT

Type of audit opinions	Standard unqualified audit report
Signature date of Auditors' report	24 March 2017
Name of audit firm	Ruihua Certified Public Accountants (LLP)
Approval of Auditors' report	Rui Hua Shen Zi No. [2017] 40050001
Name of certified public accountant	Li Encheng, Xiao Jingxiang

AUDITORS' REPORT

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 2016 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 2016 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 2016 and the financial conditions of the Company and the consolidation for the year 2016 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. Key audit matters identified in our audit are as follows:

Revenue recognition

1. Details

Drug preparation products of the Company are mainly sold by distribution. In 2016, operating revenue of such type of products was RMB5,311.6245 million, accounting for 69.42% of total operating revenue, of which RMB5,177.5684 million are sold by distribution, accounting for 67.66% 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 and confirm 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.

Based on the audit evidence obtained, we believe that the Company's revenue recognition is reasonable.

IV. OTHER INFORMATION

The management of the Company is responsible for other information, which includes the information included in 2016 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 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:

- (1) 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.

- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) 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.
- (5) 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.
- (6) 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

Li Encheng
Chinese Certified Public Accountants

Xiao Jingxiang
Chinese Certified Public Accountants

24 March 2017

150 CONSOLIDATED BALANCE SHEET

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Notes	31 December 2016	Amount denominated: RMB 31 December 2015
Current assets:			
Cash at bank and on hand	VI.1	2,061,923,004.89	798,295,283.74
Financial assets at fair value through profit or loss	VI.2	6,019,067.02	6,589,225.34
Derivative financial assets	VI.3	512,986,726.32	343,042,435.08
Bills receivables	VI.4	1,464,366,229.78	1,256,094,264.14
Accounts receivables	VI.5	87,734,518.90	122,297,549.66
Prepayments			
Interest receivables			
Dividends receivables			
Other receivables	VI.6	48,808,469.78	67,649,763.66
Inventories	VI.7	1,099,199,376.02	983,915,770.14
Classified as held-for-sale assets			
Non-current assets due within one year			
Other current assets	VI.8	689,748,423.34	3,577,884,291.76
Total current assets		5,970,785,816.05	
Non-current assets:			
Available-for-sale financial assets	VI.9	147,294,165.97	179,622,286.76
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	VI.10	91,109,734.79	68,908,511.07
Investment properties			
Fixed assets	VI.11	3,340,977,856.91	3,323,765,437.26
Construction in progress	VI.12	201,733,854.47	347,248,914.85
Construction supplies	VI.13		72,208.40
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets	VI.14	298,903,312.95	259,474,188.00
Development costs	VI.15	14,821,797.96	13,252,992.01
Goodwill	VI.16	103,040,497.85	103,040,497.85
Long-term deferred expenses	VI.17	92,477,000.88	40,023,456.83
Deferred tax assets	VI.18	153,099,708.49	104,338,481.98
Other non-current assets	VI.19	115,019,206.09	59,906,523.64
Total non-current assets		4,558,477,136.36	4,499,653,498.65
Total assets		10,529,262,952.41	8,077,537,790.41

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	31 December 2016	31 December 2015
Current liabilities:			
Short-term loans	VI.20		250,000,000.00
Financial liabilities at fair value through profit or loss			
Derivatives financial liabilities			
Bills payables	VI.21	323,795,509.11	299,007,801.36
Accounts payables	VI.22	587,715,946.84	636,752,599.23
Receipts in advance	VI.23	78,685,240.60	65,255,250.41
Employee benefits payables	VI.24	113,279,912.95	71,848,597.13
Taxes payables	VI.25	292,306,699.79	130,034,879.53
Interest payables	VI.26	3,812,602.74	11,823,945.25
Dividends payables	VI.27	2,531,984.46	2,531,984.46
Other payables	VI.28	1,558,113,278.30	1,287,284,945.74
Classified as held-for-sale liabilities			
Non-current liabilities due within one year	VI.29	400,000.00	400,400,000.00
Other current liabilities	VI.30	350,000,000.00	
Total current liabilities		3,310,641,174.79	3,154,940,003.11
Non-current liabilities:			
Long-term loans	VI.31	700,000.00	700,000.00
Notes payables	VI.32		
Of which: preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Special payables			
Accrued liabilities			
Deferred gain	VI.33	94,997,993.67	99,558,739.98
Deferred tax liabilities	VI.18	17,285,280.40	12,442,303.79
Other non-current liabilities			
Total non-current liabilities		112,983,274.07	112,701,043.77
Total liabilities		3,423,624,448.86	3,267,641,046.88
Shareholders' equity:			
Share capital	VI.34	425,730,126.00	396,889,547.00
Other equities			
Of which: Preferred shares			
Perpetual bonds			
Capital reserve	VI.35	1,820,309,052.12	395,709,350.15
Less: Treasury shares	VI.36	140,321,805.40	247,219,957.00
Other consolidated earnings	VI.37	602,767.19	-12,753,227.85
Special reserve			
Surplus reserve	VI.38	587,255,162.90	546,610,551.66
General risks provision			
Unallocated earnings	VI.39	3,812,412,101.62	3,267,019,067.30
Total equity attributable to shareholders of the parent company		6,505,987,404.43	4,346,255,331.26
Non-controlling interests		599,651,099.12	463,641,412.27
Total shareholders' equity		7,105,638,503.55	4,809,896,743.53
Total liabilities and shareholders' equity		10,529,262,952.41	8,077,537,790.41

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.

Item	Notes	For the year	Amount denominated: RMB For the Previous Year
I. Total operating income		7,651,775,285.49	6,620,516,536.73
Including: Operating income	VI.40	7,651,775,285.49	6,620,516,536.73
II. Total operating costs		6,775,705,178.20	5,934,311,533.42
Including: Operating costs	VI.40	2,747,788,382.61	2,575,330,534.39
Business taxes and surcharges	VI.41	120,352,338.58	81,008,459.65
Selling expenses	VI.42	3,070,370,909.10	2,541,675,092.56
Administrative expenses	VI.43	724,603,490.65	606,301,968.07
Financial expenses	VI.44	5,411,503.60	27,203,995.64
Impairment loss	VI.45	107,178,553.66	102,791,483.11
Add: Gains from changes in fair value ("—" represents losses)	VI.46	-930,399.32	-182,343.23
Investment income ("—" represents losses)	VI.47	1,340,566.47	6,776,422.79
Including: Income from investment in associates and jointly controlled entities		-373,776.28	6,136,618.37
III. Operating profit ("—" represents losses)		876,480,274.44	692,799,082.87
Add: Non-operating income	VI.48	136,029,232.75	130,686,902.75
Including: Profit from disposal of non- current assets		6,429,453.92	2,003,640.57
Less: Non-operating expenses	VI.49	7,448,331.26	15,564,685.82
Including: Losses from disposal of non- current assets		1,592,598.18	6,009,136.37
IV. Profit before income tax ("—" represents total losses)		1,005,061,175.93	807,921,299.80
Less: Income tax expenses	VI.50	175,145,667.01	148,357,921.88
V. Net profit ("—" represents net losses)		829,915,508.92	659,563,377.92
Net profit attributable to the shareholders of the parent company		784,353,607.06	622,641,033.06
Profit or loss from non-controlling interests		45,561,901.86	36,922,344.86

CONSOLIDATED INCOME STATEMENT

153

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Notes	Amount denominated: RMB	
		For the year	For the Previous Year
VI. Other comprehensive net income after taxation	VI.51	13,470,447.03	34,927,687.80
Other comprehensive net income after taxation attributable to the shareholders of the parent company		13,355,995.04	20,573,582.46
(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		13,355,995.04	20,573,582.46
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		-769,690.73	17,171,928.75
3. Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss			
4. Portion of the gains or losses arising from cash valid flow hedges instrument			
5. Translation differences of financial statements denominated in foreign currency		14,125,685.77	1,182,388.71 2,219,265.00
6. Others			
Other comprehensive net income after taxation attributable to non-controlling interests		114,451.99	14,354,105.34 694,491,065.72
VII. Total comprehensive income		843,385,955.95	643,214,615.52
Total comprehensive income attributable to the shareholders of the parent company		797,709,602.10	51,276,450.20
Total comprehensive income attributable to non-controlling interests		45,676,353.85	
VIII. Earnings per share:			
(I) Basic earnings per share	XVIII.2	1.98	1.62
(II) Diluted earnings per share	XVIII.2	1.97	1.60

*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*

154 CONSOLIDATED CASH FLOW STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Notes	For the year	Amount denominated: RMB For the Previous Year
I. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		7,560,331,979.01	6,542,051,769.04
Refund of taxes		58,362,092.04	56,988,221.84
Cash received relating to other operating activities	VI.52	196,876,570.95	196,416,549.20
Sub-total of cash inflows from operating activities		7,815,570,642.00	6,795,456,540.08
Cash paid for purchasing goods and services		1,860,472,221.15	1,827,345,832.18
Cash paid to and for employees		574,562,680.75	502,821,066.83
Cash paid for all types of taxes		1,011,327,737.01	857,290,360.35
Cash paid relating to other operating activities	VI.52	3,089,992,965.57	2,680,210,820.40
Sub-total of cash outflows from operating activities		6,536,355,604.48	5,867,668,079.76
Net cash flows from operating activities		1,279,215,037.52	927,788,460.32
II. Cash flows from investing activities:			
Cash received from disposal of investments			
Cash received from return on investments		1,240,847.25	477,984.28
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		4,040,878.54	6,995,579.22
Net cash received from disposal of subsidiaries and other operating entities		77,999,265.69	
Cash received relating to other investing activities	VI.52	14,510,983.09	14,260,023.82
Sub-total of cash inflows from investing activities		97,791,974.57	21,733,587.32
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		368,459,286.24	477,133,933.56
Cash paid for investments		672,575,000.00	80,831,500.00
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities	VI.52		22,188,421.04
Sub-total of cash outflows from investing activities		1,041,034,286.24	580,153,854.60
Net cash flows from investing activities		-943,242,311.67	-558,420,267.28

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Notes	Amount denominated: RMB	
		For the year	For the Previous Year
III. Cash flows from financing activities:			
Cash received from investors		1,518,300,366.76	298,883,157.00
Including: Cash received from non-controlling shareholders of subsidiaries		98,000,000.00	49,000,000.00
Cash received from borrowings		860,000,000.00	736,000,000.00
Cash received from issue of financing bills		350,000,000.00	
Cash received relating to other financing activities	VI.52	739,415.12	
Sub-total of cash inflows from financing activities		2,729,039,781.88	1,034,883,157.00
Cash repayments of borrowings		1,510,000,000.00	1,242,009,122.45
Cash paid for dividends, profit distributions or interest		275,247,803.79	105,959,720.14
Including: Dividends and profits paid to non-controlling shareholders of subsidiaries		44,100,000.00	22,540,000.00
Cash paid relating to other financing activities	VI.52	5,027,224.20	1,797,188.64
Sub-total of cash outflows from financing activities		1,790,275,027.99	1,349,766,031.23
Net cash flows from financing activities		938,764,753.89	-314,882,874.23
IV. Effect of foreign exchange rate changes on cash and cash equivalents		20,092,121.70	3,493,658.47
V. Net increase in cash and cash equivalents		1,294,829,601.44	57,978,977.28
Add: Cash and cash equivalents at the beginning of the period		767,093,403.45	709,114,426.17
VI. Cash and cash equivalents at the end of the period		2,061,923,004.89	767,093,403.45

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

For the year

for the previous year

Item	Attributable to Shareholders of the Parent Company						Attributable to Non-controlling Interests						Attributable to Shareholders of the Parent Company					
	Preferred Shares	Perpetual Bonds	Other Equity	Retained Earnings	General Reserve	Special Reserve	Surplus Reserve	General Reserve	Retained Earnings	Preferred Shares	Perpetual Bonds	Other Equity	Retained Earnings	General Reserve	Surplus Reserve	General Reserve	Retained Earnings	
1. Balance at 31 December 2015	395,839,541,000			395,703,201,15	20,739,357,00	-12,522,235	36,910,351,66	3,157,19,973,0	43,394,412,27	419,95,343,53	295,721,852,00		2,129,4,141,14	-31,334,889,31	513,47,438,27	2,107,254,363,33	38,394,93,10	402,41,529,60
2. Add: Effect of change in accounting policies																		
3. Other contributions from shareholders																		
4. Change in equity for the year - movements	395,839,541,00			395,703,201,15	-12,522,235	36,910,351,66	3,157,19,973,0	43,394,412,27	419,95,343,53	295,721,852,00		2,129,4,141,14	-31,334,889,31	513,47,438,27	2,107,254,363,33	38,394,93,10	402,41,529,60	
5. Share capital																		
6. Capital contributions and increase of capital	283,575,00			1,435,96,21,97	-10,88,151,60	13,35,95,04	40,154,511,24	56,139,41,42	16,01,65,02	10,16,65,02	83,19,435,41	247,29,357,00	26,515,93,46	31,198,67,39	59,94,84,47	77,36,451,20	64,49,105,72	
7. Retained earnings																		
8. Profit or loss for the year																		
9. Shareholders' contributions and increase of capital	284,575,00			136,53,26,24	-10,88,151,60	13,35,95,04	40,154,511,24	56,139,41,42	16,01,65,02	10,16,65,02	83,19,435,41	247,29,357,00	28,340,310,41	28,340,310,41	87,373,41	49,00,00,00	87,373,41	
10. Dividends paid by shareholders																		
11. Capital contributed by holders of other equities																		
12. Increase in shareholders' equity related from share-based payments																		
13. Increase in shareholders' equity related from fair value changes																		
14. Others	257,624,00			-456,46,127	-10,88,151,60	40,154,511,24	238,59,572,24	43,00,00,00	10,93,32,53	31,198,67,39	46,17,62,39	225,40,00,00	52,97,22,20					
15. Appropriation of profits																		
1. Appropriation of surplus reserve																		
2. Appropriation of general reserve																		
3. Distribution to shareholders																		
4. Others																		
16. Transfer of shareholders' equity (including share capital)																		
1. Capital reserve transferred to capital/ share capital																		
2. Surplus reserve transferred to capital/ share capital																		
3. Surplus reserve transferred to retained earnings for losses incurred																		
4. Others																		
17. Special reserve																		
1. Appropriation of general reserve																		
2. Appropriation of special reserve																		
18. Others																		
19. Balance at 31 December 2016	457,39,26,00			182,93,62,12	10,82,105,40	60,26,171,9	50,235,46,20	38,042,91,62	9,965,09,12	10,93,32,53	36,883,54,00	36,883,54,00	36,883,54,00	32,67,916,63	46,154,41,27	48,89,84,59,53		

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	31 December 2016	31 December 2015
Current assets:			
Cash at bank and on hand		1,606,485,665.85	694,156,636.07
Financial assets at fair value through profit or loss			
Derivative financial assets			
Bills receivables		378,167,573.35	249,484,247.50
Accounts receivables	XVII.1	750,555,294.60	662,518,994.54
Prepayments		7,714,173.54	9,546,100.48
Interest receivables			
Dividends receivables		177,917,013.08	
Other receivables	XVII.2	1,597,868,171.05	1,585,385,721.95
Inventories		544,807,287.12	168,357,913.47
Classified as held-for-sale assets			
Non-current assets due within one year			
Other current assets		659,787,830.58	
Total current assets		5,723,303,009.17	3,369,449,614.01
Non-current assets:			
Available-for-sale financial assets		146,794,165.97	147,699,684.48
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XVII.3	2,129,168,228.64	2,026,142,377.51
Investment properties			
Fixed assets		57,527,592.11	63,844,093.19
Construction in progress			
Construction supplies			
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets		27,692,003.80	28,496,294.11
Development costs		14,821,797.96	13,252,992.01
Goodwill			
Long-term deferred expenses		120,000.00	180,000.00
Deferred tax assets		23,188,326.48	21,492,844.45
Other non-current assets		13,151,166.62	12,292,055.00
Non-Total current assets		2,412,463,281.58	2,313,400,340.75
Total assets		8,135,766,290.75	5,682,849,954.76

Chairman of the Board and

Vice Chairman and

Principal in charge of

Name of the accounting

Legal representatives:

Zhu Baoguo

President:

Tao Desheng

accounting work:

Si Yanxia

firm's principal:

Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Notes	31 December 2016	Amount denominated: RMB 31 December 2015
Current liabilities:			
Short-term loans			250,000,000.00
Financial liabilities at fair value through profit and loss			
Derivative financial liabilities			
Bills payables		357,658,571.27	330,374,507.17
Accounts payables		959,772,950.49	429,038,759.87
Receipts in advance		27,009,355.74	16,427,440.17
Employee benefits payables		21,646,582.84	7,548,051.22
Taxes payables		33,984,535.88	103,953,327.71
Interest payables		3,812,602.74	11,823,945.25
Dividends payables		20,174.46	20,174.46
Other payables		2,818,149,364.34	2,343,751,581.54
Classified as held-for-sale liabilities			
Non-current liabilities due within one year			400,000,000.00
Other current liabilities		350,000,000.00	
Total current liabilities		4,572,054,137.76	3,892,937,787.39
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		28,983,338.51	23,223,982.36
Deferred tax liabilities		4,026,425.14	3,684,688.37
Other non-current liabilities			
Total non-current liabilities		33,009,763.65	26,908,670.73
Total liabilities		4,605,063,901.41	3,919,846,458.12
Shareholders' equity:			
Share capital		425,730,126.00	396,889,547.00
Other equity instruments			
of which: preferred shares			
perpetual bonds			
Capital reserve		1,941,836,360.47	517,236,658.50
Less: Treasury shares		140,321,805.40	247,219,957.00
Other comprehensive income		7,794,249.49	8,563,940.22
Special reserve			
Surplus reserve		382,292,109.32	341,647,498.08
General risks provision			
Retained earnings		913,371,349.46	745,885,809.84
Total shareholders' equity		3,530,702,389.34	1,763,003,496.64
Total liabilities and shareholders' equity		8,135,766,290.75	5,682,849,954.76

*Chairman of the Board and
Legal representatives:*

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*Vice Chairman and
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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.

Item	Notes	Amount denominated: RMB	
		For the year	For the Previous Year
I. Operating income	XVII.4	4,561,899,914.14	3,859,294,389.53
Less: Operating costs	XVII.4	2,320,736,961.44	1,843,639,493.40
Business taxes and surcharges	XVII.5	38,307,488.62	38,464,541.06
Selling expenses		1,993,177,875.24	1,693,266,135.27
Administrative expenses		254,501,940.30	223,663,468.74
Financial expenses		-24,629,036.78	-34,334,309.93
Impairment loss		11,397,051.44	10,392,882.38
Add: Gains from changes in fair value ("—" represents losses)			
Investment income ("—" represents losses)	XVII.6	365,735,853.61	21,526,249.92
Including: Gains from investment in associates and joint ventures		-1,974,148.87	788,265.64
II. Operating profit ("—" represents losses)		334,143,487.49	105,728,428.53
Add: Non-operating income of which: proceeds from disposal of non-current assets		78,630,003.18	289,113,854.95
		84,189.96	218,886,808.71
Less: Non-operating expenses of which: Losses from disposal of non-current assets		4,454,998.47	6,599,196.44
		101,013.80	103,354.06
III. Total profit ("—" represents total losses)		408,318,492.20	388,243,087.04
Less: Income tax expenses		1,872,379.84	56,862,413.14
IV. Net profit ("—" represents net losses)		406,446,112.36	331,380,673.90
V. Other comprehensive income after tax, net		-769,690.73	4,503,433.15
(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.

Item	Notes	Amount denominated: RMB	
		For the year	For the Previous Year
(II) Other comprehensive income items subsequently to be re-classified as profit or loss		-769,690.73	4,503,433.15
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		-769,690.73	2,284,168.15
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		405,676,421.63	335,884,107.05

*Chairman of the Board and
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accounting work:*
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*Name of the accounting
firm's principal:*
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Notes	Amount denominated: RMB	
		For the year	For the Previous Year
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		5,048,120,001.61	4,050,414,458.30
Refund of taxes			
Cash received relating to other operating activities		129,764,449.18	139,004,267.68
Sub-total of cash inflows from operating activities		5,177,884,450.79	4,189,418,725.98
Cash paid for purchasing goods and services		2,611,436,113.42	2,139,116,391.60
Cash paid to and for employees		103,587,990.70	91,917,513.66
Cash paid for all types of taxes		371,335,700.54	326,414,910.90
Cash paid relating to other operating activities		1,990,888,638.18	1,693,128,474.02
Sub-total of cash outflows from operating activities		5,077,248,442.84	4,250,577,290.18
Net cash flows from operating activities		100,636,007.95	-61,158,564.20
II. Cash flows from investing activities:			
Cash received from disposal of investments			
Cash received from return on investments		45,790,073.75	20,737,984.28
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		358,857.53	31,000.00
Cash received relating to other investing activities			
Sub-total of cash inflows from investing activities		46,148,931.28	20,768,984.28
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		26,205,478.40	29,899,189.76
Cash paid for acquisition of investments		755,000,000.00	131,831,500.00
Cash paid relating to other investing activities			
Sub-total of cash outflows from investing activities		781,205,478.40	161,730,689.76
Net cash flows from investing activities		-735,056,547.12	-140,961,705.48

162 CASH FLOW STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Notes	For the year	Amount denominated: RMB For the Previous Year
III. Cash flows from financing activities:			
Cash received from investors		1,420,300,366.76	249,883,157.00
Borrowings received from subsidiaries		1,774,206,108.07	1,103,773,887.99
Cash received from borrowings		430,000,000.00	404,600,000.00
Cash received from issue of bonds		350,000,000.00	
Cash received relating to other financing activities		739,415.12	
Sub-total of cash inflows from financing activities		3,975,245,889.95	1,758,257,044.99
Cash repayments of borrowings		830,000,000.00	511,804,700.00
Cash paid for dividends, profit distributions or interest		222,187,070.43	66,101,984.06
Advances to subsidiaries			
Cash paid relating to other financing activities		1,359,629,004.94	912,454,855.13
Sub-total of cash outflows from financing activities		2,411,816,075.37	1,490,361,539.19
Net cash flows from financing activities		1,563,429,814.58	267,895,505.80
IV. Effect of foreign exchange rate changes on cash and cash equivalents		11,151.57	59,985.10
V. Net increase in cash and cash equivalents		929,020,426.98	65,835,221.22
Add: Cash and cash equivalents at the beginning of the period		677,465,238.87	611,630,017.65
VI. Cash and cash equivalents at the end of the period		1,606,485,665.85	677,465,238.87

*Chairman of the Board and
Legal representatives:
Zhu Baoguo*

*Vice Chairman and
President:
Tao Desheng*

*Principal in charge of
accounting work:
Si Yanxia*

*Name of the accounting
firm's principal:
Zhuang Jianying*

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

163

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For the year										For the period year										
	Share capital	Other equities	Preferred shares	Perpetual Bonds	Capital reserve	Others	Less: Treasury shares	Other comprehensive income	Surplus reserve	General risk provision	Retained earnings	Total shareholders' equity	State capital	Other equities	Preferred Shares	Capital reserve	Less: Treasury shares	Other comprehensive income	Surplus reserve	General risk provision	Retained earnings
I. Balance at 31 December 2015	36,888,540,000				5,728,638,50	24,728,571,00	3,533,340,22	341,547,498,08		745,885,309,84	1,763,203,466,54	253,71,851,00				34,222,933,9	4,060,307,07	308,592,430,69	4,060,428,53	1,420,35,341,38	
Add: Effects of changes in accounting policies																					
Effect of corrections in errors in prior years																					
Others																					
II. Balance at 1 January 2016	36,888,540,000				5,728,638,50	24,728,571,00	3,533,340,22	341,547,498,08		745,885,309,84	1,763,203,466,54	253,71,851,00				34,222,933,9	4,060,307,07	308,592,430,69	4,060,428,53	1,420,35,341,38	
III. Changes in equity for the year (– represents decrease)																					
(I) Total comprehensive income	28,846,579,00				148,459,70,97	-104,98,151,60	-769,89,73	40,544,611,24		167,485,338,62	1,767,688,882,70	101,87,695,00				183,194,635,41	247,729,757,00	4,533,433,15	267,894,381,31	34,408,555,26	
(II) Shareholders' contributions and decrease of capital	28,846,579,00				138,539,76,49	-104,98,151,60	-769,89,73	40,544,611,24		406,446,12,36	405,76,421,83				283,42,70,41	247,729,757,00	283,32,348,36	247,729,757,00	273,734,1		
1. Ordinary share issued by shareholders	28,846,579,00				138,539,76,49	-104,98,151,60	-769,89,73	40,544,611,24		132,278,845,69	9,85,02,00				180,20,30,366,16	247,729,757,00	283,32,348,36	247,729,757,00	266,011,36		
2. Capital contributed by holders of other equities																					
3. Increase in shareholders' equity resulted from share-based payments																					
4. Others	357,62,00																				
IV. Appropriation of profits																					
1. Appropriation of surplus reserve																					
2. Appropriation of general risk provision																					
3. Distributions to shareholders																					
4. Others																					
V. Transfer of shareholders' equity																					
1. Capital reserve transferred to capital (or share capital)																					
2. Surplus reserve transferred to capital (or share capital)																					
3. Surplus reserves transferred to retained earnings for losses incurred																					
4. Others																					
VI. Special reserve																					
1. Appropriation of special reserve																					
2. Utilization of special reserve																					
VII. Others																					
VIII. Balance at 31 December 2016	45,738,126,00				1,94,335,30,47	141,32,055,40	7,794,46,49	32,72,10,03,21		913,371,346,46	1,760,712,388,34	38,885,547,00				36,08,000,00	517,26,658,50	247,729,757,00	8,563,340,22	341,547,498,08	

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

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 ("CSRC"), the Company was listed on the Shenzhen Stock Exchange.

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

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

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

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

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

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

Pursuant to "Livzon Pharmaceutical Group Inc. Restricted Shares Incentive Scheme (Revised Draft)" and its summary considered and approved by the 2015 First Extraordinary Shareholders' Meeting of the Company and the resolution of the 8th meeting (27 March 2015) of the 8th session of the Board of directors, for this time, 458 restricted shares incentive participants exercised the options and there were 8,660,400 shares effectively exercised. Capital verification of this exercise of options was completed on 27 March 2015 with the approval registration completed by China Securities Depository and Clearing Corporation Limited (Shenzhen branch). The registered capital following the exercise of options has changed to 304,382,252. This capital 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.

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.

2. Industry of the Company

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

3. Scope of business

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

I. COMPANY STATUS *(continued)*

4. Change of principal activities

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

The financial statements has been approved and published by the Board meeting on 24 March 2017.

Please refer to note. VIII "Equity in other entities" for names of subsidiaries included into the consolidation in 2016. Three more subsidiary is added during the year compared with the previous year while one subsidiary is 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 41 specific accounting standards amended on or after 15 February 2006. The financial statements were also prepared based on the Accounting Standards for Business Enterprises – Application Guide, interpretations to the Accounting Standards for Business Enterprises and the other related provisions (together the "Accounting Standards for Business Enterprises"), and the disclosure provisions of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2014) issued by the China Securities Regulatory Commission.

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

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

The financial statements prepared by the Company comply with the Accounting Standards for Business Enterprises, which truly and completely present the information on the financial conditions of the Company as at 31 December 2016 and the results and cash flow of the Company for the year 2016. In addition, the financial statements of the Company, in all material aspects, comply with the disclosure requirements of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2014) issued by the China Securities Regulatory Commission on financial statements and notes thereof.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

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

2. Operating cycle

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

3. Functional currency

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

4. Accounting treatments for business combinations

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

(1) Business combinations involving enterprises under common control

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***4. Accounting treatments for business combinations *(continued)*****(2) Business combinations involving enterprises not under common control**

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

4. Accounting treatments for business combinations (continued)

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

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

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

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

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***5. Preparation of consolidated financial statements *(continued)*****(2) Preparation of consolidated financial statements**

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

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

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

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

Where the Company disposes of the equity investment in the subsidiary through several transactions until the Company loses control, it shall be determined whether such transactions are a basket of transactions. Where the terms, conditions and economic impacts of various transactions involved in the disposal of the equity investment in the subsidiary satisfy one or several of the following circumstances, such several transactions shall be normally deemed as a basket of transactions in accounting treatment: (1). Such transactions are entered into simultaneously or upon the consideration of the mutual impacts; (2). No complete commercial result will be realised without such transactions as a whole; (3). The occurrence of one transaction depends on the occurrence of at least another transaction; (4). One transaction is not economical independently but economical together with other transactions. In case no basket of transactions is constituted, each transaction is subject to the accounting treatment separately based on the applicable principles stipulated in "Partial disposal of the long-term equity investment in subsidiaries without losing control" (note IV 11(2)4) and "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 of 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 principle of capitalisation of borrowing costs except for the foreign exchange differences arising from the funds denominated in foreign currency specially borrowed for the establishment of the qualifying assets; and the available-for-sale monetary items denominated in foreign currency are recognised in the profit or loss for the currency period except for such foreign exchange differences arising from the other changes in the balance other than amortised cost that will be recognised in the other comprehensive income.

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

(3) Translation of financial statements in foreign currency

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

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

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

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

8. Financial Instruments

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***8. Financial Instruments *(continued)*****(2) Classification, recognition and measurement of financial instruments**

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

1 Financial assets at fair value through profit or loss

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***8. Financial Instruments *(continued)*****(2) Classification, recognition and measurement of financial instruments *(continued)*****2 Held-to-maturity investments**

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

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

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

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

3 Loans and receivables

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***8. Financial Instruments (continued)****(2) Classification, recognition and measurement of financial instruments (continued)****4 Available-for-sale financial assets**

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

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

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

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

(3) Impairment of financial assets

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***8. Financial Instruments *(continued)*****(3) Impairment of financial assets *(continued)*****1 Impairment of held-to-maturity investments, loans and receivables**

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

2 Impairment of available-for-sale financial assets

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***8. Financial Instruments *(continued)*****(4) Recognition basis and measurement methods of transfer of financial assets**

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***8. Financial Instruments *(continued)*****(5) Classification and measurement of financial liabilities**

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

1 Financial liabilities at fair value through profit or loss

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

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

2 Other financial liabilities

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

3 Financial guarantee contracts and loan commitments

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***8. Financial Instruments (continued)****(6) De-recognition of financial liabilities**

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

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

(7) Offset between financial assets and financial liabilities

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

(8) Equity instruments

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***9. Receivables**

Receivables include accounts receivables and other receivables.

(1) Treatment of bad debts provision

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

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

Methods of providing bad debts**for single receivables with
significant amount on
individual provision basis****Amount of more than 10% of
the balance of receivables**

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

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

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

- 2 Bad debt provision for receivables by portfolio

Basis for determining the portfolio	Basis for determining portfolio of credit risk by ageing	
Method of bad debts provision based on portfolio	Ageing analysis method	
Method of bad debts provision of receivables based on portfolio of credit risk by ageing:		
Ageing	Percentage of provision for accounts receivables	Percentage of provision for other receivables
within one year (including one year)	5%	5%
1-2 years (including 2 year)	6%	6%
2-3 years (including 3 year)	20%	20%
3-4 years (including 4 year)	70%	70%
4-5 years (including 5 year)	90%	90%
over 5 years	100%	100%

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

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

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

9. Receivables (continued)

(2) Reversal of bad debts provision

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

10. Inventories

(1) Classification of inventories

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

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

(3) Method of measurement

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

11. Long-term equity investment

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

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

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

(1) Determination of investment cost

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***11. Long-term equity investment *(continued)*****(2) Subsequent measurement and recognition of profit or loss****1 Long-term equity investment accounted for using the cost method**

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***11. Long-term equity investment *(continued)*****(2) Subsequent measurement and recognition of profit or loss *(continued)*****2 Long-term equity investment accounted for using the equity method *(continued)***

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

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

3 Acquisition of non-controlling interests

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

11. Long-term equity investment (continued)

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

4 Disposal of long-term equity investment

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

11. Long-term equity investment (continued)

(4) Impairment test and provision for impairment

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

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

12. Investment Properties

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

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***13. Fixed Assets****(1) Recognition of fixed assets**

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

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

(2) Classification of fixed assets

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

(3) Measurement of fixed assets

Fixed assets are initially measured at cost.

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

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

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

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

(4) Method for depreciation of fixed assets

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

14. Construction in progress

(1) Classification of construction in progress

Construction in progress is classified into individual projects.

(2) Conversion of construction in progress to fixed assets

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

(3) Impairment of construction in progress

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

15. Borrowing Costs

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***15. Borrowing Costs (continued)**

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***16. Biological Assets****(1) Determination and classification of biological assets**

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***17. Intangible Assets****(1) Intangible assets**

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

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

Intangible assets are measured initially at cost.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***17. Intangible Assets** *(continued)***(1) Intangible assets** *(continued)*

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

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

(2) Research and development expenditures

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***17. Intangible Assets (continued)****(2) Research and development expenditures (continued)**

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

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

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

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

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

18. Long-term deferred expenses

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***19. Impairment of Non-fixed Non-financial Assets**

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

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

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

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

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

20. Employee compensation

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***21. Provisions****(1) Principles for the recognition of provisions**

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

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

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

(2) Determination for the best estimate of provisions

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

- 1 If the provision is related to a single outcome, the best estimate is determined by the amount required to settle the obligation of the most likely outcome;
- 2 If the provision is related to several outcomes, the best estimate is calculated and determined in accordance with all possible outcomes with the relevant probabilities. When all or part of the liabilities of the Company is expected to be compensated by a third-party, the compensation is separately recognised as an asset only when it is virtually certain that the compensation will be received. The amount of asset recognised in respect of compensation should not exceed the carrying amounts of the liabilities recognised.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

22. Share-based payments

(1) Accounting treatment for share-based payments

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

1 *Equity-settled share-based payments*

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

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

Equity-settled share-based payments in exchange for services rendered by other parties are measured at the fair value of the services rendered by other parties on the receiving date if such fair value can be reliably measured. If the fair value of the services rendered by other parties cannot be reliably measured, equity-settled share-based payments in exchange for services rendered by other parties are measured at the fair value of equity instruments on the date of receiving services and charged to relevant costs or expenses and shareholders' equity is credited accordingly, provided that the fair value of equity instruments can be reliably measured.

2 *Cash-settled share-based payments*

Cash-settled share-based payments are measured at the fair value of the liabilities (share-based or other equity instrument-based) assumed by the Company. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses on the date of grant and liabilities are increased accordingly. If vesting is conditional upon completion of services in the pending period or fulfillment of performance conditions, at each balance sheet date during the pending period, based on the best estimates of the vesting situation, according to the amount of fair value of the liabilities assumed by the Company, the services received for the period are charged to costs or expenses and liabilities are increased accordingly.

At each balance sheet date and settlement date before the relevant liabilities are settled, the fair value of liabilities are re-measured and the resulting changes are included in the profit and loss for the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

22. Share-based payments (continued)

(2) Accounting treatment in relation to share-based payment plan modification and termination

When the Company modifies the share-based payment plan, and if such modification increases the fair value of the equity instruments granted, the increase in services received will be recognized accordingly following the increase in fair value of the equity instruments. The increase in fair value of the equity instruments refers to the difference in fair value on the date of modification before and after the modification in respect of the equity instruments. If the modification reduces the total fair value of the share-based payments or adopts any form that is unfavorable to employees, accounting treatment will be continued to be conducted in respect of the services received and the modification will be deemed to have never occurred, unless the Company had cancelled part or all of the equity instruments granted.

During the pending period, if the equity instruments granted are cancelled, the Company will undertake an accelerated vesting in respect of the cancelled equity instruments that had been granted, include the remaining amount that shall be recognized during the pending period in the profit and loss for the period immediately and recognize capital reserve accordingly. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, the Company will treat the granted equity instruments as cancelled.

(3) Accounting treatment for share-based payments involving the Company and the shareholders of the Company or the actual controller

For share-based payment transactions involving the Company and the shareholders of the Company or the actual controller, the settlement enterprise and the enterprise receiving services (one under the Company while another external to the Company) shall follow the requirements below to conduct accounting treatment in the Company's consolidated financial statements:

- 1 For settlement enterprises settling through their own equity instruments, such share-based payment transaction will be treated as equity-settled share-based payment; except for this, such share-based payment transaction will be treated as cash-settled share-based payment.

Where a settlement enterprise is an investor of an enterprise receiving services, the fair value of the equity instruments on the date of grant or the fair value of the liabilities that shall be assumed are recognized as long-term equity investment in the enterprise receiving services, at the same time, capital reserve (other capital reserve) or liabilities are recognized.

- 2 Where an enterprise receiving services has no settlement obligations or grants its own equity instruments to employees, such share-based payment transaction will be treated as equity-settled share-based payment; where an enterprise receiving services has settlement obligations and grants equity instruments (other than its own) to employees, such share-based payment transaction will be treated as cash-settled share-based payment.

For a share-based payment transaction occurring between each enterprise under the Company where the enterprise receiving services and the settlement enterprise are not the same enterprise, such share-based payment transaction shall be recognized and measured in each of the respective financial statements of the enterprise receiving services and the settlement enterprise (as compared with the above principles).

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***23. Repurchase of shares of the Company**

For capital reduction by means of repurchase of the shares of the Company under statutory approval, the capital is reduced by the total nominal value of the shares cancelled. The difference between the consideration paid for the repurchase of shares (including the transaction costs) and the nominal value of the shares is adjusted in the shareholders' equity. The excess of consideration paid over the total nominal value is adjusted in the capital reserve (share premium), surplus reserve and retained profits in sequence. The shortfall from the total nominal value is credited to capital reserve (share premium).

Prior to cancellation or transfer of shares repurchased, the Company recognises all expenditures arising from share repurchase as cost of treasury shares in the treasury share account.

Upon the transfer of treasury shares, the excess of proceeds from the transfer over the cost of treasury shares is credited to capital reserve (share premium); whereas the shortfall from the cost of treasury shares is adjusted in the capital reserve (share premium), surplus reserve and retained profits in sequence.

24. Revenue**(1) Sale of goods**

Revenue is recognised when the significant risks and rewards of ownership of goods have been transferred by the Company to the buyer, and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and when it is probable that the economic benefits will flow to the Company and the amount of revenue and costs can be measured reliably.

The Company sells goods by the way of distribution and enters into sales contracts with dealers. Revenue from sales is recognised according to the invoiced amount upon the delivery of goods according to the orders received from dealers.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***24. Revenue (continued)****(2) Rendering of services**

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised by reference to the stage of completion of the transaction. The stage of completion of the transaction is determined according to the progress of work performed by the following methods:

- 1 Survey of work performed.
- 2 Services performed to date as a percentage of total services to be performed.
- 3 The proportion of the costs incurred to date bear to the estimated total costs of the transaction.

Total revenue from rendering of services is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value. At the balance sheet date, the revenue arising from the rendering of services for the current period is recognised with reference to the total revenue of rendering of services multiplied by percentage of completion less the cumulative amount of revenue recognised in the prior accounting periods.

Where outcome of rendering of services cannot be estimated reliably at the balance sheet date, the revenue is determined as follows:

- 1 If the costs incurred are expected to be recoverable, revenues are recognised as costs incurred, and an equivalent amount is charged as service cost.
- 2 If the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss for the current period and no service revenue is recognised.

(3) Assignment of asset use right

If it is probable that economic benefits associated with the transaction will flow to the Company, and the amount of revenue can be reliably estimated, the Company recognises the revenue from the assignment of asset use rights by the following methods:

- 1 Interest income is recognised on a time proportion basis with reference to the principal outstanding at the applicable effective interest rate.
- 2 Licensing revenue is recognised with reference to the period and method stated under relevant contract or agreement.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

25. Government Grant

Government grant is the monetary assets and the non-monetary assets obtained by the Company from the government free of charge, excluding the capital invested by the government as an owner. Government grant is classified into government grant related to assets and government grant related to income.

(1) Principles of recognition and classification standards

The Company generally recognises and measures the government grant at the amount actually received at the time of actual receipt.

The Company defines the government grant obtained by the Company for constructing or otherwise forming long-term assets as the government grant related to assets; and defines the other government grant as the government grant related to income. Where the target is not explicitly stipulated in governmental documents, the government grant is classified as the government grant related to income and the government grant related to assets by the following methods: 1. If the specific project entitled to the grant is explicitly specified in the government documents, the classification will be made in the proportion of the expenditures to be generated by the specific project as per its budget to the expenditures included in the costs, which shall be reviewed on each balance sheet date and changed when necessary; 2. If the government documents describe the usage of the grant only in general rather than specify the specific project, the grant is deemed as the government grant related to income.

(2) Measurement

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value. If its fair value cannot be measured reliably, it is measured at its nominal amount.

(3) Accounting treatment

A government grant related to assets is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A government grant related to income is recognised by the following methods: a grant that compensates the Group for expenses or loss to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised; and a grant that compensates for expenses incurred is recognised in profit or loss for the current period.

Where the recognised government grant is to be returned, the balance of the related deferred income, if any, is to offset the carrying amount of the related deferred income; and the excess, if any, is to be recognised in profit or loss for the current period; and the grant is to be directly recognised in profit or loss for the current period in case of no related deferred income.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***26. Recognitions of deferred tax assets/deferred tax liabilities**

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases (for items not yet recognised as assets and liabilities that have their tax bases determined by reference to the provisions in the relevant tax laws, the difference between such tax bases and their carrying amounts is applied). Deferred tax assets and deferred tax liabilities are measured at tax rates that are expected to be applied in the period when the assets are recovered or the liabilities are settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. At the balance sheet date, if there is objective evidence that future taxable profits will be available against which deductible temporary differences can be utilised, deferred tax assets not recognised in prior accounting periods is recognised.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

27. Accounting Treatment for Income tax

The balance sheet approach is applied by the Company for the accounting of income tax.

(1) Recognition of deferred tax assets

- 1 Apart from the following exceptions, deferred tax asset are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary difference can be utilised:
 - A. The transactions are not business combinations;
 - B. The transactions affect neither accounting nor taxable profit (or deductible loss).
- 2 Deductible temporary difference related to investments in subsidiaries, associates and joint ventures are recognised as deferred tax assets if the following conditions are satisfied:
 - A. It is probable that the deductible temporary difference will be reversed in the foreseeable future;
 - B. Future Taxable profits will be available against which deductible temporary difference can be utilised.
- 3 Deferred tax assets in relation to tax loss are recognised to the extent that it is probable that future taxable profits will be available against which the tax loss can be utilised.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***27. Accounting Treatment for Income tax *(continued)*****(2) Recognition of deferred tax liabilities**

All deferred tax liability of the Company arising from taxable temporary difference are recognised except for the following situations:

- 1 Initial recognition of goodwill;
- 2 Initial recognition of assets or liabilities satisfying both the below conditions:
 - A. The transactions are not business combinations;
 - B. The transactions affect neither accounting nor taxable profit (or deductible loss).
- 3 Taxable temporary difference related to investments in subsidiaries, associates and joint ventures if the following conditions are satisfied:
 - A. the Company controls the timing of reversal of the taxable temporary difference;
 - B. it is probable that the taxable temporary difference will not reverse in the foreseeable future.

(3) Measurement of income taxes

The current income taxes and deferred tax of the Company in the current period are recognised as income tax expenses or incomes in the profit or loss for the current period, except for the income taxes arising from the following circumstances:

- 1 Business combinations;
- 2 The transactions or events directly recognised in the shareholders' equity.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

28. Other Comprehensive Income

The Company stipulates that the gains and losses not recognised in profit or loss for the current period are presented as the other comprehensive income in accordance with applicable accounting standards. The other comprehensive income is presented by the following two groups in accordance with applicable accounting standards:

- (1) The other comprehensive income items not eligible to be re-classified as profit or loss in the subsequent accounting periods mainly include the changes caused by re-measurement and re-definition of net liabilities or net assets of benefit plans and the Company's share in the other comprehensive income not eligible to be re-classified as profit or loss in the subsequent accounting periods of the investee and accounted for using the equity method;
- (2) The other comprehensive income items to be re-classified as profit or loss in the subsequent accounting periods upon the satisfaction of stipulated conditions mainly include the Company's share in the other comprehensive income to be re-classified as profit or loss in the subsequent accounting periods of the investee upon the satisfaction of stipulated conditions and accounted for using the equity method, the gains or losses arising from the hold-to-maturity investment re-classified as available-for-sale financial assets, such a portion of the gains or losses arising from cash flow hedges instrument as may be attributable to hedging activities and difference in translation of financial statements in foreign currency.

29. Leases

Finance leases are the leases that substantially transfer all the risks and rewards related to ownership of assets, under which the ownership may be or may not be finally transferred. Leases other than finance leases are operating leases.

(1) The Company books operating leases as a lessee.

Rent expenditures of operating leases are recognised in cost of relevant assets or profit or loss for current period by the straight-line method in various periods within the term of lease. Initial direct costs are recognised in profit or loss for current period. Contingent rent is recognised in profit or loss for current period when actually taking place.

(2) The Company books operating leases as a lessor.

Rent income of operating leases is recognised in profit or loss for current period by the straight-line method in various periods within the term of lease. Initial direct costs with large amount are capitalised when actually taking place and recognised in profit or loss for current period in different stages on the same basis as that to recognise rent income; and other initial direct costs with small amount are recognised in profit or loss for current period directly at the time of occurrence. Contingent rent is recognised in profit or loss for current period when actually taking place.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***29. Leases (continued)****(3) The Company books finance leases as a lessee.**

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

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

(4) The Company books finance leases as a lessor.

On the commencement date of the term of lease, the sum of the minimum lease receipt on the commencement date of the lease and the initial direct costs are recognised as the cost of finance lease accounts receivables and the unsecured balance is recognised at the same time; the difference between the sum of the minimum lease receipt, the initial direct costs and the unsecured balance and the present value thereof is recognised as the unrealised finance income. The balance of the finance lease accounts receivables less the unrealised finance income is presented in long-term credits and long-term credits due within one year.

Unrealised financing income is calculated and recognised in financing income for the current period by the effective interest rate method. Contingent rent is recognised in profit or loss for current period when actually taking place.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***30. Held-for-sale Assets**

Where the Company has resolved to dispose of a certain non-fixed asset, has concluded an irrevocable transfer agreement with the transferee and the transfer is likely to be completed within one year, the non-fixed asset is accounted for as held-for-sale non-fixed asset, and no provision for depreciation or amortisation is made and the asset is measured based on the carrying amount and the net amount of the fair value less the costs to sell, whichever is the lower. Held-for-sale non-fixed assets include separate assets and disposal groups. Where the disposal group is an asset group and the goodwill arising from business combination is allocated to this asset group in accordance with provisions stipulated in Accounting Standards for Business Enterprises No. 8 – Impairment of Asset or this disposal group is an operation in such asset groups, this disposal group includes the goodwill involved in the business combination.

Where an asset or disposal group fails to satisfy the recognition conditions for the held-for-sale non-fixed assets after classified as held-for-sale assets, the Company stops classifying it as held-for-sale assets and measure the group at the (1) the amount of the carrying amount of the asset or disposal group prior to being classified as held-for-sale assets adjusted based on the originally recognised depreciation, amortisation or impairment as if it had not been classified as held-for-sale assets; (2) the recoverable amount on the date when the Company determines not to sell the group, whichever is the lower.

31. Change of significant accounting policies, accounting estimates and correction to accounting errors**(1) Changes of accounting policies**

Nil.

(2) Changes of accounting estimates and correction of accounting errors

Nil.

V. TAXATION

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

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

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

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

Name	Actual tax rate	Remarks
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司), Ando Development Limited (安滔發展有限公司), Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限公司), Li An (Hong Kong) Co., Ltd. (麗安香港有限公司)	16.5%	Policies regarding Hong Kong Profits Tax are applicable
Companhia de Macau Carason Limitada (澳門嘉信有限公司), Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	0-12%	Tax rate is 12% where the taxable income is Macau dollar 600,000 or more; for those with taxable income less than Macau dollar 600,000, they are exempted from income taxes.
Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司), Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保税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) was recognised as a high and new technology enterprise in 2016 for a valid period of three years and Zhuhai Livzon Diagnostic Reagent Inc. (珠海麗珠試劑股份有限公司) have reapplied and approved as the high and new technology enterprise during the year; other companies were all recognised as high and new technology enterprises in 2014 for a valid period of three years.
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司), Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	15%	Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司) and Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司) were approved to enjoy the tax preference of the Encouraged Industries in Western China during the year.
Other subsidiaries	25%	

V. TAXATION *(continued)***2. Tax Preference and Approvals**

Preferential value added tax:

In accordance with the Notice of the Ministry of Finance and the State Administration of Taxation on the Application of Low Value Added Tax Rates and Policies on Collecting Value Added Tax by the Simple Approach to Some Goods (Cai Shui [2009] No. 9), the biological products produced by the subsidiaries of the Company using microbe, microbe metabolites, animal toxin, human or animal blood or tissue are subject to value added tax at 6% by the simple approach.

In accordance with the Announcement on Value Added Tax on Biological Products Sold by Pharmaceutical Operation Enterprises (Announcement of State Administration of Taxation 2012 No. 20), the biological products sold by the Company are subject to value added tax at 3% by the simple approach.

Preferential enterprise income tax:

The Company and its subsidiaries, Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) and Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司), Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司) have obtained the certificates of high and new technology enterprises before May 2015. Such companies were subject to preferential enterprise income tax rates for 3 years since 2014. Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) has obtained the certificates of high and new technology enterprises on March 2017 subject to preferential enterprise income tax rates for 3 years since 2016 and Zhuhai Livzon Diagnostic Reagent Inc. (珠海麗珠試劑股份有限公司) has reapplied and approved as the high and new technology enterprises during the year; Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司) high and new technology enterprise in February 2016 and is entitled to the preferential taxation policies applicable to high and new technology enterprises for three years since 2015; 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 entitled to enjoy the tax preference of the Encouraged Industries in Western China upon review in May 2016. Such subsidiaries were subject to an enterprise income tax rate of 15% for the year.

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

In accordance with the Revenue Bill 2008 passed by the Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, the subsidiaries of the Company, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司), Ando Development Limited (安滔發展有限公司) and Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限公司), Li An (Hong Kong) Co. Ltd. (麗安香港有限公司) began to pay enterprise income tax rate at 16.5% from 2008 and were subject to the rate of 16.5% for the year.

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	125,085.29	72,486.40
Bank deposits	2,060,784,878.76	766,211,133.63
Other cash at bank and on hand	1,013,040.84	32,011,663.71
Total	2,061,923,004.89	798,295,283.74
In which: total overseas deposit	233,154,094.99	5,944,040.29

- (1) Other cash at bank and on hand are mainly deposits for investments, security for bank acceptance bills and guarantees.
- (2) The above mentioned restricted funds such as guarantee for letter of credit and security for bank acceptance bills and guarantees were deducted from cash and cash equivalents in cash flow statement. Apart from the restricted funds, there is no other charge, pledge or lock up on the balance of cash at bank and on hand that may limit its use, kept outside China and may have probable risks in its collection. Below is the details of the use of restricted funds:

Item	Balance at the year end	Balance at the beginning of the year
Deposits under bank acceptance bills	0.00	22,455,390.29
Guarantees	0.00	8,746,490.00
Total	0.00	31,201,880.29

2. Financial assets at fair value through profit or loss

(1) Classification

Item	Balance at the year end	Balance at the beginning of the year
Financial assets at fair value through profit or loss	6,019,067.02	6,589,225.34
Of which: Shares	5,188,158.00	5,780,682.00
Funds	830,909.02	808,543.34

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

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

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

3. Bills receivables

(1) Classification of bills receivables

Type	Balance at the year end	Balance at the beginning of the year
Bank acceptance bills	512,986,726.32	342,877,975.08
Short-term commercial papers	0.00	164,460.00
Total	512,986,726.32	343,042,435.08

(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	287,842,077.04	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 RM0.00 bank acceptance bills (RMB142,394,750 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 RM0.00 (RMB1,980,560 in the previous year).

4. Accounts receivables

(1) Accounts receivables disclosed by types

Type	Balance at the year end				
	Balance		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	Carrying Value
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

(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		
	Amount	Percentage (%)	Amount	Percentage (%)	Carrying Value
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	
Accounts receivables assessed for impairment collectively	1,329,418,573.07	99.96	73,324,308.93	5.52	1,256,094,264.14
Accounts receivables that are individually insignificant but impairment provided on an individual basis	566,871.41	0.04	566,871.41	100.00	0.00
Total	1,329,985,444.48	100.00	73,891,180.34	5.56	1,256,094,264.14

- 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	1,516,485,414.91	75,824,270.74	5.00
1 to 2 years	19,003,806.22	1,140,228.37	6.00
2 to 3 years	5,502,072.44	1,100,414.49	20.00
3 to 4 years	3,793,647.63	2,655,553.35	70.00
4 to 5 years	3,017,555.27	2,715,799.74	90.00
Over 5 years	2,558,744.08	2,558,744.08	100.00
Total	1,550,361,240.55	85,995,010.77	

- 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	5,821,227.13	5,821,227.13	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.

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

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	1,277,695,733.87	82.10	1,103,414,629.39	82.96
91 to 180 days	147,348,953.76	9.47	137,056,779.67	10.30
181 days to 1 year	91,909,884.28	5.91	51,715,602.48	3.89
1 to 2 years	19,847,303.22	1.28	23,121,028.26	1.74
2 to 3 years	7,980,583.68	0.51	6,743,252.97	0.51
3 to 4 years	4,908,199.74	0.31	4,121,072.72	0.31
4 to 5 years	3,371,193.64	0.22	1,562,134.20	0.12
Over 5 years	3,120,615.49	0.20	2,250,944.79	0.17
Total	1,556,182,467.68	100.00	1,329,985,444.48	100.00

At 31 December 2016 and 31 December 2015, the Company did not have accounts receivables due but not impaired.

(3) Provisions for bad debts made for the year was RMB18,351,392.16; 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	430,264.00

In which: Important written-off receivables

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

(5) The total of account receivables with five largest amount by creditors was RMB249,314,901.52, or 16.02% of the total account receivables by the year end, total provision for bad debts by the year end was RMB12,465,745.08.

(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.

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	76,523,370.05	87.22	109,801,612.93	89.78
1 to 2 years	8,349,790.80	9.52	8,101,147.18	6.63
2 to 3 years	562,270.35	0.64	1,763,020.66	1.44
Over 3 years	2,299,087.70	2.62	2,631,768.89	2.15
Total	87,734,518.90	100.00	122,297,549.66	100.00

- (2) The total of prepayments with five largest amount by receiver of prepayments was RMB38,705,678.29, or 44.12% of the prepayments by the year end.

6. Other receivables

(1) Other receivables presented by types

Type	Balance at the year end				
	Balance		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	Carrying value
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

Type	Balance at the beginning of the year				
	Balance		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	Carrying value
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	77,802,020.54	99.00	10,152,256.88	13.05	67,649,763.66
Other receivables that are individually insignificant but impairment provided on an individual basis	786,698.56	1.00	786,698.56	100.00	0.00
Total	78,588,719.10	100.00	10,938,955.44	13.92	67,649,763.66

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

6. Other receivables (continued)

(1) Other receivables presented by types (continued)

- 1 *Other receivables for which provisions for bad debts has been made using the ageing analysis method in the portfolio*

Ageing	Balance at the year end		
	Other receivables	Provision for bad debts	Percentage (%)
Within 1 year	41,655,659.66	2,082,782.97	5.00
1 to 2 years	7,351,554.57	441,093.29	6.00
2 to 3 years	2,755,713.32	551,142.67	20.00
3 to 4 years	345,021.28	241,514.90	70.00
4 to 5 years	170,547.84	153,493.06	90.00
Over 5 years	6,112,510.06	6,112,510.06	100.00
Total	58,391,006.73	9,582,536.95	

- 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	840,097.37	840,097.37	100.00	Not expected to be recoverable
Project fund	1,500,000.00	1,500,000.00	100.00	Not expected to be recoverable as to the project suspended
Total	2,340,097.37	2,340,097.37	100.00	

- (2) Provisions for bad debts made for the year was RMB1,095,694.01; no provision for bad debts was recovered or reversed.

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

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

6. Other receivables (continued)

(3) Actual write-off of other receivables for the year

Item	Amount written-off
Other receivable actually written off	135,363.23

(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	8,899,921.66	12,303,389.38
Reserve fund	14,164,735.70	16,342,477.49
Related party balances	2,184,030.10	1,698,883.31
Borrowing due from external entities	5,000,000.00	5,000,000.00
Tax refunds on exports	6,041,905.94	13,513,639.43
Lease expenses and deposits	4,814,789.50	3,279,989.11
Staff advances	10,145,092.64	13,577,308.68
Others	9,480,628.56	12,873,031.70
Total	60,731,104.10	78,588,719.10

(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	6,041,905.94	Within 1 year	9.95	302,095.30
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	8.23	5,000,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Energy and power	2,117,989.34	Within 1 year	3.49	105,899.47
Jiangsu Zheyuan Automatic Engineering Co., Ltd (江蘇浙遠自動化工程公司)	Project fund	1,500,000.00	1-2 year	2.47	1,500,000.00
Guangdong Power Grid Corporation Shaoguan Power Supply Bureau (廣東電網公司韶關供電局)	Deposits	1,029,174.93	Within 1 year	1.69	51,458.75
Total	—	15,689,070.21	—	25.83	6,959,453.52

(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.

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

7. Inventories

(1) Classification of inventories

Item	Balance at the year end		
	Balance	Provision for diminution in value	Carrying amount
Raw materials	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

Item	Balance at the beginning of the year		
	Balance	Provision for diminution in value	Carrying amount
Raw materials	216,732,296.77	664,451.17	216,067,845.60
Packaging materials	28,578,805.91	9,615.19	28,569,190.72
Goods in process	210,116,014.94	4,168,968.75	205,947,046.19
Finished goods	500,142,988.31	17,364,298.44	482,778,689.87
Sub-contracting materials	78,305.07	0.00	78,305.07
Low-valued consumables	3,002,998.58	0.00	3,002,998.58
Goods in transit	4,278,555.40	0.00	4,278,555.40
Consumable biological assets	16,025,763.50	0.00	16,025,763.50
Proprietary semi-finished goods	27,167,375.21	0.00	27,167,375.21
Total	1,006,123,103.69	22,207,333.55	983,915,770.14

The consumable biological assets of the Group represent the planting of Chinese herbal medicines, including astragalus and radix notoginseng, which are the raw materials for the production of Chinese drug preparations.

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

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

7. Inventories (continued)

(2) Provision for diminution in value of inventories

Item	Balance at the beginning of the year	Increase during the year		Decrease during the year		Balance at the year end
		Provision	Other	Reversed	Written off	
Raw materials	664,451.17	3,763,056.59	0.00	26,451.27	3,638,402.61	762,653.88
packaging materials	9,615.19	18,958.47	0.00	0.00	28,573.66	0.00
Goods in progress	4,168,968.75	5,420,958.47	0.00	374,720.44	810,777.30	8,404,429.48
Finished goods	17,364,298.44	33,634,389.51	0.00	3,648,870.10	14,499,424.80	32,850,393.05
Total	22,207,333.55	42,837,363.04	0.00	4,050,041.81	18,977,178.37	42,017,476.41

(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
			during the year
Raw materials	Net realisable value is less than carrying amount	Increase in value	Sale of finished goods
Finished goods	Net realisable value is less than carrying amount	Increase in value	Sale and discard
Other inventories	Net realisable value is less than carrying amount	Increase in value	Sales of finished goods

8. Other current assets

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

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

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

9. 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		
	Impairment provision		Carrying value	Impairment provision		Carrying value
	Balance			Balance		
Available-for-sale equity instruments	261,149,161.06	113,854,995.09	147,294,165.97	262,054,679.57	82,432,392.81	179,622,286.76
Of which: measured at fair value measured at cost	99,853,652.22 161,295,508.84	93,254,995.09 20,600,000.00	6,598,657.13 140,695,508.84	100,759,170.73 161,295,508.84	61,832,392.81 20,600,000.00	38,926,777.92 140,695,508.84

(2) Available-for-sale financial assets measured by fair value at the end of the year

Classification of available-for-sale financial assets	Available-for-sale equity instruments
Cost of equity instruments	93,294,846.95
Fair value	6,598,657.13
Change in fair value accrued through other comprehensive income	5,574,984.48
Accrued impairment provision	93,254,995.09

Available-for-sale equity instruments measured at fair value by year end were listed on Shenzhen Stock Exchange and the fair value was determined by the closing price for the last day of dealings in the year. The fair value of available-for-sale equity instruments measured at fair value by year end listed on NASDAQ in the United State was down to nil due to bankruptcy and reorganization.

(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		
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. (瑞醫康科技投資有限公司)	6,250,000.00	0.00	0.00	6,250,000.00	0.00	0.00	0.00	0.00	5.681	1,075,625.00
Shanghai Haixin Pharmaceutical Co., Ltd. (上海海欣醫藥有限公司)	500,000.00	0.00	0.00	500,000.00	0.00	0.00	0.00	0.00	4.55	0.00
Cynvenio Biosystems, Inc.	58,442,400.00	0.00	0.00	58,442,400.00	0.00	0.00	0.00	0.00	13.64	0.00
Total	161,295,508.84	0.00	0.00	161,295,508.84	20,600,000.00	0.00	0.00	20,600,000.00	—	1,075,625.00

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

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

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

(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	82,432,392.81	82,432,392.81
Provision for Impairment for the year	31,422,602.28	31,422,602.28
In which: transferred from other comprehensive income	0.00	0.00
Decrease during the year	0.00	0.00
In which: transferred upon increase in fair value after the period	0.00	0.00
Provision for Impairment by the year end	113,854,995.09	113,854,995.09

10. 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)	44,648,346.21	0.00	0.00	2,815,979.20	0.00	0.00
Minitech Medical (Jiangsu) Ltd (江蘇尼科醫療器械有限公司)	24,439,327.70	0.00	0.00	-912,096.41	0.00	0.00
Yobbo (深圳市有寶科技有限公司)	-179,162.84	3,000,000.00	0.00	-1,687,825.61	0.00	0.00
AbCyte Therapeutics Inc.	0.00	19,575,000.00	0.00	-589,833.46	0.00	0.00
Total	70,108,511.07	22,575,000.00	0.00	-373,776.28	0.00	0.00

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

10. Long-term equity investments *(continued)*

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	47,464,325.41	0.00
Minitech Medical (Jiangsu) Ltd (江蘇尼科醫療 器械有限公司)	0.00	0.00	0.00	23,527,231.29	0.00
Yobbo (深圳市有寶科技有限公司)	0.00	0.00	0.00	1,133,011.55	0.00
AbCyte Therapeutics Inc.	0.00	0.00	0.00	18,985,166.54	0.00
Total	0.00	0.00	0.00	92,309,734.79	1,200,000.00

Livzon MAB made a contribution of USD3,000,000.00 to AbCyte Therapeutics Inc. in March 2016 amounting to 40% of its registered capital.

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

11. 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	2,668,190,178.64	2,162,807,058.78	62,795,751.26	283,377,647.71	5,177,170,636.39
2.Additions for the year	139,722,024.55	186,536,037.61	5,883,925.78	44,243,748.79	376,385,736.73
(1) Acquisition	31,912,374.39	71,780,497.50	5,462,747.95	41,153,088.70	150,308,708.54
(2) Construction in progress transferred	107,809,650.16	114,755,540.11	421,177.83	3,090,660.09	226,077,028.19
3.Decrease for the year	2,238,338.73	55,237,825.76	3,252,000.24	16,543,946.21	77,272,110.94
(1) Disposal or written-off	2,238,338.73	55,237,825.76	3,252,000.24	16,543,946.21	77,272,110.94
(2) Transferring to investment properties	0.00	0.00	0.00	0.00	0.00
4.Balance at the year end	2,805,673,864.46	2,294,105,270.63	65,427,676.80	311,077,450.29	5,476,284,262.18
II.Accumulated depreciation					
1.Balance at the beginning of the year	661,822,185.55	884,884,538.24	34,593,421.41	181,012,367.56	1,762,312,512.76
2.Additions for the year	122,179,549.99	172,371,693.19	8,751,864.53	32,284,037.19	335,587,144.90
(1) Provision	122,179,549.99	172,371,693.19	8,751,864.53	32,284,037.19	335,587,144.90
(2) Other additions	0.00	0.00	0.00	0.00	0.00
3.Decrease for the year	2,059,834.57	36,151,552.67	2,775,489.30	13,646,714.35	54,633,590.89
(1) Disposal or written-off	2,059,834.57	36,151,552.67	2,775,489.30	13,646,714.35	54,633,590.89
(2) Transferring to investment properties	0.00	0.00	0.00	0.00	0.00
4.Balance at the year end	781,941,900.97	1,021,104,678.76	40,569,796.64	199,649,690.40	2,043,266,066.77
III.Impairment provision					
1.Balance at the beginning of the year	47,170,482.25	42,771,404.31	83,051.46	1,067,748.35	91,092,686.37
2.Additions for the year	67,665.35	8,066,676.59	26,075.36	531,959.78	8,692,377.08
(1) Provision	67,665.35	8,066,676.59	26,075.36	531,959.78	8,692,377.08
3.Decrease for the year	94,521.85	7,059,088.71	43,813.53	547,300.86	7,744,724.95
(1) Disposal or written-off	94,521.85	7,059,088.71	43,813.53	547,300.86	7,744,724.95
4.Balance at the year end	47,143,625.75	43,778,992.19	65,313.29	1,052,407.27	92,040,338.50
IV.Carrying amounts					
1.Carrying amount at the year end	1,976,588,337.74	1,229,221,599.68	24,792,566.87	110,375,352.62	3,340,977,856.91
2.Carrying amount at the beginning of the year	1,959,197,510.84	1,235,151,116.23	28,119,278.39	101,297,531.80	3,323,765,437.26

During the year, the amount of depreciation was RMB335,587,144.90 (RMB286,913,717.42 in 2015).

During the year, construction in progress transferred to cost of fixed assets was RMB226,077,028.19 (RMB573,260,914.62 in 2015).

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

11. 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	279,250,057.31	230,389,939.52	13,133,508.70	35,726,609.09	
Machinery & equipment	109,384,671.01	70,396,804.06	1,357,384.19	37,630,482.76	
Motor vehicles	5,741,506.22	2,278,595.71	3,462,910.51	0.00	
Electronic devices and others	25,661,541.51	22,070,300.29	722,264.52	2,868,976.70	
Total	420,037,776.05	325,135,639.58	18,676,067.92	76,226,068.55	

(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	11,397,939.84
Electronic devices and others	39,691,418.72
Total	51,089,358.56

(5) Fixed assets with pending certificates for ownership at the year end

Item	Carrying amount	Reason for pending certificates for ownership
Plant & buildings	984,861,799.12	Being in progress

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

12. 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)	5,784,851.29	0.00	5,784,851.29	5,784,851.29	0.00	5,784,851.29
Construction Project of Ceftriaxone Sodium Workshop (曲松粗品車間建設項目)	0.00	0.00	0.00	44,190,526.52	0.00	44,190,526.52
Construction Project of Jiaozuo 4-AA Pilot Workshop (焦作4-AA中試車間建設項目)	0.00	0.00	0.00	33,956,256.81	0.00	33,956,256.81
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	12,813,476.65	0.00	12,813,476.65	12,959,462.55	0.00	12,959,462.55
Project of New Factory of Reagent Co. (試劑公司新廠項目)	121,205,122.02	0.00	121,205,122.02	43,946,886.89	0.00	43,946,886.89
Longtang New Factory Project (龍塘新廠項目)	0.00	0.00	0.00	43,442,750.89	0.00	43,442,750.89
Project of Shijiao New Factory (石角新廠項目)	682,930.46	0.00	682,930.46	28,051,381.00	0.00	28,051,381.00
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	22,634,029.13	0.00	22,634,029.13	26,596,295.32	0.00	26,596,295.32
Others	38,613,444.92	0.00	38,613,444.92	108,320,503.58	0.00	108,320,503.58
Total	201,733,854.47	0.00	201,733,854.47	347,248,914.85	0.00	347,248,914.85

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

12. 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	0.00	0.00	0.00	5,784,851.29
Construction Project of Ceftriaxone Sodium Workshop (曲松粗品車間建設項目)	39,367,300.00	44,190,526.52	2,613,887.42	46,804,413.94	0.00	0.00
Construction Project of Jiaozuo 4-AA Pilot Workshop (焦作4-AA中試車間建設項目)	49,112,700.00	33,956,256.81	0.00	33,956,256.81	0.00	0.00
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	26,840,007.50	12,959,462.55	6,581,854.23	6,727,840.13	0.00	12,813,476.65
Project of New Factory of Reagent Co. (試劑公司新廠項目)	148,315,000.00	43,946,886.89	77,258,235.13	0.00	0.00	121,205,122.02
Longtang New Factory Project (龍塘新廠項目)	0.00	43,442,750.89	0.00	0.00	43,442,750.89	0.00
Project of Shijiao New Factory (石角新廠項目)	46,664,000.00	28,051,381.00	688,460.46	0.00	28,056,911.00	682,930.46
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	29,720,023.00	26,596,295.32	51,536,687.80	55,498,953.99	0.00	22,634,029.13
Others	0.00	108,320,503.58	62,958,073.56	83,089,563.32	49,575,568.90	38,613,444.92
Total	705,835,530.50	347,248,914.85	201,637,198.60	226,077,028.19	121,075,230.79	201,733,854.47

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

12. 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	1.58%	Completion of some projects	Self-funding
Construction Project of Ceftriaxone Sodium Workshop (曲松粗品車間建設項目)	0.00	71,902.15	3.68%	99.04%	Completion of some projects	Borrowing and self-funding
Construction Project of Jiaozuo 4-AA Pilot Workshop (焦作 4-AA中試車間建設項目)	0.00	0.00	0.00	86.25%	Completion of some projects	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	65.03%	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	81.72%	Under construction	Self-funding
Longtang New Factory Project (龍塘新廠項目)	0.00	0.00	0.00			Self-funding
Project of Shijiao New Factory (石角新廠項目)	0.00	0.00	0.00	61.59%	Under construction	Self-funding
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	1,240,711.27	1,240,711.27	3.68%	76.00%	Completion of some projects	Borrowing and self-funding
Others	898,562.10	0.00	4.34%			Borrowing and self-funding
Total	2,139,273.37	1,312,613.42				

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

13. Construction supplies

Item	Balance at the year end	Balance at the beginning of the year
Specialised equipment	0.00	72,208.40

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	262,249,617.67	178,750,734.98	30,033,647.98	24,000.00	0.00	471,058,000.63
2.Additions for the year	51,480,596.09	44,697,710.34	1,746,896.06	0.00	10,985,294.53	108,910,497.02
(1) Acquisition	51,480,596.09	44,697,710.34	1,746,896.06	0.00	10,985,294.53	108,910,497.02
3.Decrease for the year	37,505,788.18	0.00	0.00	0.00	0.00	37,505,788.18
(1) Disposal	37,505,788.18	0.00	0.00	0.00	0.00	37,505,788.18
4.Balance at the year end	276,224,425.58	223,448,445.32	31,780,544.04	24,000.00	10,985,294.53	542,462,709.47
II. Accumulated amortization						
1.Balance at the beginning of the year	64,450,971.22	122,692,519.19	22,054,495.39	24,000.00	0.00	209,221,985.80
2.Additions for the year	4,948,074.70	17,670,491.20	3,799,877.13	0.00	91,544.12	26,509,987.15
(1) Provision	4,948,074.70	17,670,491.20	3,799,877.13	0.00	91,544.12	26,509,987.15
3.Decrease for the year	3,363,570.16	0.00	0.00	0.00	0.00	3,363,570.16
(1) Disposal	3,363,570.16	0.00	0.00	0.00	0.00	3,363,570.16
4.Balance at the year end	66,035,475.76	140,363,010.39	25,854,372.52	24,000.00	91,544.12	232,368,402.79
III. Impairment provision						
1.Balance at the beginning of the year	981,826.94	1,379,999.89	0.00	0.00	0.00	2,361,826.83
2.Additions for the year	0.00	8,829,166.90	0.00	0.00	0.00	8,829,166.90
(1) Provision	0.00	8,829,166.90	0.00	0.00	0.00	8,829,166.90
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	209,207,122.88	72,876,268.14	5,926,171.52	0.00	10,893,750.41	298,903,312.95
2.Carrying amount at the beginning of the year	196,816,819.51	54,678,215.90	7,979,152.59	0.00	0.00	259,474,188.00

Amortisation for the year is RMB26,509,987.15 (RMB24,002,754.54 in 2015).

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

Item	Carrying amount	Reason for pending certificates for ownership
Land use rights	27,560,661.14	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	291,118,557.69	291,118,557.69	0.00	0.00
Capitalised expenses	13,252,992.01	1,568,805.95	0.00	0.00	14,821,797.96
In which: western drug preparation	13,252,992.01	1,568,805.95	0.00	0.00	14,821,797.96
Total	13,252,992.01	292,687,363.64	291,118,557.69	0.00	14,821,797.96

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 Meidixin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	287,756.12	0.00	0.00	287,756.12
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	2,045,990.12	0.00	0.00	2,045,990.12
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	3,492,752.58	0.00	0.00	3,492,752.58
Total	121,799,561.00	0.00	0.00	121,799,561.00

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	0.00	287,756.12
Total	18,759,063.15	0.00	0.00	18,759,063.15

(3) Impairment test and provision for impairment on goodwill

Goodwill of the Company arose from its business combination involving enterprises under common control in previous years.

On the balance sheet date, the Company conducted impairment test on goodwill and adopted the asset groups related to goodwill to estimate the present value of the future cash flow when estimating the recoverable amount of the investment cost. The present value of future cash flow is calculated according to the five-year financial plan made by the management and a discount rate of 12%. The cash flows in the years beyond the years in the five-year plan are deemed stable.

Key assumptions of discounted future cash flow for goodwill impairment test are as follows:

For future cash flow of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), key assumptions are a gross margin of 63%-67% and a business revenue growth rate of 0~17%. The management took into account historical conditions and predictions for future market development in making above assumptions.

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

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 62%-64% and a business revenue growth rate of 0~25.30%. The management took into account historical conditions and predictions for future market development in making above assumptions.

For future cash flow of Livzon Group Fuzhou Fuxing Pharmaceutical Co.,Ltd. (麗珠集團福州福興醫藥有限公司), key assumptions are a gross margin of 41%-45% and a business revenue growth rate of -19%~8.33%. The management took into account historical conditions and predictions for future market development in making above assumptions.

As tested, the management of the Company believes that no impairment provision is needed during the reporting period.

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	2,853,243.81	2,166,484.11	1,981,290.15	0.00	3,038,437.77	
Renovation costs of offices	15,751,030.35	4,165,583.10	1,932,440.78	0.00	17,984,172.67	
Renovation costs of plants	13,503,861.04	53,738,770.65	3,547,064.91	0.00	63,695,566.78	
Share of costs for public utilities	81,250.02	0.00	32,499.96	0.00	48,750.06	
Resin and filler	5,968,677.84	4,148,872.08	3,426,076.78	0.00	6,691,473.14	
Others	1,865,393.77	139,760.67	986,553.98	0.00	1,018,600.46	
Total	40,023,456.83	64,359,470.61	11,905,926.56	0.00	92,477,000.88	

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	231,892,133.71	29,929,197.82	180,085,772.58	27,447,005.41
Deductible temporary difference arising from amortisation of intangible assets	0.00	0.00	16,498.33	2,474.75
Deductible temporary difference arising from accrued expenses	141,166,101.17	21,174,915.04	110,039,069.54	16,505,860.45
Deductible temporary difference arising from tax losses carried forward	34,207,535.93	5,131,130.39	58,907,279.16	8,836,091.88
Deductible temporary difference arising from deferred income	62,888,581.97	9,433,287.29	53,129,897.41	7,969,484.61
Deductible temporary difference arising from gains from unrealized intra-company transactions	549,114,425.28	82,367,163.80	254,420,737.12	38,163,110.57
Deductible temporary difference arising from share incentive cost	33,760,094.36	5,064,014.15	36,089,000.00	5,414,454.31
Total	1,053,028,872.42	153,099,708.49	692,688,254.14	104,338,481.98

(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	680,909.00	102,136.35	658,543.34	98,781.50
Taxable temporary difference arising from available-for-sale financial assets	9,169,705.27	1,375,455.79	10,075,223.78	1,511,283.57
Taxable temporary difference arising from long-term equity investments under in equity method	24,012,359.13	3,601,853.87	23,796,301.97	3,569,445.29
Taxable temporary difference arising from accelerated depreciation of fixed assets	81,080,134.67	12,205,834.39	48,295,157.43	7,262,793.43
Total	114,943,108.07	17,285,280.40	82,825,226.52	12,442,303.79

(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	144,620,046.23	109,628,369.67
Deductible loss	341,889,829.68	239,234,455.81
Total	486,509,875.91	348,862,825.48

(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
2016	0.00	24,646,839.24	
2017	20,911,633.82	20,911,633.82	
2018	27,888,663.82	27,888,663.82	
2019	59,410,126.67	59,410,126.67	
2020	84,685,649.76	86,397,169.60	
2021	124,537,726.45	0.00	
Indefinitely	24,456,029.16	19,980,022.66	
Total	341,889,829.68	239,234,455.81	

19. Other non-current assets

Item	Balance at the year end	Balance at the year beginning
Input VAT pending deduction/attestation	238,726.86	0.00
Remaining VAT credit	39,590,963.11	0.00
Prepayment for acquisition of land use rights	0.00	20,425,185.00
Prepayment for acquisition of project and equipment	26,666,529.37	5,919,463.00
Prepayment for acquisition of technical know-how	48,522,986.75	33,561,875.64
Total	115,019,206.09	59,906,523.64

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

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

20. Short-term loans

(1) Classification of short-term loans

Item	Balance at the year end	Balance at the beginning of the year
Loans on credit	0.00	250,000,000.00
Total	0.00	250,000,000.00

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

21. Bills payables

Type	Balance at the year end	Balance at the beginning of the year
Bank acceptance bills	323,795,509.11	299,007,801.36

The amount of RMB323,795,509.11 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	309,091,528.70	391,502,813.19
91 to 180 days	149,853,279.51	76,598,394.01
181 days to 1 year	46,024,114.99	100,632,550.47
1 to 2 years	48,792,716.60	29,128,330.58
Over 2 years	33,954,307.04	38,890,510.98
Total	587,715,946.84	636,752,599.23

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

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
Zhenjiang East Biotech Equipment and Technology Co., Ltd. (鎮江東方生物工程設備技術有限責任公司)	9,534,507.66	Holdback
Industrial Green Building Technology Co., Ltd. of Zhuhai (珠海興業綠色建築科技有限公司)	6,934,409.42	Holdback
Guangdong Jian'an Changsheng Engineering Co., Ltd. (廣東建安昌盛工程有限公司)	4,030,772.88	Holdback
ABC Building Systems (China) Co., Ltd (美建建築系統(中國)有限公司)	3,784,303.65	Holdback
Nanquan Pharmaceutical Chemical Container Co., Ltd (無錫市南泉醫藥化工容器製造廠)	2,173,383.99	Holdback
Orient (Shanghai) Environmental Protection Engineering and Technology Co. Ltd (上海潤態環保工程技術有限公司)	2,063,900.00	Holdback
Total	28,521,277.60	

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	51,374,594.76	43,057,773.86
Over 1 year	27,310,645.84	22,197,476.55
Total	78,685,240.60	65,255,250.41

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

23. Receipts in advance *(continued)*

(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)	9,048,891.75	The customer has not required the delivery of goods
Shenzhen Family Planing Service Center (深圳市計劃生育服務中心)	2,129,280.40	The customer has not required the delivery of goods
Total	11,178,172.15	

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	71,705,655.76	563,999,331.90	525,453,197.15	110,251,790.51
II. Post-resignation benefits – designated provision	142,941.37	50,709,890.30	50,824,709.23	28,122.44
III. Dismiss benefits	0.00	5,439,451.13	2,439,451.13	3,000,000.00
IV. Other benefits due within 1 year	0.00	0.00	0.00	0.00
Total	71,848,597.13	620,148,673.33	578,717,357.51	113,279,912.95

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

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

24. Employee benefits payables *(continued)*

(2) Presentation of short-term salary

Item	Balance at the beginning of the year	Accruals for the period	Decrease for the period	Balance at the year end
1.Salaries, bonuses, allowances and subsidies	69,256,444.58	498,350,067.78	458,867,798.60	108,738,713.76
2.Employee welfare	1,772,375.34	25,724,158.33	26,582,442.17	914,091.50
3.Social insurance	68,101.70	20,510,956.03	20,564,907.63	14,150.10
Of which: Medical insurances	50,740.19	17,558,447.52	17,597,793.24	11,394.47
Work-related injury insurances	13,207.83	1,599,866.87	1,611,149.49	1,925.21
Maternity insurances	4,153.68	1,352,641.64	1,355,964.90	830.42
4.Housing funds	260,770.30	18,869,607.24	18,607,588.54	522,789.00
5.Labour union fees and employee education fees	347,963.84	544,542.52	830,460.21	62,046.15
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	71,705,655.76	563,999,331.90	525,453,197.15	110,251,790.51

(3) Presentation of designated provision

Item	Balance at the beginning of the year	Accruals for the period	Decrease for the period	Balance at the year end
1.Basic pension insurance	132,907.04	47,886,710.95	47,992,466.97	27,151.02
2.Unemployment insurance	10,034.33	2,823,179.35	2,832,242.26	971.42
Total	142,941.37	50,709,890.30	50,824,709.23	28,122.44

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

25. Taxes payables

Item	Balance at the year end	Balance at the beginning of the year
Value added tax payable	95,848,978.18	-17,720,385.49
Business tax payable	0.00	32,921.70
Urban maintenance and construction tax payable	4,998,468.60	4,827,251.64
Enterprise income tax payable	163,284,148.94	125,093,660.77
Property tax payable	8,325,607.88	4,418,116.16
Land use tax payable	1,982,305.92	1,834,686.81
Individual income tax payable	11,448,173.56	5,863,466.96
Stamp duty payable	1,505,696.22	1,259,358.85
Education surcharges payable	4,666,899.96	4,039,147.84
Flood prevention fee payable	24,082.65	285,782.33
Others	222,337.88	100,871.96
Total	292,306,699.79	130,034,879.53

26. Interest payables

Item	Balance at the year end	Balance at the beginning of the year
Interest for medium-term bills	0.00	11,823,945.25
Interest for short-term loans	3,812,602.74	0.00
Total	3,812,602.74	11,823,945.25

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
Total	2,531,984.46	2,531,984.46	

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

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

28. Other payables

(1) Breakdown of other payables

Item	Balance at the year end	Balance at the beginning of the year
Within 1 year	1,468,382,831.50	1,165,075,389.28
Over 1 year	89,730,446.80	122,209,556.46
Total	1,558,113,278.30	1,287,284,945.74

(2) Other payables by nature

Item	Balance at the year end	Balance at the beginning of the year
Office expenses	46,432,084.92	40,362,841.22
Deposits under guarantees	21,425,431.13	20,307,578.35
Business promotion expenses	479,228,514.39	210,750,946.24
Obligations of repurchasing restricted shares	140,321,805.40	248,085,968.36
Technology transfer funds	13,490,101.79	13,961,452.49
Related party balances	2,459,992.87	10,207,785.59
Accrued expenses	807,309,319.37	714,331,476.12
Others	47,446,028.43	29,276,897.37
Total	1,558,113,278.30	1,287,284,945.74

The repurchase of the Restricted shares obligation of the Directors, the senior management and their spouses amounted to RMB12,869,991.00 by the end of the year.

(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	6,726,545.55	4,918,521.09	Not yet paid
Research expenses	21,267,803.56	572,648.40	Not yet paid
Business promotion expenses	715,786,697.44	612,157,797.84	Not yet paid
Advertising expenses	873,776.16	294,147.66	Not yet paid
Business meeting expenses	8,366,673.40	31,737,907.19	Not yet paid
Auditing and information disclosure expenses	5,668,454.20	5,054,490.76	Not yet paid
Others	48,619,369.06	59,595,963.18	Not yet paid
Total	807,309,319.37	714,331,476.12	

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

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

29. Non-current liabilities due within one year

Item	Balance at the 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
Notes payables due within 1 year (Note VI.32)	0.00	400,000,000.00
Total	400,000.00	400,400,000.00

Of which: changes in notes payables due within 1 year

Name of Bond	Nominal amount	Date of issue	Term of bond	Issue amount	Interest payables at the beginning of the year	Interest payables for the year	Interest paid for the year	Interest payables at the year end	Balance at the year end
13LivzonMTN1	400,000,000.00	29 May 2013	3 years	400,000,000.00	11,823,945.25	8,296,054.75	20,120,000.00	0.00	0.00

30. Other current liabilities

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

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	0.00	3,812,602.74	0.00	3,812,602.74	350,000,000.00

(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
Guarantee loans	0.00	0.00
Less: Long-term loans due within one year (Note VI.29)	400,000.00	400,000.00
Total	700,000.00	700,000.00

As at 31 December 2016, 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

32. Notes payables

Item	Balance at the year end	Balance at the beginning of the year
Bond payables	0.00	400,000,000.00
Less: notes payables due within 1 year (Note VI.29)	0.00	400,000,000.00
Total	0.00	0.00

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

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	99,558,739.98	17,903,605.00	22,464,351.31	94,997,993.67	
Items related to government grant:					
	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列 創新藥物研發及產業化)	7,831,374.86	0.00	2,000,000.04	0.00	5,831,374.82
Team for research, development and commercialisation of protein drugs (2012) under the scientific research team for introduction of innovation technologies in Guangdong Province (廣東省引進創新科研團隊(2012)蛋白質藥物研究開發及產業化團隊)	13,677,640.24	0.00	8,090,239.77	0.00	5,587,400.47
2014 Strategic Emerging Industries (Sustained Release Microsphere) (2014年 戰略性新興產業(緩釋微球))	2,000,000.00	0.00	0.00	0.00	2,000,000.00
Research and standardization of testing methods of Sulphur dioxide residue in Chinese medicines (中藥中二氧化硫殘留檢查方法的研究與標準制訂)	0.00	90,000.00	0.00	90,000.00	0.00
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)	0.00	2,400,000.00	0.00	0.00	2,400,000.00
2015 Special Fund for Innovation-driven Projects (2015年度創新驅動項目專項資金)	0.00	93,000.00	0.00	0.00	93,000.00
Project subsidy from Ministry of Industry and Information Technology (工業和信息化部項目補助款)	0.00	2,400,000.00	0.00	0.00	2,400,000.00
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)	0.00	1,029,300.00	0.00	0.00	1,029,300.00

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

33. Deferred income (continued)

	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Interest Discount Funds for 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 進貼息資金)	0.00	206,205.00	0.00	16,480.00	189,725.00	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)	3,749,999.97	0.00	500,000.04	0.00	3,249,999.93	Related to assets
2013 Provincial Technology Special Fund (2013年度省級科技專項資金)	533,829.27	0.00	113,387.18	0.00	420,442.09	Related to assets
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	4,790,166.54	4,010,000.00	834,666.71	0.00	7,965,499.83	Related to assets
Subsidy for the Tender of Technology Upgrade Project for PVC Soft Bag Supported by Provincial Finance Departments (省財政支持技改招標項目補助金PVC軟袋)	2,575,345.86	200,000.00	194,365.80	0.00	2,580,980.06	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	1,000,000.00	0.00	0.00	1,000,000.00	Related to assets
Demonstration projects of high concentration organic wastewater treatment technology (高濃度有機廢水治理技術示範項目)	394,367.00	0.00	394,367.00	0.00	0.00	Related to assets
Shenqi Fuzheng Injection (參芪扶正注射液)	1,029,987.68	0.00	0.00	0.00	1,029,987.68	Related to assets
	964,070.19	0.00	3,547.00	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)	659,726.00	0.00	416,664.00	0.00	243,062.00	Related to assets
Construction of production facilitates for the GAP commercialisation of astragalus at Hunyuan in Shanxi (山西渾源黃芪GAP產業化生產基地建設)	7,845,718.94	0.00	3,204,361.00	0.00	4,641,357.94	Related to assets
Guidance Project for the Development of High-Tech Industrial Development Zone (Yue Cai Gong No. 319) Special Fund (粵財工319號省高新技術產業開發區發展引導專項資金)	850,000.00	0.00	0.00	0.00	850,000.00	Related to income

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

33. Deferred income (continued)

	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Construction of hi-tech facilities for innovation and commercialisation of modern traditional Chinese medicines (現代中藥高技術創新產業化基地建設)	25,015.00	0.00	25,015.00	0.00	0.00	Related to assets
Power-saving of lighting pump fan and airconditioning system (照明水泵風機及空調系統節電)	17,515.00	0.00	17,515.00	0.00	0.00	Related to assets
R&D and Production Transformation of Gemifloxacin Tablets (吉米沙星片的研發及生產轉化)	212,527.55	0.00	0.00	0.00	212,527.55	Related to assets
Research in the technologies critical to the intelligent monitoring system for bottled infusion workshop (瓶裝輸液車間智能監控管理系統關鍵技術研究)	12,077.62	0.00	12,077.62	0.00	0.00	Related to assets
	3,958.38	0.00	3,958.38	0.00	0.00	Related to income
Research and development of sugar and electrolyte mixed injections (混合糖電解質注射液的研製開發)	2,222.28	0.00	2,222.28	0.00	0.00	Related to income
Research of technologies for the inspection of toxic substances from high-throughput aquatic products in Guangdong Province (廣東省水產品中有害物質高通量檢測技術研究)	80,000.00	0.00	0.00	0.00	80,000.00	Related to income
Technology Centre Innovation Capabilities Development (Antibody Drugs Laboratory) (技術中心創新能力建設(抗體藥物實驗室))	7,602,935.19	0.00	2,189,964.79	0.00	5,412,970.40	Related to assets
	675,769.44	0.00	86,333.88	0.00	589,435.56	Related to income

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

33. Deferred income (continued)

	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Second Batch of Science and Technology R&D Funding in 2012 (2012年第二批科技研發經費)	1,000,000.00	0.00	0.00	0.00	1,000,000.00	Related to income
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	9,393,500.00	0.00	1,157,999.99	0.00	8,235,500.01	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)	2,348,800.00	922,000.00	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)	1,558,333.33	0.00	199,999.99	0.00	1,358,333.34	Related to assets
New Industrialisation Development Grant (新型工業化發展獎金)	3,004,166.67	0.00	350,000.00	0.00	2,654,166.67	Related to assets
Subsidy for Industrial Project (工業項目貼息補助)	1,566,666.67	0.00	199,999.98	0.00	1,366,666.69	Related to assets
Five Goods and One New Supporting Funds (五優一新扶持資金)	900,000.00	0.00	100,000.00	0.00	800,000.00	Related to assets
Set-up and research fund for post-doc station (博士後建站和科研補貼)	0.00	100,000.00	0.00	0.00	100,000.00	Related to assets
	92,878.00	0.00	87,735.85	0.00	5,142.15	Related to income
New R&D Institution Subsidy (新型研發機構補助)	2,625,774.62	1,000,000.00	1,065,320.21	0.00	2,560,454.41	Related to assets
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	0.00	2,500,000.00	0.00	0.00	2,500,000.00	Related to income
Special Funds Transferred to the Shanoguan Bureau of Finance Treasury Branch for Cooperative Innovation and Platform Environmental Construction (韶關市財政局國庫支付中心轉省協同創新與平台環境建設專項資金)	1,000,000.00	0.00	0.00	0.00	1,000,000.00	Related to assets

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

33. Deferred income (continued)

	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non- operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
R&D of Innovative Traditional Chinese Medicine Qihuo Sugar (芪藿糖) Capsule for Kidney for cure for diabetes and kidney disease (治療糖尿病腎病創新中藥“芪藿糖腎膠囊”的研究開發)	1,000,000.00	0.00	0.00	0.00	1,000,000.00	Related to assets
Zhuhai Strategic Emerging Industries Special Funds (珠海市戰略性新興產業專項資金)	3,330,000.00	0.00	0.00	60,000.00	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	5,600,000.00	Related to assets
Innovative drug of Ilaprazole for Injection (創新藥注射用艾普拉唑鈉針劑)	2,400,000.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Technological Transformation Projects of New Cefuroxime (新型頭孢粉針劑技術改造項目)	0.00	1,533,100.00	0.00	0.00	1,533,100.00	Related to assets
Funds for Joint R&D and Commercialisation of Integrated Platform for molecular diagnostics (集成一體化分子診斷平臺的合作研發及產業化資金)	2,295,100.00	420,000.00	300,000.00	0.00	2,415,100.00	Related to income
Total	99,558,739.98	17,903,605.00	22,297,871.31	166,480.00	94,997,993.67	

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

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

34. Share capital

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	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. State-owned shares	7,877,256	1.98	3,900,000	0.00	0.00	0.00	3,900,000	11,777,256	2.77
2. State-owned legal person shares	12,451,140	3.14	25,198,203	0.00	0.00	-5,034,169	20,164,034	32,615,174	7.66
3. Other domestic shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: Domestic legal person shares	12,451,140	3.14	0.00	0.00	0.00	-5,034,169	-5,034,169	7,416,971	1.74
Domestic natural person shares	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
Of which: Overseas legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overseas natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	20,328,396	5.12	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-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	145,591,360	36.68	0.00	0.00	0.00	0.00	0.00	145,591,360	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	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, resulted in an actual increase of 4,776,545 non-restricted shares of the Company.

Please refer to Note I. Company Status for details of changes in the share capital of the Company for the year.

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

34. Share capital (continued)

2015

Item	Balance at the beginning of the year			Movement for the year				Balance at the year end	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Percentage (%)
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	6,059,428	2.05	0.00	0.00	1,817,828	0.00	1,817,828	7,877,256	1.98
3. Other domestic shares	0.00	0.00	0.00	0.00	2,598,120	9,853,020	12,451,140	12,451,140	3.14
<i>Of which: Domestic legal person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Domestic natural person shares</i>	0.00	0.00	0.00	0.00	2,598,120	9,853,020	12,451,140	12,451,140	3.14
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Of which: Overseas legal person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Overseas natural person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	6,059,428	2.05	0.00	0.00	4,415,948	9,853,020	14,268,968	20,328,396	5.12
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	177,669,070	60.08	0.00	0.00	53,300,721	0.00	53,300,721	230,969,791	58.19
2. Domestically listed foreign shares (B-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	111,993,354	37.87	0.00	0.00	33,598,006	0.00	33,598,006	145,591,360	36.68
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares not subject to selling restrictions in aggregate	289,662,424	97.95	0.00	0.00	86,898,727	0.00	86,898,727	376,561,151	94.88
III. Total number of shares	295,721,852	100.00	0.00	0.00	91,314,675	9,853,020	101,167,695	396,889,547	100.00

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

35. Capital reserve

2016

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	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.

2015

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Capital premiums	192,213,531.98	239,944,419.05	93,018,783.64	339,139,167.39
Other capital reserve	20,481,182.76	36,089,000.00	0.00	56,570,182.76
Total	212,694,714.74	276,033,419.05	93,018,783.64	395,709,350.15

The increase in the share premium in the year includes: (1) the increase in the share premium in the sum of RMB239,937,057.00 by the exercise of restricted shares; (2) the transfer amounting to RMB7,362.05 by eradicating fractional shares. The decrease of share premium in the year was attributable to (1) the decrease of share premium in the sum of RMB1,704,108.64 by the repurchase and cancellation of 93,080 shares restricted shares granted to incentive participants no longer satisfying the conditions of incentive; (2) the decrease of share premium in the sum of RMB91,314,675.00 by increases of shares due to transfer.

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

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

36. Treasury shares

2016

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	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.

2015

Item	Balances at the beginning of the year	Increase for the year	Decrease for the year	Balances at the end of the year
Repurchase arising from the Share Incentive Scheme	0.00	249,883,157.00	2,663,200.00	247,219,957.00
Total	0.00	249,883,157.00	2,663,200.00	247,219,957.00

Repurchase obligation arising from the Share Incentive Scheme includes: (1) based on the repurchase obligation arising from the Restricted Shares granted by the Company during the year to fully recognize the liability and treated as treasury shares, resulting in the increase of treasury shares of RMB249,883,157.00; (2) the repurchase and cancellation of 93,080 shares Restricted Shares granted to the Incentive Participants who no longer satisfying the incentive conditions resulting in a repurchase payment of RMB1,797,188.64, among which the decrease of share capital of RMB93,080.00 and capital reserve of RMB1,704,108.64 were attributable to the cancellation of treasury shares; (3) the decrease of treasury shares of RMB866,011.36 was due to cash dividends distributed to the holders of Restricted Shares.

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

37. Other comprehensive income

2016

Item	For the year						
	Balance at the beginning of the year	Amount incurred before income tax for the year	Transferred to profit or loss for the period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	Balance at the year end
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: changes caused by re-measurement of net liabilities or net assets of benefit plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Other comprehensive income items subsequently to be re-classified as profit or loss	-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)

37. Other comprehensive income (continued)

2015

Item	For the year						
	Balance at the beginning of the year	Amount incurred before income tax for the year	Transferred to profit or loss for the period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	Balance at the year end
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: changes caused by re-measurement of net liabilities or net assets of benefit plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Other comprehensive income items subsequently to be re-classified as profit or loss	-33,326,810.31	6,530,723.85	-29,191,687.45	794,723.50	20,573,582.46	14,354,105.34	-12,753,227.85
Of which: other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit and loss from change of fair value of available-for-sale financial assets	-10,827,253.53	2,687,256.65	-29,191,687.45	403,088.50	17,171,928.75	14,303,926.85	6,344,675.22
Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Valid portion of the gains or losses arising from cash flow hedges instrument	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Translation differences of financial statements denominated in foreign currency	-22,499,556.78	1,232,567.20	0.00	0.00	1,182,388.71	50,178.49	-21,317,168.07
Others	0.00	2,610,900.00	0.00	391,635.00	2,219,265.00	0.00	2,219,265.00
Total of other comprehensive income	-33,326,810.31	6,530,723.85	-29,191,687.45	794,723.50	20,573,582.46	14,354,105.34	-12,753,227.85

NOTES TO FINANCIAL STATEMENTS 2016

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

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

38. Surplus reserve

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

2015

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Statutory surplus reserve	345,884,163.87	33,138,067.39	0.00	379,022,231.26
Discretionary surplus reserve	63,796,201.34	0.00	0.00	63,796,201.34
Reserve funds	82,108,376.71	0.00	0.00	82,108,376.71
Enterprise development funds	21,683,742.35	0.00	0.00	21,683,742.35
Total	513,472,484.27	33,138,067.39	0.00	546,610,551.66

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

39. Retained earnings

(1) Movement in retained earnings

Item	For the year	For the previous year	Allocation or appropriation proportion
Retained earnings for the previous year before adjustment	3,267,019,067.30	2,707,954,326.83	
Add: Adjusted retained earnings at the beginning of the year	0.00	0.00	
Retained earnings at the beginning of the year after adjustment	3,267,019,067.30	2,707,954,326.83	
Add: Net earnings attributable to the shareholders of the parent company for the year	784,353,607.06	622,641,033.06	
Less: Appropriation to statutory surplus reserve	40,644,611.24	33,138,067.39	10%
Appropriation to discretionary surplus reserve	0.00	0.00	
Dividends payable to ordinary shares	198,315,961.50	30,438,225.20	
Dividends of ordinary shares capitalised	0.00	0.00	
Retained earnings at the year end	3,812,412,101.62	3,267,019,067.30	

Breakdown of adjustments to the retained earnings as at the beginning of the period:

- 1 The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and their new related requirements on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 2 The effect of changes in accounting policies on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 3 The effect of corrections of significant accounting errors on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 4 The effect of the change of the scope of combination under common control on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 5 The effect of other adjustments on the retained earnings as at the beginning of the period amounted to RMB0.00.

NOTES TO FINANCIAL STATEMENTS 2016

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

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

39. Retained earnings *(continued)*

(2) Notes to appropriation of profits

Item	For the year	Unit: RMB'000 For the previous year
Dividends:		
Final dividends in respect of the year 2015 paid during the year (Note 2)	198,315.96	—
Final dividends in respect of the year 2014 paid during the year (Note 3)	30,438.23	
Dividends proposed after the balance sheet date:		
Final dividends proposed for the year 2016 (Note 1)		
Final dividends proposed for the year 2015 (Note 2)	198,315.96	

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

Note 2: On 24 March 2016, the Company held the 22nd Meeting of the 8th Board, which passed the resolution of 2015 annual profit distribution plan to distribute a cash dividend (RMB0.5 per share (tax inclusive)) to all shareholders with reference to the total number of 396,889,547 shares of the Company at the end of the year. Such profit contribution plan was approved at the general meeting on 27 May 2016 and the payment of RMB198,315,961.50 was made on June and December of 2016, respectively.

Note 3: On 23 March 2015, the 7th Meeting of the 8th Board of the Company has approved the profit distribution plan for 2014 as follows: based on the Company's total share capital as at the registration date of shares determined by implementation of the 2014 annual profit distribution plan to distribute a cash dividend of RMB0.1 per share (tax inclusive) to all the shareholders of the Company. Based on the Company's total share capital of 304,382,252 shares as at the registration date, a cash dividend of RMB30,438,225.20 was distributed to all shareholders of the Company. Said profit distribution plan was approved in the shareholders' meeting on 26 June 2015 and the dividends were paid to shareholders in August 2015.

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	7,616,666,638.44	2,722,166,350.78	6,516,612,497.64	2,478,508,546.86
Other activities	35,108,647.05	25,622,031.83	103,904,039.09	96,821,987.53
Total	7,651,775,285.49	2,747,788,382.61	6,620,516,536.73	2,575,330,534.39

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	For the previous year
	year	
Urban maintenance and construction tax payable	50,173,824.64	42,501,887.94
Education surcharges payable	39,999,903.15	33,619,441.63
Flood prevention fee payable	2,108,791.75	2,922,122.92
Business tax payable	2,786,956.71	1,964,895.15
Land use tax	7,068,436.68	0.00
Property tax	14,840,672.16	0.00
Stamp duty	2,837,827.22	0.00
Vehicle and vessel usage tax	60,414.78	0.00
Others	475,511.49	112.01
Total	120,352,338.58	81,008,459.65

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

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

42. Selling expenses

Item	For the	For the previous year
	year	
Marketing and promotional expenses	2,799,657,963.61	2,317,726,850.71
Staff salaries	108,042,605.38	91,106,541.96
Transportation costs	58,581,280.33	49,898,970.31
Travelling expenses and entertainment	32,908,940.20	28,085,124.93
Business meeting expenses	32,496,781.41	24,912,786.02
Others	38,683,338.17	29,944,818.63
Total	3,070,370,909.10	2,541,675,092.56

NOTES TO FINANCIAL STATEMENTS 2016

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

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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	291,118,557.69	222,031,402.88
Staff salaries	140,353,218.47	98,403,053.12
Share incentive costs	30,398,870.92	36,089,000.00
Depreciation and amortisation	61,509,153.91	43,234,664.48
Loss on suspension of operations	52,879,046.48	47,451,303.62
Tax expenses	0.00	21,577,454.31
Auditor Remuneration	2,165,094.34	3,047,169.77
Others	146,179,548.84	134,467,919.89
Total	724,603,490.65	606,301,968.07

44. Financial expenses

Item	For the year	For the previous year
Interest expenses	26,966,564.17	31,329,411.11
Less: Interest income	9,030,359.23	10,505,970.45
Exchange (gains)/losses	-16,128,690.26	2,257,000.20
Bank charges	3,603,988.92	4,123,554.78
Total	5,411,503.60	27,203,995.64

45. Impairment loss

Item	For the year	For the previous year
Impairment of bad debts	19,447,086.17	14,072,145.93
Impairment of diminution in value of inventories	38,787,321.23	24,249,912.28
Impairment of fixed assets	8,692,377.08	2,637,032.09
Impairment of intangible assets	8,829,166.90	0.00
Impairment of available-for-sale financial assets	31,422,602.28	61,832,392.81
Total	107,178,553.66	102,791,483.11

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	-930,399.32	-182,343.23
Of which: Shares	-952,765.00	-349,731.90
Funds	22,365.68	167,388.67

(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	-373,776.28	6,136,618.37
Investment income generated from disposal of long-term equity investments	472,300.00	0.00
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the year during its holding period	51,969.00	161,820.14
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss	0.00	0.00
Investment income generated from held-to-maturity investments during its holding period	0.00	0.00
Investment income generated from available-for-sale financial assets during its holding period	1,190,073.75	477,984.28
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	114,448.75	84,234.28
Investment income generated from disposal of available-for-sale financial assets investments	0.00	0.00
When without control, income generated from revaluation of remaining equity measured at fair value	0.00	0.00
Total	1,340,566.47	6,776,422.79

48. Non-operating income

Item	For the year	For the previous year	Recognised as extraordinary gains or losses for the year
Gains on disposal of non-current assets in aggregate	6,429,453.92	2,003,640.57	6,429,453.92
Of which: Gains on disposal of fixed assets	1,330,088.83	116,848.12	1,330,088.83
Income from scraps	151,524.92	344,877.33	151,524.92
Government grants (More details, please see the table below: Table for breakdown of government grants)	128,100,925.11	127,679,776.28	128,100,925.11
Compensation income	145,197.00	90,938.48	145,197.00
Waiver of payables	144,267.63	138,233.63	144,267.63
Others	1,057,864.17	429,436.46	1,057,864.17
Total	136,029,232.75	130,686,902.75	136,029,232.75

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

48. Non-operating income (continued)

Of which, breakdown of government grants through profit or loss:

Item	For the year	For the previous year	Related to assets/ Related to income
Team for research, development and commercialization of protein drugs (2012) under the scientific research team for introduction of innovation technologies in Guangdong Province (廣東省引進創新科研團隊 (2012)蛋白質藥物研究開發及產業化團隊)	8,090,239.77 0.00	3,185,289.31 110,428.34	Related to assets Related to income
NDRC Ilaprazole Project (發改委艾普拉唑項目)	2,000,000.04 748,129.80	2,000,000.04 748,129.80	Related to assets Related to income
Technological Transformation Projects of New Cefuroxime (新型頭孢粉針劑技術改造項目)	1,229,000.00 450,000.00	0.00 0.00	Related to income Related to income
Financial Subsidy 2014 Strategic Emerging Industries for the Province – Regional Agglomeration Development Pilot Project Fund (AT132) (2014年省戰略性新興產業區域集聚發展試點AT132項目款)	0.00	22,000,000.00	Related to income
The First Domestic Solid Preparations Workshop under LHoest Concept (Interest Discount Fund for Supporting Outstanding and Strong Enterprises) (國內首家LHoest理念固體製劑車間(扶優扶強貼息資金))	0.00	11,285,100.00	Related to income
2014 Transformation Fund Received in respect of the Acquisition of Internationally Renowned Brands and Foreign Trade and Economic Promotion Supported by the Province (收到14年省級扶持收購國際著名品牌及促進外經貿轉型資金)	0.00	3,000,000.00	Related to income
R&D and Commercialisation of Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子研發及產業化)	500,000.04 0.00	1,250,000.03 150,000.00	Related to assets Related to income
Fund for Entrepreneurial Team (創業團隊經費)			
Subsidy for Rotavirus Vaccine Pre-clinical Research (輪狀病毒疫苗臨床前研究補助)	113,387.18 0.00	216,170.73 750,000.00	Related to assets Related to income

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

48. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income
Deferred Income Carried Forward from Astragalus GAP Projects (結轉黃芪GAP項目遞延收益)	3,204,361.00	1,240,446.86	Related to assets
Demonstration Projects of High Concentration Organic Wastewater Treatment Technology (高濃度有機廢水治理技術示範項目)	394,367.00	394,404.00	Related to assets
Interest Discount and Relevant Funds for Promoting Imports (進口貼息及配套資金)	753,787.00	136,685.00	Related to income
Research on Quality Enhancement and Process Improvement for Skin-smoothing and Itch-relieving Granules (潤膚止癢顆粒質量提升和工藝改進技術研究)	0.00	288,100.00	Related to income
Subsidy from Pengzhou Industry, Information and Technology Bureau (彭州市工業和信息化局補貼)	500,500.00	400,000.00	Related to income
Special fund from Pengzhou Industry and Science Technology Bureau (彭州市工業和科學技術信息化局項目資金)	0.00	362,500.00	Related to income
Subsidy from Chengdu Enterprise Technology Center and Provincial Industrial Research (成都市企業技術中心及省級產業研究補貼)	0.00	1,289,300.00	Related to income
Special Fund for Industrial Technology R&D (產業技術研究與研發專項資金)	0.00	600,000.00	Related to income
Subsidy for technical achievements transformation for 2016 (2016年科研成果轉化補助)	912,700.00	0.00	Related to income
Non-PVC bag improvement project (非PVC袋裝改造項目)	194,365.80	194,365.80	Related to assets
Amount Granted from Science and Technology Bureau of Shaoguan for Quality Control Research of Shenqi Fuzheng Injection (韶關市科技局轉參芪扶正注射液質量控制研究撥款)	416,664.00	416,664.00	Related to assets
Shanoguan Municipal Special Grant for Supporting the Development of Small, Medium and Micro Enterprises (韶關市扶持中小微企業發展專項資金)	5,000,000.00	0.00	Related to income
Subsidy for the demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目輔助)	834,666.71	701,000.04	Related to assets
Electricity Incentive Funds (用電獎勵資金)	49,000.00	1,980.00	Related to income

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

48. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income	
Subsidies for high and new technology enterprises and high and new technology products (高薪技術企業及高薪技術產品項目補貼)	310,000.00	0.00	Related to income	
Construction of Hi-tech Facilities for Innovation and Commercialization of Modern Traditional Chinese Medicines (現代中藥高技術創新產業化基地建設)	25,015.00	99,996.00	Related to assets	
Subsidy for Support Funds of the Financial Bureau of Pudong New Area, Shanghai (上海市浦東新區財政局開發扶持資金補貼款)	0.00	200,000.00	Related to income	
Amount Granted for Triptorelin Acetate Microspheres Injection (注射用醋酸曲普瑞林微球發款)	0.00	1,921,000.00	Related to income	
Shanghai Jinqiao Export Processing Zone Management Committee Financial Support Funds (上海金橋出口加工區管理委員會財政扶資金)	2,099,000.00	0.00	Related to income	
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)	694,693.38	0.00	Related to income	
Export credit insurance subsidies (出口信保補貼)	1,093,870.00	1,266,242.46	Related to income	
Power-saving of Lighting Pump Fan and Air-conditioning System (照明水泵風機及空調系統節電)	17,515.00	69,996.00	Related to assets	
International Market Development Fund For Small and Medium Enterprises (中小企業國際市場開拓資金)	37,500.00	0.00	Related to income	
Experimental Studies on Anti-viral Granules Against Avian Influenza Virus (抗病毒顆粒的抗禽流感實驗研究)	0.00	32,000.00	Related to income	
Research and development funds for acarbose manufacturing projects (阿卡波糖產學研項目專項資金)	320,000.00	0.00	Related to income	
Qingyuan Municipal Special Fund for Intellectual Property (清遠市知識產權專項經費)	200,000.00	0.00	Related to income	
Biomedicine R&D subsidies (生物醫藥研發補助資金)	0.00	500,000.00	Related to income	
Industry-Academia Research Integration Special Fund (省部產學研合作專項資金)	0.00	1,400,000.00	Related to income	

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

48. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income
Supplementary funding from the Scientific and Technology Departments of the State and the Provinces in 2012 (2012年國家省科技計劃配套資金)	0.00	250,000.00	Related to income
First Batch of Science and Technology R&D Funding from Trade and Industry Sub-branch in the District Branch in 2010(區科工貿支2010年第一批科技研發經費)	0.00	1,000,000.00	Related to income
Shenqi Fuzheng Injection (參芪扶正注射液)	0.00	67,223.37	Related to assets
	3,547.00	0.00	Related to income
Provision for Technology Transformation Funds (技術改造資金撥款)	4,170,900.00	1,103,000.00	Related to income
Zhuhai Special Fund for Energy Saving and Emission Reduction (珠海市節能減排專項資金)	703,000.00	740,000.00	Related to income
Qingyuan Municipal Finance Bureau Grant for Special Funding to Small and Medium Enterprises to Develop in 2013 (清遠市財政局撥2013中小企業發展專項資金)	0.00	200,000.00	Related to income
Subsidies for Enterprises to Attract Graduates of Tertiary Academic Institutions (企業吸納高校畢業生補貼款)	0.00	192,043.80	Related to income
2014 Qingyuan Foreign Trade Development Special Fund (清遠市2014年外經貿發展專項資金)	0.00	45,000.00	Related to income
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	9,544,250.00	1,388,800.00	Related to income
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	187,735.85	107,122.00	Related to income
Subsidy and Support Fund for Relocation and Household Registration and Financial Support Funds (搬遷及落戶補助和財政扶持資金)	64,435,160.00	48,270,000.00	Related to income
Strategic Emerging Industries (Sustained Release Microsphere) (戰略性新興產業(緩釋微球)補助)	0.00	1,000,000.00	Related to income
Supplementary Funding from the National Chinese Traditional Medicine Modern Engineering Research Center (國家中藥現代化工程技術研究中心配套資金)	891,590.00	0.00	Related to income
Provincial development funds for the service and trade industry (省級服務貿易發展資金)	1,000,000.00	0.00	Related to income

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

48. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income
Funds for biomedicine export transformation before the logo design and application for registration of projects (生物醫藥外貿轉型商標設計及申請註冊項目前經費)	300,000.00	0.00	Related to income
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	700,000.00	965,100.00	Related to income
Zhuhai Tax Rebate for Normal Export and Subsidy for Increased Quantity (珠海市一般貿易出口退稅征退差資金及增量補貼款)	0.00	130,659.00	Related to income
Energy Subsidy from Fuqing Municipal Bureau of Economics and Trade (福清經貿局能源補助款)	0.00	200,000.00	Related to income
R&D Project Fund for Production Technology of Glucosamine Products Series (生產氨基葡萄糖系列產品的技術研究開發項目款)	500,000.00	0.00	Related to income
2016 Provincial Special Grant for the Pharmaceutical Industry (2016年省醫藥產業專項獎金)	1,220,000.00	0.00	Related to income
2015 Provincial Development Project Subsidy (2015年省區域發展項目資金補助)	0.00	1,000,000.00	Related to income
Subsidy for Elimination of the Second Batch of Backward Production Facilities for Energy Efficiency in 2015 (2015年第二批節能淘汰落後產能資金補助)	0.00	1,000,000.00	Related to income
Incentive Bonus for Steady Industrial Growth of All Quarters of 2015 from Fuqing Municipal Bureau of Economics and Trade (福清經信局撥付15年4季度工業穩增長獎勵資金)	0.00	300,000.00	Related to income
Incentives for Supporting the Pharmaceutical Development Industry by Finance Bureau in Gu Tian Xian (古田縣財政局扶持醫藥發展產業獎勵)	0.00	500,000.00	Related to income
Research and Development Fee Subsidy Fund (研究開發費補助資金)	756,100.00	6,264,100.00	Related to income
Research in the Technologies Critical to the Intelligent Monitoring System for Bottled Infusion Workshop (瓶裝輸液車間智能監控管理系統關鍵技術研究)	12,077.62 3,958.38	27,504.00 0.00	Related to assets Related to income
Research and development of sugar and electrolyte mixed injections (混合糖電解質注射液的研製開發)	0.00 2,222.28	25,277.78 28,888.86	Related to assets Related to income

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

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

48. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income
Project Funding from Shaoguan Technology Bureau (韶關市科技局撥付項目款)	0.00	1,019,200.00	Related to income
Policy fund for leading industrial enterprises loan Interests (工業龍頭企業貸款貼息政策資金)	199,999.98	200,000.00	Related to assets
Government grant for industry transformation (工業轉型政府扶持資金)	199,999.99	200,000.00	Related to assets
Reward Fund for Industry Growth and Production Expansion (工業保值增長及增產獎勵)	90,000.00	120,000.00	Related to income
New Industrialization Development Grant (新型工業化發展獎金)	350,000.00	245,833.33	Related to assets
Government Industry Encouragement Fund (政府產業振興扶持資金)	1,157,999.99	1,136,500.00	Related to assets
Five Goods and One New Supporting Funds (五優一新扶持資金)	100,000.00	100,000.00	Related to assets
Leading Enterprise Development Bonus (龍頭企業做大做強獎勵款)	0.00	340,000.00	Related to income
Employment Assurance and Re-employment Subsidy (企業穩崗及再就業補貼)	1,528,578.95	612,761.39	Related to income
New Scientific Research Institution Subsidy (新型科研機構補助資金)	1,065,320.21	1,434,225.38	Related to assets
Enterprise Technology Center Innovation Capacity Development (Antibody Laboratory) (企業技術中心創新能力建設(抗體藥物試驗室))	2,189,964.79 86,333.88	397,064.81 124,230.56	Related to assets Related to income
Subsidy for Small and Medium Enterprises (中小企業展會補貼資金)	237,000.00	0.00	Related to income
Subsidy for Social Security Fees (社保補貼)	337,401.51	0.00	Related to income
Land use tax credit (抵免土地使用稅)	1,277,268.78	0.00	Related to income
Trade Development Special Fund (經貿發展專項資金)	1,686,559.00	0.00	Related to income
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)	300,000.00	0.00	Related to income
2015 FTZ Management Committee Reward Funds for Contribution of Pillar-type Enterprise (收保稅區管委會2015年支柱型企業經營貢獻獎)	634,960.00	0.00	Related to income
Funds for International and Regional Brand Building (創建國際與區域品牌項目資金)	700,000.00	0.00	Related to income
Shares Refinancing Bonus (股票再融資獎勵款)	1,000,000.00	0.00	Related to income
Special Funds for Expanding Overseas by Enterprises in Zhuhai (珠海市“走出去”專項資金)	0.00	274,844.00	Related to income
Others	340,235.18	460,599.59	Related to income
Total	128,100,925.11	127,679,776.28	

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

49. Non-operating expenses

Item	For the year	For the previous year	Recognised as extraordinary gains or losses for the year
Losses on disposal of non-current assets	1,592,598.18	6,009,136.37	1,592,598.18
Of which: Losses on disposal of fixed assets	1,592,598.18	6,009,136.37	1,592,598.18
Write-off of fixed assets	114,186.99	456,085.19	114,186.99
Charity donation expenses	539,436.45	87,819.21	539,436.45
Others	5,202,109.64	9,011,645.05	5,202,109.64
Total	7,448,331.26	15,564,685.82	7,448,331.26

50. 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	218,928,089.13	192,765,657.33
Include: Income tax on domestic enterprises	218,786,347.70	192,764,014.45
Income tax on Hong Kong and Macau enterprises	141,741.43	1,642.88
Adjustment of deferred income tax	-43,782,422.12	-44,407,735.45
Total	175,145,667.01	148,357,921.88

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

Item	For the year	For the previous year
Profit before tax	1,005,061,175.93	807,921,299.80
Income tax calculated at statutory tax rates	251,265,293.98	201,980,324.95
Tax effect of different rates applicable to subsidiaries	-13,619,022.25	983,203.49
Effect of tax deduction	-111,385,275.48	-102,284,767.04
Effect of non-deductible expenses	-2,000,420.19	5,444,862.22
Credit (charge) on temporary differences on which deferred tax assets are not recognised for the year	13,304,975.64	18,940,711.69
Deductible losses of deferred tax assets that are not recognised for the year	31,692,666.25	18,207,625.93
Use of deductible losses of deferred tax assets that are not recognised in the previous year	816,294.75	-124,576.04
Others	5,071,154.31	5,210,536.68
Total	175,145,667.01	148,357,921.88

51. Other comprehensive income details

Please refer to note VI. 37 for details.

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

52. Notes to cash flow statement item

(1) Cash received relating to other operating activities

Item	For the year	For the previous year
Government grants	123,540,178.80	149,966,704.23
Interest income	9,030,359.23	10,505,970.45
Damages and penalty income	145,197.00	90,938.48
Income from scraps	151,524.92	344,877.33
Deposits under guarantees for letter of credit	17,840,897.20	0.00
Movements of capital and others	46,168,413.80	35,508,058.71
Total	196,876,570.95	196,416,549.20

(2) Cash paid relating to other operating activities

Item	For the year	For the previous year
Office expenses	29,132,296.41	26,402,730.70
Travelling expenses	28,664,833.42	29,603,354.25
Entertainment expenses	32,021,895.21	23,975,864.51
Transportation fees	68,267,696.59	57,630,256.38
Advertising expenses	1,127,520.01	5,936,488.60
Business meeting expenses	48,250,417.86	38,722,753.82
Auditing and information disclosure fees	9,195,832.07	5,822,775.49
Consultancy fees	7,821,329.32	5,800,966.83
Research and development costs	140,480,391.53	71,590,117.62
Bank charges	3,603,988.92	4,123,554.78
Business promotion expenses	2,644,466,954.89	2,315,726,877.30
Deposits under guarantees for letter of credit and bank acceptance bills	1,150,000.00	16,682,305.44
Other expenses paid and current account	75,809,809.34	78,192,774.68
Total	3,089,992,965.57	2,680,210,820.40

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

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

52. Notes to cash flow statement item *(continued)*

(3) Cash received relating to other investing activities

Item	For the year	For the previous year
Deposits under guarantees	14,510,983.09	14,260,023.82

(4) Cash paid relating to other investing activities

Item	For the year	For the previous year
Deposits under guarantees	0.00	22,188,421.04

(5) Cash received relating to other financing activities

Item	For the Current year	For the Previous year
Collection and advance payment of individual income tax	739,415.12	0.00

(6) Cash paid relating to other financing activities

Item	For the year	For the previous year
Repurchase of shares	5,027,224.20	1,797,188.64

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

53. 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	829,915,508.92	659,563,377.92
Add: Provision for impairment of assets	107,178,553.66	102,791,483.11
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	335,587,144.90	286,913,717.42
Amortisation of intangible assets	26,509,987.15	24,002,754.54
Amortisation of long-term expense	11,905,926.56	10,045,541.78
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains)	-4,836,855.74	4,005,495.80
Losses on write-off of fixed assets	114,186.99	456,085.19
Losses from changes in fair value ("—" represents gains/income)	930,399.32	182,343.23
Financial expenses ("—" represents gains/income)	6,874,442.47	13,546,851.29
Investments losses ("—" represents gains)	-1,340,566.47	-6,776,422.79
Decrease in deferred tax assets ("—" represents increase)	-48,761,226.51	-48,814,052.35
Increase in deferred tax liabilities ("—" represents decrease)	4,978,804.39	4,406,316.90
Decrease in inventories ("—" represents increase)	-182,095,042.80	-196,614,062.19
Decrease in trade receivables ("—" represents increase)	-423,729,045.99	-262,102,156.95
Increase in trade payables ("—" represents decrease)	585,583,949.75	300,092,187.42
Others	30,398,870.92	36,089,000.00
Net cash flows from operating activities	1,279,215,037.52	927,788,460.32
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	2,061,923,004.89	767,093,403.45
Less: Cash at the beginning of the year	767,093,403.45	709,114,426.17
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	1,294,829,601.44	57,978,977.28

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

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

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

Nil

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

Item	Amount
Cash or cash equivalent received during the year from disposal of subsidiaries during the period	
From: Qingyuan Xinteng Enterprise Company Limited (清遠市信騰實業有限公司)	78,000,000.00
Reduced by: Cash and cash equivalent held by the Company on the date of losing the controlling interest	
From: Qingyuan Xinteng Enterprise Company Limited (清遠市信騰實業有限公司)	734.31
Adding: Cash and cash equivalent received during the year from disposal of subsidiaries during the previous period	
From: Qingyuan Xinteng Enterprise Company Limited (清遠市信騰實業有限公司)	0.00
Net cash received from disposal of subsidiaries	<u>77,999,265.69</u>

(4) Composition of cash and cash equivalents

Item	Balance at the year end	Balance at the beginning of the year
1 Cash		
Of which: Cash on hand	2,061,923,004.89	767,093,403.45
Bank deposits that are readily available for payment	125,085.29	72,486.40
Other cash at bank and on hand that are readily available for payment	2,060,784,878.76	766,211,133.63
2 Cash equivalents		
Of which: Bond investments due within three months	1,013,040.84	809,783.42
3 Cash and cash equivalents at the end of the year	2,061,923,004.89	767,093,403.45

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

54. Assets with restricted ownership or right of use

Nil.

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

55. Monetary items in foreign currency

Item	Amount in foreign currency by year end	Exchange rate	Amount translated into RMB by year end
Cash in foreign currency:			
In which: HKD	260,553,786.22	0.89451	233,067,967.31
Euro	283,640.13	7.3068	2,072,501.70
USD	21,331,022.21	6.9370	147,973,301.07
MOP	452,565.72	0.8708	394,094.23
JPY	21,111,307.00	0.059591	1,258,043.90
Total cash in foreign currency:			384,765,908.21
Trade receivables:			
In which: Euro	52,800.00	7.3068	385,799.04
USD	34,035,771.64	6.9370	236,106,147.87
MOP	1,053,898.33	0.8708	917,734.67
JPY	32,733,125.00	0.059591	1,950,599.65
			239,360,281.23
Total trade receivables:			
Other receivables:	1,548,796.66	0.89451	1,385,414.10
In which: HKD	418,000.00	0.8708	363,994.40
MOP			1,749,408.50
Total other receivables:			
Payables:			
In which: USD	20,556.95	6.9370	142,603.56
MOP	294,576.31	0.8708	256,517.05
Total trade payables:			399,120.61
Other payables:			
In which: HKD	116,261.81	0.89451	103,997.35
USD	367,067.23	6.9370	2,546,345.37
Total other payables			2,650,342.72

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

VII. CHANGE TO CONSOLIDATION SCOPE

1. Disposal of subsidiaries

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

Name of subsidiary	Amount of disposal for equity	Disposal ratio (%)	Mode of disposal	Time of control ceases	Recognition	Differences arising from disposal amount and portion of net assets held by disposal investment for the range of consolidated financial statements
						Gain or loss arising from transformation of other comprehensive income which is related to equity investment
Qingyuan Xinteng Enterprise Company Limited	83,000,000.00	100.00	Transfer	14 March 2016	Assets transferred	472,300.00
Name of subsidiary	Ratio of the remaining equity (%)	Book value of the remaining equity at the date of ceased control	Fair value of the remaining equity at the date of ceased control	the remaining equity remeasured at fair value	Recognition and assumption for fair value	Profit or loss arising from transformation of other comprehensive income which is related to equity investment
Qingyuan Xinteng Enterprise Company Limited	0.00	0.00	0.00	0.00	—	0.00

2. Change to Consolidation Scope for other reasons

- (1) On 22 February 2016, Zhuhai Livzon Diagnostics Inc. and Cynvenio Biosystems, Inc. entered into the "Zhuhai Livzon Cynvenio Dignosis Ltd. Joint Venture Operation Agreement". The registered capital of the joint venture is RMB103,333,333. Livzon Diagnostics made a cash contribution in the sum of RMB62,000,000, representing 60% of the registered capital; Cynvenio Biosystems, Inc. made a contribution in the form of valuation of the patent in Liquid Biopsy and relevant technical know-how as well as other intellectual properties in the sum of RMB41,333,333, representing 40% of the registered capital. Zhuhai Livzon Cynvenio Dignosis Ltd. was added to the consolidation scope of current year.
- (2) Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司) was founded with 100% registered capital by from Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) on 18 November 2016 and was included in the scope of combination during the year.

VII. CHANGE TO CONSOLIDATION SCOPE *(continued)*

2. Change to Consolidation Scope for other reasons *(continued)*

- (3) The Company and 珠海橫琴新區觀聯谷Investment Partnership (Limited Partnership) (珠海橫琴新區觀聯谷投資合夥企業(有限合夥))(hereinafter as "觀聯谷") and 珠海祥和泰Investment Management Partnership (Limited Partnership) (珠海祥和泰投資管理合夥企業(有限合夥))(hereinafter as "祥和泰") entered into shareholders agreement and all parties collectively contribute funds to establish 珠海市麗珠基因檢測科技有限公司, among which the Company contribute with cash at bank and on hand amounting RMB60,000,000, representing 60% of its registered capital; 觀聯谷contribute with cash at bank and on hand amounting RMB25,000,000, representing 25% of its registered capital; 祥和泰contribute with cash at bank and on hand amounting RMB15,000,000, representing 15% of its registered capital。珠海市麗珠基因檢測科技有限公司is consolidated into the financial statements of the Company for the year.

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 (聯安香港有限公司)	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 Diagnostic Ltd. (珠海麗珠聖諾診斷技術有限公司)	Subsidiary of Holding Subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB103,333,333	36.06%	36.06%	Set-up
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	Subsidiary of Wholly-owned subsidiary	Limited company	Hunyuan County	Hunyuan County	Crop farming	RMB4,000,000	92.5%	92.5%	Set-up
Longxi Livzon Shenyuan Medicine Co., Ltd. (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 (麗珠生物技術有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Provision of services	HKD10,000	100%	100%	Set-up
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100%	100%	Set-up
Livzon Group Livzon Baiameng 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
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100%	100%	Set-up
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB10,000,000	100%	100%	Set-up
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Wholly-owned	Limited company	Jiaozuo	Jiaozuo	Manufacture of medicine	RMB70,000,000	100%	100%	Set-up
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Provision of services	RMB533,330,000	51%	51%	Set-up

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

VIII. EQUITY IN OTHER ENTITIES (continued)**1. Equity in subsidiaries (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 Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Holding	Limited company	Wenshan	Wenshan	Crop farming	RMB9,200,000	51%	51%	Set-up
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Holding	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB100,000,000	99.214%	99.214%	Set-up
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Wholly-owned	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB100,000,000	100%	100%	Set-up
Companhia de Macau Carason Limitada (澳門嘉信有限公司)	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. (上海麗珠生物技術有限公司)	Subsidiary of Holding Subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB10,000,000	38.25%	38.25%	Set-up
Zhuhai Livzon Pharmaceutical Industrial Co. Ltd. (珠海市麗珠醫藥工業有限公司)	Wholly-owned	Limited company	Zhuhai	Zhuhai	Provision of services	RMB309,562,400	100%	100%	Set-up
Zhuhai Lihe Medical Diagnostic Product Co., Ltd (珠海麗禾醫療診斷產品有限公司)	Subsidiary of Holding Subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000	51%	51%	Set-up
Shanghai Lihang Biotechnology Co., Limited (上海麗航生物技術有限公司)	Subsidiary of Holding Subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB1,000,000	51%	51%	Set-up
Zhuhai Livzon Genomic 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
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	RMB1,560,000	100%	100%	Consolidated from non-common control
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Wholly-owned	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	USD41,700,000	100%	100%	Consolidated from non-common control
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興製藥有限公司)	Wholly-owned	Limited company	Gutian County	Gutian County	Manufacture of medicine	RMB26,700,000	100%	100%	Consolidated from 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 under 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. (上海麗珠生物科技有限公司)	49%	59,888,576.12	24,500,000.00	138,978,017.80
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)	49%	42,440,424.97	24,500,000.00	237,599,792.69
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	49%	-59,436,546.84	0.00	196,053,942.11
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	16.15%	-2,144,615.77	0.00	-1,013,481.24
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7.86%	6,834,701.08	0.00	30,278,424.65

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)	457,303,270.95	305,423,827.53	342,551,746.62	231,126,961.06
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated)				
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)				
Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司), Zhuhai 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)	662,743,761.55	408,507,047.89	543,338,930.56	363,697,107.64
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	446,497,897.52	400,110,085.92	354,956,204.71	321,409,161.10
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	18,560,315.29	-6,275,425.64	27,691,535.18	7,003,929.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	551,336,130.12	385,221,687.58	445,127,533.58	298,266,203.15

(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. (上海麗珠生物科技有限公司))	567,373,981.69	109,154,265.33	109,154,265.33	488,362,630.14	82,868,099.16	82,868,099.16
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))	568,312,860.07	94,576,364.76	94,695,488.26	469,303,734.92	86,268,237.96	86,370,643.04
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	0.00	-121,299,075.18	-121,299,075.18	0.00	-100,215,161.37	-100,215,161.37
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	0.00	-13,279,354.64	-13,279,354.64	0.00	-6,819,112.36	-6,819,112.36
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	483,981,708.77	86,955,484.43	86,955,484.43	338,031,128.09	44,515,407.63	44,515,407.63

(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))	151,136,550.69	-10,074,717.00	-136,711,421.90	868,764.71	5,219,176.50	90,383,492.45	-14,093,610.74	-78,034,287.31	2,613,170.31	868,764.71
Zhuhai Livzon Diagnostics 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 Lih 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), Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司), Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司), Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	103,370,655.08	-78,022,424.01	-12,632,855.18	31,465,881.13	44,824,799.54	49,329,793.00	-59,542,369.05	16,773,367.10	27,411,464.87	31,465,881.13
	-88,703,314.63	-56,717,427.46	145,251,118.87	464,130.86	294,507.64	-25,390,588.18	-36,335,491.30	61,640,635.97	549,574.37	464,130.86
	-941,819.80	89,061.50	815,453.27	79,513.21	42,208.18	-1,605,365.58	-726,693.41	2,345,525.37	66,046.83	79,513.21
	64,264,889.31	67,442,826.62	-69,115,642.32	16,730,091.81	81,655,605.61	70,367,605.23	-42,295,137.35	-32,822,613.32	19,442,411.12	16,730,091.81

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 associates or joint ventures

Item	Balance at the year end/ For the year	Balance at the beginning of the year/For the previous year
Associates:		
Total nominal value of investment	91,109,734.79	68,908,511.07
Total amount calculated by percentage of shareholding		
– net profit	–373,776.28	6,136,618.37
– other comprehensive income	0.00	0.00
– total comprehensive income	–373,776.28	6,136,618.37

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

Nil

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Management objectives and policies of risks

The operation activities of the Company are subject to various financial risks: market risks (mainly including foreign exchange risks and interest rate risks), credit risks and liquidity risks. The Company formulates an overall risk management plan with respect to the unforseeability of the financial market in order to minimise the potential adverse impacts on the financial performance of the Company.

(1) Foreign exchange risks

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Company still has certain imports and exports businesses regarding bulk medicines and diagnostic reagents and equipment, for which they are settled in U.S. dollar and Japanese Yen. The Company's businesses outside China (mainly in Hong Kong) are settled in Hong Kong dollars. In addition, the Company will have foreign currency loans according to the operating needs. In respect of the above, the Company still exposes to certain foreign exchange risks. Taking into account the foreign exchange risks acceptable by the Company, the Company does not use derivatives to hedge foreign exchange risks. However, as to the foreign exchange risk in loans, the Company shall closely monitor the trend on the exchange rate of Renminbi, and timely adjust the extent of borrowings, so as to reduce its risks to the minimum.

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

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

(1) Foreign exchange risks *(continued)*

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

(1) 31 December 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					
Receivables	5,188.16	0.00	0.00	0.00	0.00
Prepayments	0.00	236,106.15	385.80	1,950.60	917.73
Other receivables	1,135.51	410.91	1,948.72	0.00	0.00
Total:	240,777.05	384,490.36	4,407.02	3,208.64	1,675.81
Financial liabilities in foreign currency –					
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

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

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

(1) Foreign exchange risks *(continued)*

(2) 31 December 2015

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	6,738.03	18,973.07	3,223.82	17,164.16	483.11
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	5,780.68	0.00	0.00	0.00	0.00
Receivables	0.00	170,585.13	410.78	342.95	618.11
Prepayments	0.00	14.74	0.00	0.00	239.61
Other receivables	332.81	0.00	0.00	0.00	339.96
Total:	12,851.52	189,572.94	3,634.60	17,507.11	1,680.79
Financial liabilities in foreign currency –					
Short-term loan	0.00	133.49	0.00	0.00	0.00
Dividend payables	0.00	1,205.33	0.00	0.00	0.00
Other payables	138.73	164.68	0.00	0.00	0.00
Sub total:	138.73	1,503.50	0.00	0.00	0.00

As at 31 December 2016, in respect of Group's financial assets and liabilities denominated in Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, should the value of RMB appreciate or depreciate by 5% against the Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, and other factors remain unchanged, the Group would be subject to an increase or decrease in profit of RMB31,492,754.69 (31 December 2015: RMB11,180,237.00).

(2) Interest rate risk

The Company's exposures in interest rate risk are mainly arising from bank borrowings. The bank lending rates are affected by the macro monetary policies of China, so that the Company is facing the risks arising from fluctuation of interest rates in future.

The finance department of the head office of the Company continues to monitor the interest rate level of the Company. The rise in the interest rate will increase the cost of additional interest bearing liability and the interest expense of the Company's outstanding interest bearing liability of which the interest is calculated at floating rate and impose material adverse impact on the financial results of the Company. The management will timely make adjustment based on the updated market conditions. The directors of the Company considers that the future changes in the interest rate will have no material adverse impact on the operating results of the Company.

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

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

(3) Credit risk

Credit risk is primarily attributable to cash and cash equivalents, restricted cash at bank, accounts receivables and other receivables. In respect of cash at banks, they were placed at several banks with good reputations, for which the credit risk was limited. In respect of accounts receivables, the Company shall assess the credit limit granted to customers for credit purpose. Moreover, as the customer base is large, the credit risk on accounts receivables is not concentrated. In respect of the settlement of bills receivables, a lot of bills receivables are used to settle external payments, which significantly limit the balance of bills receivables. Moreover, the balance of bills receivables are quality bills having maturity within three months. Therefore, there should not be any significant credit risk. In addition, the provision made on accounts receivables and other receivables are adequate to manage the credit risk.

(4) Liquidity risk

The Company adopts a prudent liquidity risk management, so as to ensure the sufficiency of the sources of monetary funds and liquidity by maintaining adequate monetary funds and reserve of banking facilities so that we can secure credit loans from banks. Apart from indirect financing from banks, a number of financing channels were opened, such as direct financing by inter-bank market including short-term financing bills and medium term financing bills, corporate bonds etc. These instruments can appropriately reduce the effects arising from the scale of financing by inter-bank market and the macromonetary policies of China, which shall secure adequate funds in a flexible manner.

As at the date of balance sheet, cash flows of the financial assets and financial liabilities contracts are presented below by term of maturity:

(1) 31 December 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					
Receivable notes	6,019,067.02	0.00	0.00	0.00	6,019,067.02
Receivables	512,986,726.32	0.00	0.00	0.00	512,986,726.32
Prepayments	1,464,366,229.78	0.00	0.00	0.00	1,464,366,229.78
Other receivables	87,734,518.90	0.00	0.00	0.00	87,734,518.90
Other current assets	48,808,469.78	0.00	0.00	0.00	48,808,469.78
Sub total:	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	0.00	700,000.00	2,905,754,562.05

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

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

(4) Liquidity risk *(continued)*

(2) 31 December 2015

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	total
Financial assets –					
Cash at bank and on hand	798,295,283.74	0.00	0.00	0.00	798,295,283.74
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	6,589,225.34	0.00	0.00	0.00	6,589,225.34
Receivable notes	343,042,435.08	0.00	0.00	0.00	343,042,435.08
Receivables	1,329,985,444.48	0.00	0.00	0.00	1,329,985,444.48
Prepayments	122,297,549.66	0.00	0.00	0.00	122,297,549.66
Other receivables	78,588,719.10	0.00	0.00	0.00	78,588,719.10
Sub total:	2,678,798,657.40	0.00	0.00	0.00	2,678,798,657.40
Financial liabilities –					
Short-term loan	250,000,000.00	0.00	0.00	0.00	250,000,000.00
Bills payables	299,007,801.36	0.00	0.00	0.00	299,007,801.36
Payables	636,752,599.23	0.00	0.00	0.00	636,752,599.23
Receipts in advance	65,255,250.41	0.00	0.00	0.00	65,255,250.41
Interest payables	11,823,945.25	0.00	0.00	0.00	11,823,945.25
Dividend payables	2,531,984.46	0.00	0.00	0.00	2,531,984.46
Other payables	1,287,284,945.74	0.00	0.00	0.00	1,287,284,945.74
Non-current liabilities due within one year	400,400,000.00	0.00	0.00	0.00	400,400,000.00
Long-term loans	0.00	0.00	0.00	700,000.00	700,000.00
Sub total:	2,953,056,526.45	0.00	0.00	700,000.00	2,953,756,526.45

2. Transfer of financial assets

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

For the year, the Company discounted RMB0.00 bank acceptance bills (RMB142,394,750.12 in 2015). As the main risks (such as interest risks) related to these bank acceptance bills were transferred to the bank, the Company derecognized the undue bank acceptance bills that had been discounted. According to the discount agreement, if such bills are not accepted when due, the bank is entitled to request the Company to honor the unsettled amount. As such, the Company is still involved in discounted bank acceptance bills. On 31 December 2016, the Company has discounted undue bank acceptance bills RMB0.00 (31 December 2015: RMB63,372,816.84).

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

X. DISCLOSURE OF FAIR VALUE

1. Assets and liabilities measured at fair value

Amount denominated: RMB '000

	Fair value at the beginning of the year Measured at fair value level I	Fair value changes in profit or loss for the year	Accumulated fair value changes in equity	Impairment during the year	Fair value at the year end Measured at fair value level I
I. Continuous fair value measurement					
(I) Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	6,589.23	-930.40	0.00	0.00	6,019.07
1. Financial assets held for trading	6,589.23	-930.40	0.00	0.00	6,019.07
(1) debt instrument investments	0.00	0.00	0.00	0.00	0.00
(2) equity instrument investments	6,589.23	-930.40	0.00	0.00	6,019.07
(3) derivative financial assets	0.00	0.00	0.00	0.00	0.00
2. Financial assets measured designated at fair value, with the change in fair value included in the profit or loss for the year	0.00	0.00	0.00	0.00	0.00
(II) Available-for-sale financial assets	38,926.78	0.00	-769.69	31,422.60	6,598.66
(1) debt instrument investments	0.00	0.00	0.00	0.00	0.00
(2) equity instrument investments	38,926.78	0.00	-769.69	31,422.60	6,598.66
(3) Others	0.00	0.00	0.00	0.00	0.00
(III) Total liabilities continuously measured at fair value	0.00	0.00	0.00	0.00	0.00
II. Non-continuous fair value measurement					
(I) Held-for-sale Assets	0.00	0.00	0.00	0.00	0.00
Total assets non-continuously measured at fair value	0.00	0.00	0.00	0.00	0.00
Total liabilities non-continuously measured at fair value	0.00	0.00	0.00	0.00	0.00

2. Basis of market price for cases continuously measured at fair value level I

By the closing price of the closed market for the last day of dealings in the year.

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

Nil

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Status of parent company of the Company

Name of parent company	Related party relationship	Type of entity	Place of incorporation	Legal representative	Nature of business
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Joint stock companies with Limited liabilities (listed)	Shenzhen	Zhu Baoguo	Production of oral liquid, drugs and healthcare food
Name of parent company	Registered capital	Percentage of the Company's shareholding held by the parent company (%)	Percentage of the Company's voting rights held by the parent company (%)	The ultimate controlling party of the Company	Unified Social Credit Code
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	1,587,139,292	23.67	23.67	Zhu Baoguo	91440300618874367T

Notes to the parent company of the Company

As of 31 December 2016, the Company's parent company and its subsidiaries held a total of 190,659,367 shares in the Company, representing 44.78% of the total share capital of the Company. Among the shares of the Company held by Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司), of which 7,877,256 legal person shares were held in the name of Guangzhou Begol Trading Corporation (廣州保科力貿易公司) and the transfer procedures for these shares were not completed. The transfer procedures for other shares were completed.

2. The Company's subsidiaries

Please refer to note VIII.1. Interests the Company's subsidiaries.

3. Joint ventures and associates of the Company

Please refer to note VI. 10. Long-term equity investments and note VIII. 3. Equity in associates or joint ventures.

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**4. Other related parties of the Company**

Name of other related parties	Relationship with the Company	Organisation code/ 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	76489454-2
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	A company controlled by the holding company of the Company	77512952-0
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the holding company of the Company	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	34751653-2
Guangzhou Joincare Respiratory Drugs Engineering Technology Co., Ltd. (廣州健康元呼吸藥物工程技術有限公司)	A company controlled by the holding company of the Company	
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

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions****(1) Related party transactions relating to purchase of goods/receipt of services**

Related party	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	510,324.79	0.03	588,124.79	0.03
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	32,191,641.03	1.75	27,566,307.86	1.52
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Raw materials	The market price	4,273.50	0.00	0.00	0.00
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	Low-valued consumables	The market price	0.00	0.00	8,547.01	0.00
Health Pharmaceutical (China) Co., Ltd (健康藥業(中國)有限公司)	Raw materials	The market price	11,666.67	0.00	139,474.36	0.01
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished Product	The market price	386,825.30	0.02	37,974.62	0.00
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Raw Materials	The market price	20,000.00	0.00	14,918.80	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	286,611,011.97	15.56	266,408,030.77	14.71
Total Purchased Products			319,735,743.26	17.36	294,763,378.21	16.27
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	9,471,962.73	3.67	1,341,939.39	0.53
Total Services Received			9,471,962.73	3.67	1,341,939.39	0.53

(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	16,019.40	0.00	7,433.69	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	14,743,589.74	0.19	39,525,309.83	0.61
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	299,373.35	0.00	0.00	0.00
Guangzhou Joincare Respiratory Drugs Engineering Technology Co., Ltd. 廣州健康元呼吸藥物工程技術有限公司	Raw Materials	The market price	0.00	0.00	94,017.09	0.00
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Finished Product	The market price	481,466.65	0.01	0.00	0.00
Sales of goods in aggregate			15,540,449.14	0.20	39,626,760.61	0.61
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Electricity and power	The market price	6,178,622.48	91.26	5,734,854.62	90.63
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Electricity and power	The market price	576,746.28	8.52	543,182.96	8.58
Provision of services in aggregate			6,755,368.76	99.78	6,278,037.58	99.21
Shenzhen Haibin Pharmaceutical Co., Ltd.	Processing Fee	The market price	1,462,343.17	67.56	1,510,810.08	56.06
Provision of services in aggregate			1,462,343.17	67.56	1,510,810.08	56.06

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	177,362.67	361,820.65
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	64,981.20	99,948.00

2 *The Company as lessee*

Name of lessor	Class of leased assets	Leasing expenses recognised for the year	Leasing 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	700,666.67	658,944.00
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Plant & buildings	0.00	36,000.00

(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 equipments	20,683.76	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	0.00	6,885,299.14
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Sales of Equipment	89,317.09	2,607,934.77
Cynvenio Biosystems, Inc.	Sale of equipments	18,558,818.11	0.00

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

5. Related party transactions *(continued)*

(5) Related party guarantees

During the reporting period, the details on the bank loans of subsidiaries guaranteed by the Company were set out as follow (RMB0000):

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balances at the end of the year	Actual guaranteed amount	Guaranteed amount	Type of guarantee	Period of guarantee
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術 有限公司)	22/6/2016	382.52	382.52	5,000.00	Opening Bank acceptance bills, Joint obligation guarantee	22/6/2016 – 22/6/2019 (Bank of Communication, Zhuhai Branch) (交通銀 行珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	30/11/2016	454.70 (EUR62.23)	454.70 (EUR62.23)	9,000.00	Open Bank acceptance bills, Joint obligation guarantee	30/11/2016 – 30/11/2019 (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)	5/2/2013	1,692.35 (USD243.96)	1,692.35 (USD243.96)	4,855.90 (USD700.00)	Open Bank acceptance bills, Joint obligation guarantee	5/2/2013 – 4/2/2018 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)	11/9/2015	160.00	160.00	4,000.00	Establish guarantees · Joint obligation guarantee	11/9/2015-11/9/2018 Bank of China, Zhuhai Branch (中國銀行珠海分行)
Total actual amount guaranteed for subsidiaries during the reporting period				7,841.24		
Balance of total actual amount guaranteed for subsidiaries during the end of the reporting period				2,689.57		

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

2016

Unit: RMB'0,000

	Remuneration of Director/ Supervisor	Contribution to pension scheme		Housing accumulation fund	Bonus	Compensation Inducement fee		Others	Total
		Wage and subsidiaries					for loss of office		
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
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	28.57	4.00	1.31	24.43	0.00	0.00	0.04	62.55
Mr. Tang Yin (湯胤先生)	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 Wensi (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)*

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

2015

Unit: RMB'0,000

Remuneration of Director/ Supervisor	Wage and subsidiaries	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	9.00
Tao Desheng (陶德勝)	7.20	50.73	4.44	2.75	52.00	0.00	0.00	117.12
Yang Daihong (楊代宏)	7.20	50.73	4.30	2.75	42.68	0.00	0.00	107.66
Fu Daotian (傅道田)	7.20	42.71	2.54	0.00	55.00	0.00	0.00	107.45
Qiu Qingfeng (邱慶豐)	7.20	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	7.20
Independent Directors:								
Xu Yanjun (徐焱軍)	9.60	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	9.60
Wang Xiaojun (王小軍)	9.60	0.00	0.00	0.00	0.00	0.00	0.00	9.60
Zheng Zhihua (鄭志華)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Xie Yun (謝耘)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Yang Bin (楊斌)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Yu Xiong (俞雄)	1.60	0.00	0.00	0.00	0.00	0.00	0.00	1.60
Supervisors:								
Wang Maolin (汪卯林)	4.20	28.04	3.74	1.45	16.01	0.00	0.00	53.44
Yuan Huasheng (袁華生)	3.30	0.00	0.00	0.00	0.00	0.00	0.00	3.30
Huang Huamin (黃華敏)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Other senior management:								
Xu Guoxiang (徐國祥)	0.00	57.85	4.31	3.00	44.57	0.00	0.00	109.73
Lu Wenqi (陸文岐)	0.00	50.73	0.00	2.75	42.68	0.00	0.00	96.16
Si Yanxia (司燕霞)	0.00	35.58	3.94	1.88	38.90	0.00	0.00	80.30
Yang Liang (楊亮)	0.00	20.31	3.57	1.05	13.15	0.00	0.00	38.08
Total	100.90	336.68	26.84	15.63	304.99	0.00	0.00	785.04

Mr. Zheng Zhihua (鄭志華), Mr. Xie Yun (謝耘) were appointed on 26 June 2015.

Mr. Yu Xiong (俞雄) resigned on 27 February 2015; Mr. Yang Bin retired on 26 June 2015.

During the reporting period, no remuneration was paid by the Company to any director and supervisor as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which any director and supervisor waived any remuneration.

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions (continued)****(6) Remuneration of key management personnel (continued)****2 Individuals with highest emoluments**

The emoluments of three and three of the five highest paid individuals were directors of the Company for the year 2015 and 2016, respectively. The rest were senior management of the Company (two and two for the year 2015 and 2016, respectively). Details of remuneration paid to the five highest paid individuals were already disclosed in note. XI 5(6) "Remuneration of key management personnel".

(7) Other affiliated transactions

- 1 In accordance with the New Collaboration Compound Supplement to the Collaboration Agreement by and between Epirus Switzerland GmbH and Livzon Mabpharm Inc. (Epirus瑞士有限公司—珠海市麗珠單抗生物技術有限公司新合作化合物的補充合作協議), both parties cooperate on the clinical research and commercialization of a new biosimilar compound which may be used as immunosuppressive for treatment of Rheumatoid arthritis, Polyarthritis and Idiopathic Arthritis. Epirus will pay to Livzon MAB a total of USD4.5 million as pre-clinical development funding and has paid USD1.5 million last year. As Epirus has filed for bankruptcy and reorganization, a supplementary agreement was entered into by both parties on 15 July 2016 after negotiation. It was agreed that Epirus would authorize Livzon MAB with the rights to the patents of BOW070 licensing technology and would transfer to MABPharm all the rights, titles and interests of BOW070 cell line clones, development reports and existing relevant information. MABPharm would own the rights of R&D, production and commercialization of BOW070 authorized compounds in China and all the rights outside China, as well as property rights of BOW070 clones and all relevant information. After this supplementary agreement came into effect, the parties shall terminate all rights and obligations under the original agreement. Epirus shall pay pre-clinical development fees to MABPharm and any future production commitments shall no longer exist.
- 2 On 22 February 2016, Zhuhai Livzon Diagnostics Inc. and Cynvenio Biosystems, Inc. entered into the "Zhuhai Livzon Cynvenio Dignosis Ltd. Joint Venture Operation Agreement". The registered capital of the joint venture is RMB103,333,333. Livzon Diagnostics made a cash contribution in the sum of RMB62,000,000, representing 60% of the registered capital; Cynvenio Biosystems, Inc. made a contribution in the form of valuation of "the patent in Liquid Biopsy and relevant technical know-how" as well as other intellectual properties in the sum of RMB41,333,333, representing 40% of the registered capital.
- 3 On 26 September 2016, it was resolved in the general meeting of Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) that its registered capital would be increased by RMB33.33 million and the registered capital amounted to RMB533.33 million after the capital injections. The increased capital was paid by the Company and Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司), contributing RMB102 million and RMB98 million respectively, with the original contribution ratio unchanged.
- 4 The Company and 珠海橫琴新區觀聯谷Investment Partnership (Limited Partnership) (珠海橫琴新區觀聯谷投資合夥企業(有限合夥))(hereinafter as "觀聯谷") and珠海祥和泰Investment Management Partnership (Limited Partnership) (珠海祥和泰投資管理合夥企業(有限合夥))(hereinafter as "祥和泰") entered into shareholders agreement and all parties collectively contribute funds to establish珠海市麗珠基因檢測科技有限公司. On 30 December 2016, the procedure of Industrial and Commercial registration was completed and the business license (Unified social credit code: 91440400MA4W4E2E0M) issued by Jinwan Branch of Zhuhai Administrative Bureau for Industry and Commerce of Guangdong Province was acquired.

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	Gross amount	Provision for bad debts
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	6,900,000.00	345,000.00	17,410,000.00	870,500.00
Accounts receivables	Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	0.00	0.00	75,483.35	3,774.17
Accounts receivables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	1,755.00	87.75	0.00	0.00
Sub-total		6,901,755.00	345,087.75	17,485,483.35	874,274.17
預付款項	健康元藥業集團股份有限公司	108,030.26	0.00	0.00	0.00
小計		108,030.26	0.00	0.00	0.00
Other receivables	Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	32,724.76	1,636.24	33,134.76	1,656.73
Other receivables	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	33,316.00	1,665.80	8,329.00	416.45
Other receivables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	0.00	0.00	489,659.30	24,482.97
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	2,117,989.34	105,899.47	1,167,760.25	58,388.01
Sub-total		2,184,030.10	109,201.51	1,698,883.31	84,944.16

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

Name of item	Related parties	Balance at the year end	Balance at the beginning of the year
Payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	162,840.00	65,656.41
Payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	3,360.00	6,018,360.00
Payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	158,407,480.13	119,277,932.00
Sub total		158,573,680.13	125,361,948.41
Other payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	2,459,992.87	712,335.59
Other payables	EPIRUS SWITZERLAND GmbH	0.00	9,495,450.00
Sub total		2,459,992.87	10,207,785.59

XII. SHARE PAYMENT

1. General Information of Share payment

Item	Relevant Content
Total equity instruments granted during the current period by the Company (share)	—
Total equity instruments exercised during the current period by the Company (share)	4,951,736
Total equity instruments of the Company expired during the period (share)	—
Range of exercise price of share option of the Company outstanding and remaining term of contract as the End of the Period	—
Range of exercise price of other equity instruments of the Company and remaining term of contract as at the End of the Period	Note

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

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

On 14 August 2015, the Company completed the 2014 Equity Distribution. According to the Incentive Scheme, adjustments were made to the number of Restricted Shares under the initial grant and repurchase price according to the adjustment methods of the number of shares granted and the price upon the transfer of capital reserves into the share capital, bonus issues and share sub-divisions. The number of the Restricted Shares of the first grant after the adjustments was 11,258,520 and the repurchase price of the first grant after the adjustments was RMB19.308 per share. On 27 October 2015, the 16th Board Meeting of the 8th Session of the Board, considered and approved "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". It was agreed to repurchase and cancel 93,080 Restricted shares granted but not yet unlocked at RMB19.308 per share from 7 incentive participants in the initial grant of Restricted shares who no longer satisfying the incentive conditions. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares was adjusted from 458 to 451.

On 28 March 2016, the Twenty-third Meeting of the Eighth Session of the Board considered and passed the "Resolution on Granting Shares to be Unlocked during the First Unlock-up period under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of the Restricted Shares Granted but Not Yet Unlocked to Incentive Participants Who Are No Longer Qualified". It was agreed to repurchase and cancel 32,500 Restricted Shares granted but not yet unlocked at RMB19.308 per share from 1 incentive participant in the initial grant of Restricted shares who no longer satisfying the incentive conditions. The remaining 450 incentive participants in the initial grant of Restricted shares have satisfied the unlocking conditions with 4,453,176 Restricted Shares unlocked and listed in the first tranche.

XII. SHARE PAYMENT *(continued)*

1. General Information of Share payment *(continued)*

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

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

On 16 May 2016, the 26th Board Meeting of the 8th Session of the Board, considered and passed "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". 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.

NOTES TO FINANCIAL STATEMENTS 2016

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

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XII. SHARE PAYMENT *(continued)*

2. Equity settled share-based payments

Item	Relevant Content
Determination on Fair Value of Equity Instruments as the Date of Grant	Black-Scholes Model
Basis for Determining Quantity of Exercisable Equity Instruments	—
Reasons for Significant Discrepancies Between Estimate of Current and Previous Year	Nil
Accumulated Amount of Shares Settled in Equity Included in Capital Reserve	66,487,870.92
Total Expense Recognized for Equity Settled Share-Based Payments for this Year	30,398,870.92

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	37,696,879.21	51,405,931.81
Total	37,696,879.21	51,405,931.81

(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	7,271,507.49	5,332,489.64
1 to 2 years	7,097,054.83	3,354,957.20
2 to 3 years	3,976,684.49	836,378.00
Over 3 years	110,476.03	699,873.00
Total	18,455,722.84	10,223,697.84

XIII. COMMITMENTS AND CONTINGENCIES *(continued)***1. Significant commitments** *(continued)***(3) Other commitments**

Nil.

(4) Performance of previous commitments

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

2. Contingencies

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

XIV. POST BALANCE SHEET DATE EVENTS

1. On 24 March 2017, the Company held the 35th Meeting of the 8th Board and passed the resolution of 2016 annual profit distribution plan, under which the parent's undistributed profit available for distribution to shareholders in 2016 was RMB913,371,349.46 with reference to the net profit of RMB406,446,112.36 realised by the parent in 2015 less the statutory reserve fund of RMB406,446,112.36 set aside at 10% as per applicable regulations, plus the opening undistributed profit of RMB745,885,809.84 and further minus the dividends of RMB198,315,961.50 paid under 2015 annual profit distribution plan.

Considering the capital demands due to its operations, the Board proposed the 2016 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 2016 annual profit distribution plan, a cash dividend of RMB5 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 2015 for examination and approval.

2. On 16 January 2017, the Company repurchased and cancelled 133,274 Restricted Shares, resulting in a repurchase payment of RMB2,662,173.94. After the repurchase, the Company's share capital has changed to RMB425,596,852. As at 8 February 2017, the cancellation procedures of the aforementioned Restricted Shares with the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited have completed.

XIV. POST BALANCE SHEET DATE EVENTS *(continued)*

3. On 20 January 2017, the Company and its wholly-owned subsidiary, Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) (Party A) and 國維財富投資集團有限公司 (Party B) entered into "Letter of Intent on Business Negotiation(s) on Cooperation of Renewal Project of Guihua North Road (Livzon Old Site)" and held business negotiation regarding the Project. Both parties agreed within one year of the effective date of the Agreement, Party A shall not conduct substantive business negotiation(s) with third party on the form and terms of the cooperation of the Project and Party B must actively negotiate with Party A on the form and terms of the cooperation of the Project and commence substantive business negotiation within the period. Once agreement between both parties is reached, a formal cooperation agreement shall be entered into immediately. Party B shall pay RMB400 million to Party A as a guarantee of conducting substantive business negotiation with Party A. Within one year of the agreement, if Party B do not conduct substantive negotiation with Party A or the business terms of substantive negotiation being inferior to the terms undertaken by Party B, Party A shall not return the guarantee.

As at the date of this report, there is no other non-adjusting post balance sheet event that should be disclosed by the Company.

XV. OTHER SIGNIFICANT MATTERS

As at the date of the balance sheet, saved as disclosed above, there is no other major events to be disclosed by the Company.

XVI. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES

1. Net current assets

Item	Balance at the year end	Balance at the beginning of the year
Current assets	5,970,785,816.05	3,577,884,291.76
Less: Current liabilities	3,310,641,174.79	3,154,940,003.11
Net current assets	2,660,144,641.26	422,944,288.65

2. Total assets less current liabilities

Item	Balance at the year end	Balance at the beginning of the year
Total assets	10,529,262,952.41	8,077,537,790.41
Less: Current liabilities	3,310,641,174.79	3,154,940,003.11
Total assets less current liabilities	7,218,621,777.62	4,922,597,787.30

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	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	0.00
Total	794,920,471.11	100.00	44,365,176.51	5.58	750,555,294.60	

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	0.00
Accounts receivables assessed for impairment collectively	699,156,636.77	100.00	36,637,642.23	5.24	662,518,994.54	
Accounts receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00	0.00
Total	699,156,636.77	100.00	36,637,642.23	5.24	662,518,994.54	

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

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

1. Accounts receivables (continued)

(1) Accounts receivables 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	787,706,000.20	39,385,300.01	5.00
1 to 2 years	2,211,055.32	132,663.32	6.00
2 to 3 years	32,009.35	6,401.87	20.00
3 to 4 years	434,291.91	304,004.34	70.00
4 to 5 years	3,073.60	2,766.24	90.00
Over 5 years	810,711.76	810,711.76	100.00
Total	791,197,142.14	40,641,847.54	

- 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	3,723,328.97	3,723,328.97	100.00	not expected to be recoverable

- (2) Provisions for bad debts made for the year was RMB7,826,682.56; 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	99,148.28

- (4) The total of account receivables with five largest amount by creditors was RMB85,157,154.19, or 10.71% of the total account receivables by the year end, total provision for bad debts by the year end was RMB4,257,857.71.

- (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.

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	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	0.00
Total	1,604,483,621.33	100.00	6,615,450.28	0.41	1,597,868,171.05	

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	0.00
Other receivables that are assessed for impairment collectively	18,935,070.08	1.19	6,355,029.48	33.56	12,580,040.60	
Receivables from each company in the scope of combination	1,572,805,681.35	98.81	0.00	0.00	1,572,805,681.35	
Other receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00	0.00
Total	1,591,740,751.43	100.00	6,355,029.48	0.40	1,585,385,721.95	

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

2. Other receivables *(continued)*

(1) Other receivables presented by types *(continued)*

- 1 *Other receivables for which provision for bad debts has been made using the ageing analysis method in the portfolio*

Ageing	Balance at the year end		
	Amount	Provision for bad debts	Provision Percentage (%)
Within 1 year	11,404,752.72	570,237.63	5.00
1 to 2 years	1,341,585.93	80,495.16	6.00
2 to 3 years	1,386,403.57	277,280.71	20.00
3 to 4 years	70,000.00	49,000.00	70.00
4 to 5 years	120,000.00	108,000.00	90.00
Over 5 years	5,440,431.58	5,440,431.58	100.00
Total	19,763,173.80	6,525,445.08	

- 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	1,584,603,442.33	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	90,005.20	90,005.20	100.00	Not expected to be recoverable

- (2)** Provisions for bad debts made for the year was RMB328,526.96; 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	68,106.16

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	11,204,397.91	12,639,904.35
Related party balances	66,040.76	41,463.76
Receivables from each company in the scope of combination	1,584,630,442.33	1,572,805,681.35
Borrowing due from external entities	5,000,000.00	5,000,000.00
Others	3,582,740.33	1,253,701.97
Total	1,604,483,621.33	1,591,740,751.43

(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	694,339,601.46	Within 1 year	43.28	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	532,175,570.09	Within 1 year	33.17	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	124,648,658.29	Within 1 year	7.77	0.00
Ando Development Limited (安滔發展有限公司)	Current account	123,894,836.81	Within 1 year	7.72	0.00
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Current account	54,948,389.52	Within 1 year	3.42	0.00
Total	—	1,530,007,056.17	—	95.36	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	Gross amount	Provision for impairment	Carrying amount
Investments in subsidiaries	2,112,431,664.98	18,471,307.03	2,093,960,357.95	2,010,431,664.98	18,471,307.03	1,991,960,357.95
Investments in associates and joint ventures	36,407,870.69	1,200,000.00	35,207,870.69	35,382,019.56	1,200,000.00	34,182,019.56
Total	2,148,839,535.67	19,671,307.03	2,129,168,228.64	2,045,813,684.54	19,671,307.03	2,026,142,377.51

(2) Investment in subsidiaries

Investee	Balance at the beginning of the year	Increase during the 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	0.00	800,000.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	361,060,443.85	0.00	0.00	361,060,443.85	0.00	0.00
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	170,872,457.35	0.00	0.00	170,872,457.35	0.00	0.00
Shanghai Livzon Pharmaceutical Manufacturing Co.,Ltd. (上海麗珠製藥有限公司)	31,438,404.00	0.00	0.00	31,438,404.00	0.00	0.00
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技术有限公司)	4,539,975.00	0.00	0.00	4,539,975.00	0.00	0.00
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	6,004,000.00	0.00	0.00	6,004,000.00	0.00	0.00
Lizhu (Hong Kong) Co.,Limited (麗珠(香港)有限公司)	64,770,100.01	0.00	0.00	64,770,100.01	0.00	0.00
Ando Development Limited (安滔發展有限公司)	534,050.00	0.00	0.00	534,050.00	0.00	0.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	116,446,982.80	0.00	0.00	116,446,982.80	0.00	7,271,307.03

(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)	255,000,000.00	102,000,000.00	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	0.00	235,841,100.00	0.00	0.00
Total	2,010,431,664.98	102,000,000.00	0.00	2,112,431,664.98	0.00	18,471,307.03

NOTES TO FINANCIAL STATEMENTS 2016

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

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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	Investment acquired	Investment disposed of	Change during the year		
				Investment profit and loss on the equity method	Adjustment in other comprehensive income	Other equity changes
Associates						
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	1,200,000.00	0.00	0.00	0.00	0.00	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	9,921,854.70	0.00	0.00	625,773.15	0.00	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	24,439,327.70	0.00	0.00	-912,096.41	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	-179,162.84	3,000,000.00	0.00	-1,687,825.61	0.00	0.00
Total	35,382,019.56	3,000,000.00	0.00	-1,974,148.87	0.00	0.00

Investee	Change during the year				Balance of provision for impairment at the year end
	Cash dividend or profit distribution announced	Impairment provision	Others	Balance at the year end	
Associates					
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	0.00	0.00	0.00	1,200,000.00	1,200,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	0.00	0.00	10,547,627.85	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	23,527,231.29	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	1,133,011.55	0.00
Total	0.00	0.00	0.00	36,407,870.69	1,200,000.00

4. Operating income and operating cost

Item	For the year		For the previous year	
	Income	Cost	Income	Cost
Principal activities	4,560,519,714.54	2,320,734,879.51	3,857,872,044.93	1,843,586,621.69
Other activities	1,380,199.60	2,081.93	1,422,344.60	52,871.71
Total	4,561,899,914.14	2,320,736,961.44	3,859,294,389.53	1,843,639,493.40

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

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

5. Business taxes and surcharges

Item	For the year	For the previous year
Urban maintenance and construction tax payable	18,750,135.79	21,026,107.49
Education surcharges payable	13,392,938.23	14,991,760.53
Flood prevention fee payable	303,555.84	838,712.03
Business Tax	2,589,152.34	1,607,961.01
Land use tax payable	206,725.80	0.00
Property tax payable	1,605,530.26	0.00
Stamp duty payable	974,189.75	0.00
Vehicle and vessel usage tax payable	21,360.00	0.00
Others	463,900.61	0.00
Total	38,307,488.62	38,464,541.06

6. Investment income

Item	For the year	For the previous year
Long-term equity investments income under cost method	366,519,928.73	20,310,000.00
Long-term equity investments income under equity method	-1,974,148.87	788,265.64
Investment income generated from disposal of long-term equity investments	0.00	0.00
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the 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	0.00	0.00
Investment income generated from held-to-maturity investments during its holding period	0.00	0.00
Investment income generated from available-for-sale assets during its holding period	1,190,073.75	427,984.28
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	114,448.75	84,234.28
Investment income generated from disposal of available-for-sale financial assets investments	0.00	0.00
When without control, income generated from revaluation of remaining equity measured at fair value	0.00	0.00
Total	365,735,853.61	21,526,249.92

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	406,446,112.36	331,380,673.90
Add: Provision for impairment of assets	11,397,051.44	10,392,882.38
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	12,564,655.28	15,688,817.06
Amortisation of intangible assets	12,476,243.47	11,852,001.23
Amortisation of long-term expense	60,000.00	60,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains/income)	16,823.84	-218,783,454.65
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)	-20,492,657.50	-30,246,318.78
Investments losses ("—" represents gains/income)	-365,735,853.61	-21,526,249.92
Decrease in deferred tax assets ("—" represents increase)	-1,695,482.03	-9,449,943.00
Increase in deferred tax liabilities ("—" represents decrease)	477,564.55	472,734.92
Decrease in inventories ("—" represents increase)	-379,691,215.57	-34,517,107.32
Decrease in trade receivables ("—" represents increase)	-245,245,082.01	-242,083,121.36
Increase in trade payables ("—" represents decrease)	639,658,976.81	89,511,521.34
Others	30,398,870.92	36,089,000.00
Net cash flows from operating activities	100,636,007.95	-61,158,564.20
(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	1,606,485,665.85	677,465,238.87
Less: Cash at the beginning of the year	677,465,238.87	611,630,017.65
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	929,020,426.98	65,835,221.22

(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	5,309,155.74	-4,005,495.80
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	128,100,925.11	127,679,776.28
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	0.00	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)	-930,399.32	-182,343.23
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	-4,356,879.36	-8,552,063.55
Items of gains or losses as defined meeting the definition of extraordinary gains or losses	0.00	0.00
Sub-total	128,122,802.17	114,939,873.70
Effect of income tax	17,442,373.66	14,326,733.64
Effect of non-controlling interests (after tax)	8,793,009.36	16,336,387.58
Total	101,887,419.15	84,276,752.48

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

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

2016

Profit for the reporting period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares	15.48%	1.98	1.97
Net profit attributable to shareholders of ordinary shares after deducting extraordinary gains or losses	13.47%	1.72	1.71

2015

Profit for the reporting period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares	15.51%	1.62	1.60
Net profit attributable to shareholders of ordinary shares after deducting extraordinary gains or losses	13.41%	1.40	1.39

312 XII. DOCUMENTS AVAILABLE FOR INSPECTION

- (1) They include the audited financial reports of the Company for the twelve months ended 31 December 2016, 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) 2016 Annual Report of the Company both in English and Chinese versions published at the website of Hong Kong Exchanges and Clearing Limited.

Livzon Pharmaceutical Group Inc.

Zhu Baoguo

Chairman

24 March 2017

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