

Interim Report
2018



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)

* For identification purpose only



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IMPORTANT NOTICE

The board of Directors, the Supervisory Committee and the Directors, Supervisors and senior management of 麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.* guarantee that the information and figures in this interim report (the "Report") does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents.

The Report has been considered and approved in the 18th meeting of the 9th session of the Board of the Company. All the Directors attended the 18th meeting of the 9th session of the Board.

The Group has prepared the financial report in accordance with China Accounting Standards for Business Enterprises. The 2018 interim financial statements and notes thereof (collectively the "Financial Report") prepared by the Group according to China Accounting Standards for Business Enterprises have not been audited. This Report has been reviewed by the audit committee of the Company.

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

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

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

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

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DEFINITIONS

In the Report, unless the context requires otherwise, the following expressions shall have the following meanings:

“Company”	麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.*, a joint stock limited liability company incorporated in accordance with the PRC’s law, whose H Shares and A Shares are listed on the Main Board of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, respectively;
“Group”	the Company and its subsidiaries;
“Board”	the board of directors of the Company;
“Director(s)”	director(s) of the Company;
“Supervisory Committee”	the supervisory committee of the Company;
“Supervisor(s)”	supervisor(s) of the Company;
“Shareholder(s)”	shareholder(s) of the Company;
“A Share(s)”	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Shenzhen Stock Exchange;
“B Share(s)”	domestically listed foreign shares originally issued by the Company;
“H Share(s)”	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Hong Kong Stock Exchange;
“A Shareholder(s)”	holder(s) of A Shares of the Company;
“H Shareholder(s)”	holder(s) of H Shares of the Company;
“Reporting Period” or “Current Period” or “Period”	the six months from 1 January to 30 June 2018;
“Same Period Last Year” or “Previous Period”	the six months from 1 January to 30 June 2017;
“End of Last Year” or “Beginning of the Reporting Period” or “Beginning of the Period”	31 December 2017;
“End of the Reporting Period” or “End of the Period”	30 June 2018;
“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

DEFINITIONS *(continued)*

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

* For identification purpose only

DEFINITIONS *(continued)*

“Livzon MAB”	珠海市麗珠單抗生物技術有限公司Livzon MABPharm Inc.*;
“Xinbeijiang Pharmaceutical”	Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.;
“Pharmaceutical Factory”	麗珠集團麗珠製藥廠Livzon Group Livzon Pharmaceutical Factory*;
“Livzon Reagents”	珠海麗珠試劑股份有限公司Zhuhai Livzon Diagnostic Reagents Inc.*;
“Jiaozuo Joincare”	焦作健康元生物製品有限公司Jiaozuo Joincare Biological Product Co., Ltd.*;
“Haibin Pharma”	深圳市海濱製藥有限公司Shenzhen Haibin Pharmaceutical Co., Ltd.*;
“Blue Treasure Pharma”	廣東藍寶製藥有限公司Guangdong Blue Treasure Pharmaceutical Co., Ltd.*;
“Livzon Shengmei”	珠海麗珠聖美醫療診斷技術有限公司Zhuhai Livzon Cynvenio Diagnosis Ltd.*;
“Livzon Gene”	珠海市麗珠基因檢測科技有限公司Zhuhai Livzon Gene Detection Technology Co., Ltd.*;
“Lizhu HK”	Lizhu (Hong Kong) Co., Limited;
“Livzon Biologics”	Livzon Biologics Limited;
“Livzon International”	Livzon International Limited;
“Joincare BVI”	Joincare Pharmaceutical Group Industry Co., Ltd.;
“Biologics Limited”	Livzon Biologics Hong Kong Limited;
“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;
“MOP”	Macau Patacas, the lawful currency of Macau;
“US\$” or “USD”	United States dollars, the lawful currency of the United States of America;
“Cninfo”	巨潮資訊網www.cninfo.com.cn;
“Company’s website”	the website of the Company, www.livzon.com.cn.

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II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(I). COMPANY INFORMATION

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

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

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

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(II). CONTACT PERSONS AND CONTACT DETAILS

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

(III). OTHER INFORMATION**1. CONTACT DETAILS OF THE COMPANY**

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

Applicable Not applicable

2. INFORMATION DISCLOSURE AND PLACE WHERE COPIES OF THIS REPORT ARE AVAILABLE

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

Applicable Not applicable

3. OTHER RELEVANT INFORMATION

Whether other relevant information changed during the Reporting Period

Applicable Not applicable

Accounting Firm Appointed by the Company

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

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

Authorised Representatives appointed pursuant to the Hong Kong Listing Rules	Tao Desheng, Yang Liang
Company Secretary, Secretary to the Board	Yang Liang
Alternate to Authorised Representatives	Yuan Ailing
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

II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

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

✓ Applicable Not applicable

1. Changes of Accounting Policies

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

The MOF issued Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instrument (2017 revision) (Cai Kuai [2017] No. 7), Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets (2017 revision) (Cai Kuai [2017] No. 8) and Accounting Standards for Business Enterprises No. 24 – Hedging Accounting (2017 revision) (Cai Kuai [2017] No. 9) on 31 March 2017, issued Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument (2017 revision) (Cai Kuai [2017] No. 14) (hereinafter referred to as the “new Financial Instrument Standards”) on 2 May 2017; issued Accounting Standards for Business Enterprises No. 14 – Revenues (2017 revision) (Cai Kuai [2017] No. 22) on 5 July 2017, enterprises listed both domestically and overseas or enterprises listed overseas and adopting the International Financial Reporting Standards or the Accounting Standards for Business Enterprises to prepare their financial statements shall implement such standards as from 1 January 2018. As approved by the resolution passed on the twelfth meeting of the ninth session of the Board held on 29 March 2018, the Company adopted the foregoing five accounting standards from the time as required by the Ministry of Finance.

(IV). CHANGES OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF ACCOUNTING ERRORS *(continued)***2. Change in Accounting Estimates**

As resolved in the 12th meeting of the ninth session of the Board of the Company on 29 March 2018, changes will be made to the percentage of provision for bad debts of accounts receivables and other receivables. The changes in accounting estimates will be implemented from 1 April 2018 onwards and the detailed conditions before and after the changes are as follows:

Before the changes			After the changes		
Ageing	Percentage of provision for account receivables	Percentage of provision for other receivables	Ageing	Percentage of provision for account receivables	Percentage of provision for other receivables
within 1 year (including 1 year)	5%	5%	within 3 months (including 3 months)	1%	1%
			4-6 months (including 6 months)	5%	5%
			7-12 months (including 12 months)	10%	10%
1 year – 2 years (including 2 years)	6%	6%	1 year – 2 years (including 2 years)	20%	20%
2 years – 3 years (including 3 years)	20%	20%	2 years – 3 years (including 3 years)	70%	70%
3 years – 4 years (including 4 years)	70%	70%	3 years – 4 years (including 4 years)	100%	100%
4 years – 5 years (including 5 years)	90%	90%	4 years – 5 years (including 5 years)	100%	100%
over 5 years	100%	100%	over 5 years	100%	100%

3. Accounting error correction

None.

II. COMPANY PROFILE AND PRINCIPAL FINANCIAL INDICATORS

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

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

✓ YES NO

Amount denominated: RMB

Items	Current Period	Same Period Last Year	Change of the Reporting Period compared with Same Period Last Year
Operating income	4,564,703,491.43	4,274,758,446.48	6.78%
Net profit attributable to shareholders of the Company	633,354,295.53	504,002,522.78	25.66%
Net profit attributable to the shareholders of the Company after deducting the extraordinary gain or loss	571,125,181.84	455,267,463.54	25.45%
Net cash from operating activities	-18,168,548.18	447,380,853.65	-104.06%
Total profit	817,806,405.51	664,640,227.12	23.04%

Items	At the End of the Reporting Period	At the Beginning of the Reporting Period	Change at the End of the Reporting Period compared with the Beginning of the Reporting Period
Total assets	15,464,421,401.75	15,897,730,717.63	-2.73%
Total liabilities	4,596,332,739.07	4,664,107,164.03	-1.45%
Net assets attributable to the shareholders of the Company	10,377,012,951.36	10,772,739,768.63	-3.67%
Share capital	719,050,240.00	553,231,369.00	29.97%
Shareholders' equity per share attributable to the Shareholders of the Company	14.43	19.47	-25.89%

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

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

Items	Current Period	Same Period Last Year		Change of the Reporting Period compared with Same Period Last Year
		Before adjustment	After adjustment	After adjustment
Basic earnings per share (RMB/Share)	0.88	1.19	0.70	25.71%
Diluted earnings per share (RMB/Share)	0.88	1.19	0.70	25.71%
Basic earnings per share after deducting extraordinary gain or loss (RMB/Share)	0.80	1.08	0.64	25.00%
Weighted average return on net assets (%)	5.79%	7.42%	7.42%	down by 1.63 percentage points
Return on equity attributable to shareholders of listed companies (%)	6.10%	7.35%	7.35%	down by 1.25 percentage points
Equity attributable to shareholders of listed companies to total assets ratio (%)	67.10%	44.13%	44.13%	up by 22.97 percentage points

Note: In July 2017 and June 2018, as a result of the implementation of conversion of capital reserve by the Company, earnings per share for the first half of 2017 has been adjusted based on the latest information of share capital in accordance with the requirement of applicable accounting standards.

With effect from 1 January 2018, the Company adopted the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Business Enterprises No. 24 – Hedge Accounting", "Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instruments" and "Accounting Standards for Business Enterprises No. 14 – Revenue", which were newly revised by the Ministry of Finance, and the adjustments to the data at the beginning of the year are as follows:

Amount denominated: RMB

Item	Consolidated financial statements			Parent Company's financial statements		
	Balance at the beginning of the year before adoption	Changes	Balance at the beginning of the year after adoption	Balance at the beginning of the year before adoption	Changes	Balance at the beginning of the year after adoption
Financial assets held for trading	8,732,443.07	9,866,397.84	18,598,840.91	0.00	9,866,397.84	9,866,397.84
Available-for-sale financial assets	193,530,331.52	-193,530,331.52	0.00	85,369,506.68	-85,369,506.68	0.00
Other equity instrument investments	0.00	183,663,933.68	183,663,933.68	0.00	75,503,108.84	75,503,108.84
Receipts in advance	115,288,797.94	-115,288,797.94	0.00	39,100,755.02	-39,100,755.02	0.00
Contractual liabilities	0.00	115,288,797.94	115,288,797.94	0.00	39,100,755.02	39,100,755.02
Other comprehensive income	-44,546,365.43	-8,352,564.09	-52,898,929.52	8,352,564.09	-8,352,564.09	0.00
Retained earnings	8,028,315,370.19	8,352,564.09	8,036,667,934.28	4,724,885,078.69	8,352,564.09	4,733,237,642.78

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

In accordance with the "Notice on the Revision of the Format for Issuing General Financial Statements for 2018" (Cai Kuai [2018] No. 15) issued by the Ministry of Finance, the main impacts on the financial statements for the current period are as follows:

Item	Consolidated financial statements				Parent Company's financial statements		
	Balance at the beginning of the year before adoption/		Balance at the beginning of the year after adoption/		Balance at the beginning of the year before adoption/		Balance at the beginning of the year after adoption/
	Figures of the Previous Period	Changes	Figures of the Previous Period	Figures of the Previous Period	Changes	Figures of the Previous Period	
<i>Amount denominated: RMB</i>							
Balance sheet items:							
Bills receivable	1,151,583,176.39	-1,151,583,176.39	0.00	636,582,349.82	-636,582,349.82	0.00	
Accounts receivables	1,356,773,152.45	-1,356,773,152.45	0.00	637,179,064.67	-637,179,064.67	0.00	
Bills receivable and accounts receivables	0.00	2,508,356,328.84	2,508,356,328.84	0.00	1,273,761,414.49	1,273,761,414.49	
Interest receivables	5,945,063.41	-5,945,063.41	0.00	5,945,063.41	-5,945,063.41	0.00	
Dividend receivables	0.00	0.00	0.00	566,928,924.56	-566,928,924.56	0.00	
Other receivables	57,695,538.55	5,945,063.41	63,640,601.96	1,662,285,306.91	572,873,987.97	2,235,159,294.88	
Bills payable	661,858,884.48	-661,858,884.48	0.00	586,471,643.46	-586,471,643.46	0.00	
Accounts payables	501,668,543.26	-501,668,543.26	0.00	885,478,188.96	-885,478,188.96	0.00	
Bills payable and accounts payables	0.00	1,163,527,427.74	1,163,527,427.74	0.00	1,471,949,832.42	1,471,949,832.42	
Dividend payables	170,936,288.17	-170,936,288.17	0.00	20,174.46	-20,174.46	0.00	
Other payables	1,753,221,979.28	170,936,288.17	1,924,158,267.45	2,810,748,903.74	20,174.46	2,810,769,078.20	
Income statement items:							
Administrative expenses	400,516,843.08	-171,552,330.26	228,964,512.82	145,213,452.28	-65,121,401.52	80,092,050.76	
Research and development costs	0.00	171,552,330.26	171,552,330.26	0.00	65,121,401.52	65,121,401.52	

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

The total share capital of the Company as at the trading day immediately preceding disclosure (Shares)	719,050,240
Basic earnings per share based on the most updated share capital (RMB/Share)	0.88

(VI). 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

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

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

Amount denominated: RMB

Items	Amount
Gains or losses from disposal of non-current assets (including the written-off part of asset depreciation reserves withdrawn)	-121,892.09
Government grants included in gains or losses for the current period (excluding those government subsidies closely related to corporate business, and conform with the national standard or quantity)	114,515,854.69
Gains or losses on fair value change of held-for-trading financial assets and liabilities and investment gain from disposal of held-for-trading financial assets and liabilities and available-for-sale financial assets, excluding effective hedging business relating to the ordinary operation business of the Company	-17,421,672.92
Other non-operating incomes and expenses (excluding items mentioned above)	-8,151,365.26
Less: effect of income tax	12,541,409.68
Effect of minority interests (after tax)	14,050,401.05
Total	62,229,113.69

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

Applicable Not applicable

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

III. SUMMARY OF ACTIVITIES

(I). PRINCIPAL ACTIVITIES ENGAGED DURING THE PERIOD

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

(II). MATERIAL CHANGES IN MAJOR ASSETS

Major assets	Details for material changes
Equity assets	An increase of 19.85%, no material changes for the Reporting Period.
Fixed assets	A decrease of 2.70%, no material changes for the Reporting Period.
Intangible assets	An increase of 9.89%, no material changes for the Reporting Period.
Construction in progress	An increase of 86.17%, mainly due to the investment in the construction of new manufacturing plants and technical input for the Current Period.
Cash at bank and on hand	A decrease of 13.64%, no material changes for the Reporting Period.
Other receivables	An increase of 56.01%, mainly due to the additional receivables in the Current Period for the transfer of certain equity interest in the subsidiary.
Other equity instrument investments	An increase of 115.38%, mainly due to the acquisition of Global Health Science Fund II,L,P. for the Current Period.
Bills receivable and accounts receivables	An increase of 6.72%, no material changes for the Reporting Period.
Prepayments	An increase of 28.51%, no material changes for the Reporting Period.
Development costs	An increase of 54.43%, mainly due to the increase in expenses incurred at the development stage of the recombinant humanized anti-PD-1 monoclonal antibody injection and recombinant biosimilar human chorionic gonadotropin (rhCG) for injection projects for the current Reporting Period.

Major foreign assets

Applicable Not applicable

(III). CORE COMPETITIVENESS ANALYSIS

During the Reporting Period, the Group continued to adhere to the development target of becoming a high-end specialty pharmaceutical enterprise with the core business philosophy of “Transformation and Upgrade, Regularize development” to constantly improve the efficiency of its management and governance standards, thereby steadily promoting research and development, optimizing the distribution of market layout, and achieving steady growth in performance. During the Reporting Period, there were no major changes in the Group’s general core competitiveness, which was primarily reflected in the following:

(1) Diversified product mix and business portfolio

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

(2) Comprehensive marketing system and professional marketing team

The Group implemented lean management of marketing and constantly improved its marketing system, optimized its incentive assessment mechanism and strengthened marketing efforts within the academic field as well as to end-users. Through optimization of resources allocation, a more complete marketing system has been gradually established. The Group had more than 10,000 staff members who served in the marketing management teams of its various segments and provided professional sales services to the Group. The Group has a marketing network covering the majority of leading medical institutions, chain drugstores, disease control centres and health authorities across China.

(3) Proven quality management system

The Group has established a three-dimensional quality management system covering production quality, scientific research and sales of products. During the Reporting Period, the Group continuously improved its quality management level to facilitate the sound operation of the quality management system. The overall production and operating quality are in good condition. The quality management system operates in great order as well. Thus, the safety and stability of the Group’s products in various areas has been effectively protected.

(4) Strong R&D capabilities and global R&D vision

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

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

(I). OPERATING ACTIVITIES

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

(II). SUMMARY

In 2018, the medical reform is moving towards the maturity stage and brings both opportunities and challenges. The establishment of the medical insurance bureau, the development of consistency evaluation, the implementation of the new medical insurance catalogue and the ongoing monitoring of the proportion of prescription drug has a great impact on the entire pharmaceutical industry.

In the first half of 2018, the Group actively responded to the new trend and adopted the management approach centering on “innovation and standardization”, thereby promoting steady business development. During the Year, the Group recorded an operating income of RMB4,564.70 million, representing an increase of 6.78% as compared with RMB4,274.76 million of the Same Period Last Year. Net profit was RMB675.71 million, representing an increase of 22.77% as compared with RMB550.39 million of the Same Period Last Year. Net profit attributable to shareholders of the Company was RMB633.35 million, representing an increase of 25.66% as compared with RMB504.00 million of the Same Period Last Year. Excluding extraordinary gains and losses, the Company's net profit attributable to its shareholders generated from principal activities in the first half of 2018 was RMB571.13 million, representing an increase of 25.45% as compared with RMB455.27 million of the Same Period Last Year.

The progress of various business segment is as follows:

(1) Drug preparation business: target low-yield hospitals, grasp the grassroots market and plan for the launch of new products

This year marks the full implementation of evidence-based marketing and service-based marketing, as well as the commencement of cooperative marketing. Under the main themes of these marketing initiatives, the Group actively carried out the following works during the Reporting Period: first, it rationalized the business with low-yield hospitals and boosted sales of key products to such clients; second, it sought to develop business relationships with new hospitals to strengthen the penetration of key products in hospitals; third, it explored the low-end market and promoted development and sales to the end market; fourth, it improved the post market research of certain product types, optimized the chain of evidence of products and enhanced academic promotion; fifth, it refined the service-based marketing for precise message collection and delivery; sixth, it prepared for the launch of Ilaprazole Sodium Injection (注射用艾普拉唑钠) and pushed forward the progress of market entry such as tendering and medical insurance.

In addition to the R&D of pharmaceutical preparations, the Group strengthened the R&D and innovation system during the Reporting Period. It formulated the R&D and innovation incentive measures, introduced and nurtured high-end talents, increased the efforts in technical innovation and new product development, and accelerated the R&D progress of key products. The Shengqi Fuzheng Injection (参芪扶正注射液) was approved for phase I clinical test by the USA FDA and has reached the clinical research stage; the high-purity Menotropins for Injection reached the clinical research stage; the orphan drug Ryanodex for Injection (注射用丹曲林钠) reached the clinical research stage. The consistency evaluation for injections has steadily proceeded, the tinidazole tablets and clarithromycin tablets reached the clinical testing stage. During the Reporting Period, the Group has established the consistency evaluation work group to actively promote the consistency evaluation.

(II). SUMMARY *(continued)*

(1) Drug preparation business: target low-yield hospitals, grasp the low-end market and plan for the launch of new products *(continued)*

During the Reporting Period, the production enterprises of the Group achieved steady production and quality for the production of pharmaceutical preparations. There was not any material environmental accident, safety accident and occupational health accident. The internal audit quality function took into account the product nature and quality management, while centering on the risk control and the implementation of pharmaceutical policies and regulations of the enterprises. The quality assurance head office conducted 4 spot checks and 9 audits on 4 manufactures of pharmaceutical preparations. In terms of capacity construction, the Group completed the technological transformation of a workshop for Shenqi bag infusion (參芪袋裝輸液), while the construction of workshop for recombinant biosimilar human chorionic gonadotropin (rhCG) for injection (注射用重組人絨促性素(rhCG)) and the workshop for microspheres progressed steadily.

For overseas sales of pharmaceutical preparations, in the first half of 2018, the Group commenced the registration and sales of gonadotropic hormones, gastrointestinal, psychotropic and antibiotics drugs in Pakistan, the countries from the Commonwealth of Independent States, the Philippines, Central America, Nigeria, Macau and other countries and regions.

(2) Bulk medicines and intermediates business: push forward R&D, pursue excellent quality and enhance marketing strategy

During the Reporting Period, the bulk medicines business division consistently followed the management guiding principles of "safety and environment", "quality" and "cost". It strengthened talent nurturing and team building while enhancing R&D efforts for improvement of R&D, sales and production management powered by R&D.

During the Reporting Period, the Group made outstanding progress in R&D of bulk medicines, while registered for and commenced 11 R&D projects. It also completed the DMF filing for one R&D project and made initial achievements for the strains and fermentation methods for several key products. The Group completed the pre-registration R&D for several new products and established the pilot workshop for polypeptide research and development. At the same time, it planned to research more on drugs that treat diabetes and chronic bronchitis, new antibiotics and high-end veterinary medicines.

In the first half of 2018, the sales of the certain types of high-end antibiotics in the unregulated market increased significantly, the sales of key veterinary products continued to expand in the European and American market. Besides, the Group entered into the annual strategic cooperation strategies with customers in relation to a number of key products.

The management level of bulk medicines in the areas of production and quality improved steadily. There was not any material safety, environmental protection and quality accidents or incidents in all manufactures of bulk medicines. In terms of registration and certification, 11 products passed the on-site examination for international certifications, 17 international certifications were obtained (including 5 products passing the on-site examination of FDA), and over 200 registrations have been obtained for 43 products in 83 countries (or regions) as of the end of the Reporting Period.

During the Reporting Period, the Group established the production capacity integration group for the bulk medicines business division, which was responsible for the research and decision making on material matters such as the overall production capacity strategy for bulk medicines, transformation and upgrade of products, relocation and construction of new facilities, disposal of the land of old facilities and relocation of products.

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

(II). SUMMARY *(continued)*

(3) **Precise pharmaceutical business: emphasize on R&D and strengthen clinical research and optimize business structure and planning**

During the Reporting Period, in order to facilitate the medium and long-term development of the Group's precise pharmaceutical business, the sector developed the new incentive model and optimized the business structure. Meanwhile, Livzon Shengmei adjusted the shareholding structure and Livzon MAB underwent reorganization and obtained financing. Currently, the industrial chain of the precise pharmaceutical segment of the Group comprises "Livzon Reagents+Livzon MAB+Livzon Gene". During the Reporting Period, the subsidiaries of the Group have made the following major business achievements:

Livzon Reagents: Self-manufactured products made an increasing contribution to total revenue. Of which, revenue from self-manufactured gold label respiratory products surged from the same period last year. With respect to research and development, the clinical research results of nucleic acid products for blood screening is pleasant, while the R&D of multi-immune equipment and reagents has successfully passed the performance test and the registration and testing of X-ray blood irradiator has been approved by the specialists. Moreover, it established the immune-POCT R&D team and Suzhou Research and Development Center, which enhanced the R&D capability in respect of diagnostic reagent.

Livzon MAB: While focusing on clinical work and declaration, it pushed for the clinical progress of key products. As a result, all clinical trials were progressing well. Besides, it enhanced the establishment of the quality system and prepared for the strategic transformation from R&D to industrialization so as to secure the steady production of clinical drugs. It established the CAR-T platform and R&D management team and initiated R&D projects. The R&D pipeline has preliminary achieved differentiation. For the purpose of accelerating the research and internationalized development of biopharmaceutical drugs, Livzon MAB underwent reorganization and obtained financing during the Reporting Period.

Livzon Gene: Since the company started submitting products to be commercialized for examination in January 2018, it actively sought cooperation with clinical and scientific research institutions. As of now, it has commenced business cooperation with a number of hospitals, obtained R&D certifications for 7 new projects, and diversified the portfolio of items and samples available for testing. It obtained full marks in the "National Quality Assessment of NGS Data for Tumor" and the "National External Quality Assessment on PCR for Tumor" of the National Center for Clinical Laboratories; joined the Guangdong-Hong Kong-Macau Liquid Biopsy Joint Research Center and became the testing laboratory for the clinical process.

(4) **Function and strategy: strengthen service, promote standardization and optimize internal control and management**

During the Reporting Period, under the core operation and management principles of "innovation and standardization", the business functions worked together and performed their duties with the whole picture. Their works primarily include: first, improved support service through the standardization of administrative and management system; second, optimized the training system for management personnel and devoted more efforts in talent introduction; third, made reasonable arrangement for liquidity management to boost return on the Group's funds; fourth, promoted informatisation and launched the information system.

With respect to strategic development and investment, internally, the Group enhanced shareholding consolidation and management while Xinbeijiang Pharmaceutical, Livzon Shengmei and Livzon MAB underwent adjustment to the shareholding structure. Externally, the Group sought potential acquisition and merger targets that are suitable for the development strategy of the Company, with the view of further optimizing the industry structure.

(III). ANALYSIS OF PRINCIPAL ACTIVITIES

1. Summary

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

YES NO

Please refer to the Chapter IV "Summary" to this report for relevant information.

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

Applicable Not applicable

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

3. Segmental information

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

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

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

4. Income and Costs

(1) Composition of principal activities

Amount denominated: RMB

		Operating Incomes	Operating Costs	Gross profit margin	Year-on-year change in operating income	Year-on-year change in operating costs	Year-on-year change in gross profit margin
By sector							
	Gastrointestinal	624,546,828.65	52,475,761.78	91.60%	29.25%	31.18%	Down by 0.12 percentage point
Western drug preparation products	Cardio-cerebral vascular	127,110,087.44	26,224,471.59	79.37%	26.92%	21.43%	Up by 0.93 percentage point
	Antibiotics	293,628,776.73	57,904,672.02	80.28%	28.75%	14.91%	Up by 2.37 percentage points
	Gonadotropic hormones	754,141,363.02	262,061,090.33	65.25%	13.45%	14.21%	Down by 0.23 percentage point
	Other	345,571,093.98	50,693,800.30	85.33%	-14.15%	17.49%	Down by 3.95 percentage points
Bulk medicine and Intermediates		1,199,338,557.03	918,750,352.76	23.40%	19.49%	21.35%	Down by 1.17 percentage points
Chinese drug preparation products		861,803,356.71	198,218,354.11	77.00%	-20.52%	-11.88%	Down by 2.25 percentage points
Diagnostic products and equipment		337,600,404.27	133,484,911.80	60.46%	16.90%	6.50%	Up by 3.86 percentage points
Other		-	-	-	-	-	-
Total		4,543,740,467.83	1,699,813,414.69	62.59%	6.78%	13.93%	Down by 2.35 percentage points
By product							
	Shengqi Fuzheng Injection	545,628,160.38	110,656,529.85	79.72%	-34.66%	-25.62%	Down by 2.47 percentage points
By region							
	Domestic	3,985,197,646.14	1,281,587,931.21	67.84%	5.07%	12.37%	Down by 2.09 percentage points
	Overseas	558,542,821.69	418,225,483.48	25.12%	20.72%	18.99%	Up by 1.09 percentage points

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

4. Income and Costs *(continued)*

(1) Composition of principal activities *(continued)*

During the Reporting Period, the Group's principal activities generated an operating income of RMB4,543.74 million, representing an increase of RMB288.32 million or 6.78% as compared with RMB4,255.42 million of the Same Period Last Year. Among which, the sales growth in drug preparation products increased by 14.18% year-on-year and sales growth in bulk medicines and intermediates increased by 19.49% year-on-year. The income and growth of key western drug preparation products are as follows: the income from sales of key gonadotropic hormones product Leuporelin Acetate Microspheres for Injection (注射用醋酸亮丙瑞林微球) and Urofollitropin (尿促卵泡素) amounted to RMB359.06 million and RMB272.88 million, up by 27.43% and 3.93% year-on-year respectively; the income from sales of key gastrointestinal product Ilaprazole Enteric Coated Tablets (艾普拉唑腸溶片) amounted to RMB280.72 million, representing a year-on-year increase of 34.49%; the income from sales of Rabeprazole (雷貝拉唑) amounted to RMB126.02 million, representing a year-on-year increase of 50.07%; the income from sales of the Bismuth Potassium Citrate Granules series (得樂系列) amounted to RMB84.32 million, representing a year-on-year increase of 4.66%; the income from sales of nerve product Mouse Nerve Growth Factor (鼠神經生長因子) amounted to RMB228.76 million, representing a year-on-year decrease of 18.13%; the income from sales of Anti-viral Granules (抗病毒顆粒) amounted to RMB210.26 million, representing a year-on-year increase of 29.85%; the income from sales of Voriconazole for Injection (注射用伏立康唑) amounted to RMB138.53 million, representing a year-on-year increase of 44.48%; and the income from sales of the neurological drugs Fluvoxamine (氟伏沙明) and Perospirone (呱羅匹隆) amounted to RMB53.20 million and RMB18.14 million respectively, representing a year-on-year increase of 23.85% and 42.31% respectively. The income and growth of key bulk medicines and intermediates are as follows: The income from sales of Acarbose (阿卡波糖) amounted to RMB110.46 million, representing a year-on-year increase of 5.27%; the income from sales of Milbemycin Oxime (米爾貝肱) amounted to RMB78.37 million, representing a year-on-year increase of 109.61%; the income from sales of Lincomycin (林可黴素) amounted to RMB71.00 million, representing a year-on-year increase of 4.03%; and the income from sales of Vancomycin Hydrochloride (鹽酸萬古黴素) amounted to RMB62.49 million, representing a year-on-year increase of 15.98%. The sales growth of the above-mentioned products was primarily due to continuous progress in marketing reform which improved channel penetration, and accelerated the assembling of sales specialty, and driven by the steady growth of the key products with high margin in sector of Bulk medicines through the integration of resources, adjust the product structure, increase international certification and other measures. Meanwhile, due to the industry policies such as cost control on medical insurance reimbursement and lower bid price, the growth of certain products had slowed down or declined.

During the Reporting Period, the Group's operating costs of principal activities amounted to RMB1,699.81 million, representing an increase of RMB207.82 million or 13.93% as compared with RMB1,491.99 million for the Same Period Last Year, which was mainly due to the increase in the operating costs of principal activities resulted from the sales growth.

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

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

4. Income and Costs *(continued)*

(2) Operating Income of Principal Activities by Regions

Regions	Amount incurred for the Current Period		Amount incurred for the Previous Period	
	Principal activities income	Principal activities cost	Principal activities income	Principal activities cost
	<i>Amount denominated: RMB</i>			
Domestic	3,985,197,646.14	1,281,587,931.21	3,792,727,424.52	1,140,498,393.89
Overseas	558,542,821.69	418,225,483.48	462,694,942.21	351,489,450.86
Total	4,543,740,467.83	1,699,813,414.69	4,255,422,366.73	1,491,987,844.75

(3) Major customers and suppliers

During the Reporting Period, the sales amount attributable to the five largest customers contributed to 9.13% (Same Period Last Year: 9.03%) of the total operating income of the Group, while the purchase amount from the five largest suppliers of the Group contributed to approximately 34.91% (Same Period Last Year: 36.35%) of the Group's total purchase of raw materials. The five largest customers have been the customers of the Group for 11.6 years in average, and the five largest suppliers has been the customers of the Group for 9.6 years in average.

Major Suppliers of the Company for the Reporting Period

Total purchase amount from top five suppliers (RMB)	388,525,933.38
Percentage of purchase amount from top five suppliers to total purchase in the Current Period (%)	34.91%

Top Five Suppliers of the Company for the Reporting Period

Applicable Not applicable

No.	Name of supplier	Purchase amount (RMB)	Percentage of purchase amount to total purchase in the Current Period
1	First	170,916,175.86	15.36%
2	Second	76,482,267.27	6.87%
3	Third	54,532,271.83	4.90%
4	Fourth	45,399,946.40	4.08%
5	Fifth	41,195,272.02	3.70%
Total		388,525,933.38	34.91%

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

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

4. Income and Costs *(continued)*

(3) Major customers and suppliers *(continued)*

Other information about major suppliers:

✓Applicable Not applicable

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

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

5. Expenses

During the Reporting Period, the Group's four expense items (selling expenses, administrative expenses, R&D expenses and financial expenses) amounted to RMB2,060.95 million, representing an decrease of RMB24.44 million or 1.17% year-on-year. Details are as follows:

Items	Current Period	Same Period Last Year	Year-on-year change	Reasons for material changes
Selling expenses	1,679,680,086.00	1,684,605,046.08	-0.29%	No significant changes
Administrative expenses	251,140,575.65	228,964,512.82	9.69%	No significant changes
R&D expenses	243,963,723.02	171,552,330.26	42.21%	Mainly due to the increase in investment resulted from the increase in research and development projects and expansion of the scale
Financial expenses	-113,838,344.05	259,718.44	-43,931.44%	Mainly due to the increase in bank deposits and the increase in interest income, coupled with the appreciation of the U.S. dollar and the increased income from translation of foreign currency assets

During the Reporting Period, the total income tax expenses were RMB142.10 million, representing an increase of RMB27.85 million or 24.38% year-on-year, which was mainly due to the increase in income tax expenses resulted from the increase in income for the period.

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

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

6. Investment in research and development expenditure

Applicable Not applicable

During the Reporting Period, the Group's expenditures related to research and development amounted to approximately RMB327.47 million (Same Period Last Year: RMB278.67 million), representing a year-on-year increase of 17.51%. The amount accounted for approximately 3.16% of net assets attributable to shareholders of the Company and approximately 7.17% (Same Period Last Year: 6.52%) of the Group's total operating income for the period.

As at the end of the Reporting Period, the analysis of overall progress of the Group's research and development by field is as follows:

Chemical drug and Chinese drug preparation products: registration for and preclinical studies of 25 projects have begun, 7 projects were undergoing clinical studies and 7 projects were submitted for production approval; in the field of long-term microspheres, registration for and preclinical studies of 8 projects have begun, and approval for clinical trial was obtained for 1 project; consistency evaluation for 22 products (including 3 injection products) has commenced, with 9 products reached the pilot scale-up stage and 2 products reached the trial testing stage.

Bulk medicines: registration for and preclinical studies of 11 projects have begun and 1 project has been submitted for DMF filing.

Precise pharmaceutical business: Livzon MAB has 13 projects under research and 1 CAR-T project group. It is conducting research for 6 pre-clinical projects and has completed the IND registration of 1 project, which is pending approval. 7 projects have reached the clinical research stage (including 1 project under clinical research in both the PRC and the USA). Livzon Reagents has obtained registrations for 2 in vitro diagnostic reagents. 10 projects have reached the clinical stage and 1 project is under examination for registration. For equipment and device, the Group has obtained the registrations for 2 items, while 1 item is in the process of registration and 1 item is reaching the clinical stage soon. Livzon Gene has completed the R&D verification of 7 gene testing projects, including 2 liquid biopsy projects, 4 tissue gene testing projects and 1 hereditary tumor testing project.

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

6. Investment in research and development expenditure *(continued)*

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

- (1) Chemical drugs and Chinese drug preparation products: Shengqi Fuzheng Injection has entered into Phase 1 clinical trial stage with the approval of FDA of the US; high purity HMG for injection has entered into clinical trial stage; Orphan Drug Ryanodex for injection has entered into clinical trial stage; Triptorelin Acetate Microspheres (醋酸曲普瑞林微球) (1 month sustained release) project has obtained approval for clinical application and is in the preparation of clinical trial-related work; Leuprorelin Acetate Microspheres Injection (注射用醋酸亮丙瑞林微球) (3-month sustained release) project has completed the work for preclinical research and is in the preparation of registration; tinidazole tablets (替硝唑片) and clarithromycin tablet (克拉霉素片) is undergoing the clinical trial stage of Consistency Evaluation.
- (2) Biomedicine: 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) achieved progress in Phase II clinical trial. The clinical research of Recombinant biosimilar human chorionic gonadotropin (rhCG) for injection (注射用重組人絨促性素(rhCG)) has completed Phase I clinical trial, and has achieved progress in Phase III clinical trial. Recombinant Human/Mouse Chimeric Anti-CD20 Biosimilar Monoclonal Antibody (重組人鼠嵌合抗CD20單克隆抗體) is undergoing Phase I clinical trial. Recombinant anti-HER2 humanized monoclonal antibody for injection project (重組人源化抗HER2單克隆抗體注射液項目) is undergoing Phase I clinical trial and is in the preparation of Phase II clinical trial. Recombinant humanized anti-PD-1 monoclonal antibody (重組人源化抗PD-1單克隆抗體) has basically completed the Phase I clinical trial in the U.S. and achieved progress in Phase I clinical trial in China. Recombinant Anti-RANKL Monoclonal Antibody (重組全人抗RANKL單克隆抗體) is undergoing Phase I clinical trial. Recombinant Anti-IL-6R Humanized Monoclonal Antibody (重組抗IL-6R人源化單克隆抗體) project is undergoing the evaluation of CDE (國家食品藥品監督管理總局藥品審評中心) and is in the preparation of filing with FDA of the USA. In addition, CAR-T platform has been established and CAR-T single-target based in vitro functional studies has been certified and researched in preparation of in vitro studies and preliminary clinical studies.
- (3) Livzon Reagents: In respect of gold-labeled reagent, Chlamydia Pneumoniae IgM Antibody (肺炎衣原體IgM抗體), Diagnostics Kit for IgM Antibody to Mycoplasma pneumoniae (Colloidal Gold) (肺炎支原體IgM抗體檢測試劑(膠體金法)) has obtained the Registration Certificate; In respect of Molecular diagnostic reagents, five products including blood nucleic acid screening (血篩核酸) and DIAS nucleic acid (艾滋核酸) are undergoing clinical phase; In respect of chemiluminescent reagents: Tuberculosis Y interferon Chemiluminescence kit (結核 γ 干擾素化學發光試劑) has completed the registration and inspection phase and is undergoing the clinical studies; In respect of the equipment: Colloidal gold analyzer (膠體金分析儀和BV全自動分析儀) and BV full-automatic analyzer (血液輻照儀) has obtained the Registration Certificate while blood irradiator is undergoing the registration stage.

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

(IV). ANALYSIS OF NON-PRINCIPAL ACTIVITIES

✓ Applicable □ Not applicable

Amount Denominated: RMB

	Amount	As a percentage of total profits	Reason for occurrence	Sustainability
Investment income	854,288.83	0.10%	Mainly due to the change in profit or loss of joint ventures.	Yes
Gains or losses arising from changes in fair value	-16,905,949.52	-2.07%	Mainly due to the change in exchange rate of forward exchange contracts.	No
Asset impairment loss	27,823,804.41	3.40%	Mainly due to provision for inventory depreciation and provision for impairment of fixed assets.	Yes
Credit impairment loss	-24,003,370.10	-2.94%	Mainly due to the reversal of bad debt provision for the previous period as a result of the change in the percentage of provision for bad debts for the current period.	Yes
Non-operating income	76,388,868.05	9.34%	Mainly due to the receipt of government grants	Yes
Non-operating expenses	9,461,134.24	1.16%	Mainly due to the upgrade and transformation of production equipment and the discard of old production equipment	No
Other income	39,436,755.62	4.82%	Mainly due to the receipt of government grants	Yes

(V). ANALYSIS OF FINANCIAL CONDITIONS

1. Material changes in assets composition

Amount denominated: RMB

	At the End of the Reporting Period		At the end of the Previous Period		Increase/decrease in proportion	Reason for material changes
	Amount	As a percentage of total assets	Amount	As a percentage of total assets		
Cash at bank and on hand	6,404,038,913.24	41.41%	6,803,987,863.10	43.79%	-2.38%	No material changes for this period
Bills receivable and accounts receivables	2,676,930,069.45	17.31%	2,599,200,416.52	16.73%	0.58%	No material changes for this period
Inventories	1,154,373,372.75	7.46%	1,088,003,959.31	7.00%	0.46%	No material changes for this period
Long-term equity investments	112,490,912.71	0.73%	91,694,784.78	0.59%	0.14%	No material changes for this period
Fixed assets	3,231,463,269.69	20.90%	3,261,818,783.99	20.99%	-0.09%	No material changes for this period
Construction in progress	130,838,444.98	0.85%	169,934,836.39	1.09%	-0.24%	No material changes for this period
Short-term loans	272,087,290.50	1.76%	-	-	1.76%	No material changes for this period
Long-term Loans	700,000.00	0.0045%	700,000.00	0.0045%	0.00%	No material changes for this period

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

2. Assets and liabilities measured at fair value

Applicable Not applicable

Item	At the Beginning of the Period	Change in fair value for the Period	Accumulated change in fair value in equity	Impairment provision for the Period	<i>Amount denominated: RMB</i>		At the End of the Period
					Amount purchased during the Period	Amount sold during the Period	
Financial assets							
1. Held-for-trading financial assets (excluding derivative financial assets)	18,381,040.91	2,316,969.37	-	-	-	-	20,759,239.48
2. Derivative financial assets	217,800.00	-201,030.00	-	-	-	-	16,770.00
3. Other equity instrument investments	183,663,933.68	-	-6,177,120.87	-	218,087,202.50	-	395,574,015.31
Sub-total for financial assets	202,262,774.59	2,115,939.37	-6,177,120.87	-	218,087,202.50	-	416,350,024.79
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	202,262,774.59	2,115,939.37	-6,177,120.87	-	218,087,202.50	-	416,350,024.79
Financial liabilities							
1. Derivatives financial liabilities	339,129.90	-19,021,888.89	-	-	-	-	19,361,018.79

Whether there are material changes in measuring assets during the Reporting Period

YES NO

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

Applicable Not applicable

- (1) On 23 April 2018, the thirteenth meeting of the ninth session of the Board of the Company reviewed and passed the "Resolution on Launching the Bill Pool Business", pursuant to which it is agreed that the Company and its subsidiaries should collectively share the cap for the bill pool business amount of not more than RMB1.4 billion. The said fund limit is of revolving basis. As of the End of the Reporting Period, the Company had applied to the bank for a remaining sum of pledge of RMB59.5831 million for its bills receivables.
- (2) The remaining amount of the actual deposit paid by the subsidiaries to the bank for the application of businesses, such as foreign currency forward contracts and letter of credit was RMB18.4109 million.

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

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

4. Major changes in Consolidated Balance Sheet items

Amount denominated: RMB

Items	30 June 2018	31 December 2017	Year-on-year change
Other receivables	99,283,601.40	63,640,601.96	56.01%
Other equity instrument investments	395,574,015.31	183,663,933.68	115.38%
Construction in progress	130,838,444.98	70,279,348.98	86.17%
Development costs	39,116,103.78	25,328,934.25	54.43%
Short-term loans	272,087,290.50	–	–
Held-for-trading financial liabilities	19,361,018.79	339,129.90	5,609.03%
Contractual liabilities	79,155,861.76	115,288,797.94	–31.34%
Taxes payables	180,509,148.39	1,045,751,020.24	–82.74%
Treasury shares	7,283,234.20	66,786,741.96	–89.09%

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

- (1) Other receivables increased by 56.01% year-on-year, which was mainly due to the addition of part of the amount paid for the transfer of subsidiaries receivable in the Period;
- (2) The investment of other equity instruments increased by 115.38% year-on-year, which was mainly due to the purchase of Global Health Science Fund II, L.P. in the Period;
- (3) Construction in progress increased by 86.17% year-on-year, which was mainly due to the addition of production workshop construction and investment in technological transformation in the Period;
- (4) Development costs increased by 54.43% year-on-year, which was mainly due to the increase in R&D expenses for the development of recombinant humanized PD-1 monoclonal antibody for injection and recombinant human chorionic gonadotropin (rhCG) for injection in the Period;
- (5) Short-term loans of RMB272,087,290.50, which was mainly due to the increase in loans of subsidiaries in the Period;
- (6) Held-for-trading financial assets and liabilities increased by 5,609.03% year-on-year, which was mainly due to changes in fair values of forward foreign exchange contracts resulted from changes in exchange rates;
- (7) Contract liabilities decreased by 31.34%, which was mainly due to part of the contract payment received in advance reaching the income recognition condition and was carried forward;
- (8) Taxes payable decreased by 82.74% year-on-year, which was mainly due to the payment of enterprise income tax of RMB789.835 million in the Period, which was generated from the disposal of the equity of Zhuhai Weixing Shiye Co., Ltd.* (珠海維星實業有限公司) in the previous year;
- (9) Treasury shares decreased by 89.09%, which was mainly due to the decrease in repurchase obligation confirmed by the issuance of A Shares under the Restricted A Shares Incentive Scheme as a result of the unlock of the third unlocking under the first grant.

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

4. Major changes in Consolidated Balance Sheet items *(continued)*

Debt ratio

The Group's debt ratio as at 30 June 2018 and 31 December 2017 is calculated by dividing the Group's total liabilities at each respective date by its total assets. The debt ratio of the Group increased from 29.34% as at 31 December 2017 to 29.72% as at 30 June 2018.

5. Material changes in consolidated income statement items

Amount denominated: RMB

Item	Current Period	Previous Period	Year-on-year change
Research and development costs	243,963,723.02	171,552,330.26	42.21%
Financial expenses	-113,838,344.05	259,718.44	-43,931.44%
Credit impairment loss	-24,003,370.10	-	-
Investment income	854,288.83	5,084,363.02	-83.20%
Gain from changes in fair value	-16,905,949.52	733,944.14	-2,403.44%
Gains on disposal of assets	-121,892.09	-7,017,747.76	98.26%
Non-operating income	76,388,868.05	40,176,727.94	90.13%
Non-operating expenses	9,461,134.24	3,765,792.66	151.24%

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

- (1) Research and development costs increased by 42.21% year-on-year, which was mainly due to the increase in investment resulted from the increase in R&D projects and expansion of R&D scale;
- (2) Financial expenses decreased by 43,931.44% year-on-year, which was mainly due to the increase in bank deposits and the increase in interest income, coupled with the appreciation of the U.S. dollar and the increased income from translation of foreign currency assets;
- (3) Credit impairment loss was RMB-24,003,370.10, which was mainly due to the reversal of bad debt provision for the Previous Period as a result of the change in percentage of bad debts for the Current Period;
- (4) Investment income decreased by 83.20% year-on-year, which was mainly due to the gain from the redemption of principal-guaranteed financial products purchased with idle raised proceeds during the Previous Period;
- (5) Gain from changes in fair value decreased by 2,403.44% year-on-year, which was mainly due to the decrease in fair value of forward settlement contracts resulted from the changing exchange rate;
- (6) Gains on disposal of assets increased by 98.26% year-on-year, which was mainly due to the loss from disposal of idle fixed assets during the Previous Period;
- (7) Non-operating income increased by 90.13% year-on-year, which was mainly due to the increased amount received from government grants;
- (8) Non-operating expenses increased by 151.24% year-on-year, which was mainly due to the upgrade and transformation of production equipment and the discard of old production equipment.

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

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

6. Material changes in consolidated cash flow statement

Amount denominated: RMB

Item	Current Period	Previous Period	Year-on-year change
Sub-total of cash outflows from operating activities	5,163,985,446.22	3,831,534,370.16	34.78%
Net cash flows from operating activities	-18,168,548.18	447,380,853.65	-104.06%
Sub-total of cash inflows from investing activities	34,621,993.70	810,183,782.84	-95.73%
Sub-total of cash outflows from investing activities	491,062,836.90	222,621,571.12	120.58%
Net cash flows from investing activities	-456,440,843.20	587,562,211.72	-177.68%
Sub-total of cash inflows from financing activities	302,653,082.12	16,753,334.52	1,706.52%
Sub-total of cash outflows from financing activities	859,872,997.83	391,719,936.09	119.51%
Net cash flows from financing activities	-557,219,915.71	-374,966,601.57	-48.61%
Effect of foreign exchange rate changes on cash and cash equivalents	16,483,346.22	-22,141,605.59	174.45%
Net increase in cash and cash equivalents	-1,015,345,960.87	637,834,858.21	-259.19%

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

- (1) Sub-total of cash outflows from operating activities increased by 34.78% year-on-year, which was mainly due to a corporate income tax payment of RMB789.835 million for the period for the disposal of the equity interest in Zhuhai Weixing Shiye Co., Ltd. in the previous year;
- (2) Net cash flows from operating activities decreased by 104.06% year-on-year, which was mainly due to the payment during the Current Period of corporate income tax of RMB789.835 million for the disposal of the equity interest in Zhuhai Weixing Shiye Co., Ltd. in the previous year, excluding which net cash flow from operating activities would have increased by 72.49% year-on-year for the Current Period;
- (3) Sub-total of cash inflows from investing activities decreased by 95.73% year-on-year, which was mainly due to the receipt of the deposits for the equity transfer of subsidiary and the redemption of the principal-guaranteed wealth management products in the Previous Period;
- (4) Sub-total of cash outflows from investing activities increased by 120.58% year-on-year, which was mainly due to the combined effect of the acquisition of Global Health Science Fund II,L.P. and the increased investment in purchase of equipment for the Current Period;
- (5) Net cash flows from investing activities decreased by 177.68% year-on-year, which was mainly due to the receipt of the deposits for the equity transfer of subsidiary and the redemption of principal-guaranteed wealth management products in the Previous Period;
- (6) Sub-total of cash inflows from financing activities increased by 1,706.52% year-on-year, which was mainly due to the increase in the subsidiaries' borrowings for the Current Period;
- (7) Sub-total of cash outflows from financing activities increased by 119.51% year-on-year, which was mainly due to the combined effect of the increase in dividends distributed during the Current Period and the repayment of ultra-short-term debentures in the Previous Period;
- (8) Net cash flows from financing activities decreased by 48.61% year-on-year, which was mainly due to the combined effect of the increase in dividends distributed during the Current Period and the repayment of ultra short-term financing bills in the Previous Period;
- (9) Effect of foreign exchange rate changes on cash and cash equivalents increased by 174.45% year-on-year, which was mainly due to the appreciation of the U.S. dollar and the increase in foreign exchange gains from funds held in foreign currencies;
- (10) Net increase in cash and cash equivalents decreased by 259.19% year-on-year, which was mainly due to the combined effect of the increase in dividends distributed during the Period and the payment of corporate income tax of RMB789.835 million for the disposal of the equity interest in Zhuhai Weixing Shiye Co., Ltd. in the previous year.

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

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

Applicable Not applicable

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

8. Liquidity and financial resources

As at 30 June 2018, the Group's monetary funds amounted to RMB6,404.04 million (31 December 2017: RMB7,415.78 million), primarily arising from the consideration received for the transfer of equity interest in the subsidiary in the previous year.

During the Reporting Period, the Board and general meeting of the Group approved granted credit facilities of RMB8,901.00 million may be applied for and the actual granted amount applied to banks was RMB1,078.80 million.

Item	End of the Period (30 June 2018)			Beginning of the Period (31 December 2017)		
	Foreign currency	Translation	Amount	Foreign currency	Translation	Amount
	amount	rate	in RMB	amount	rate	in RMB
Cash on hand:			180,094.61			189,288.49
- RMB			163,374.61			172,387.93
- U.S. dollar	700.00	6.6166	4,631.62	700.00	6.5342	4,573.94
- Euro	1,579.87	7.6515	12,088.38	1,579.87	7.8023	12,326.62
Bank deposits:			6,384,712,954.08			7,400,750,287.84
- RMB			5,495,080,199.23			6,588,436,280.79
- HK dollar	445,783,310.93	0.8431	375,839,909.44	699,709,346.06	0.83591	584,894,039.47
- U.S. dollar	77,109,015.94	6.6166	510,199,514.87	34,047,231.72	6.5342	222,471,421.50
- Japanese Yen	24,017,575.00	0.059914	1,438,988.99	22,381,178.00	0.057883	1,295,489.72
- Euro	26,433.56	7.6515	202,256.38	276,436.74	7.8023	2,156,842.38
- MOP	2,377,112.97	0.8212	1,952,085.17	1,842,174.32	0.8122	1,496,213.98
Other monetary fund:			19,145,864.55			14,842,622.50
- RMB			14,259,663.02			14,143,201.28
- HK dollar	824,631.82	0.8431	695,247.09	836,718.34	0.83591	699,421.22
- U.S. dollar	633,400.00	6.6166	4,190,954.44			
Total			6,404,038,913.24			7,415,782,198.83

As at 30 June 2018, the Group's borrowings balance amounted to RMB273.19 million (31 December 2017: RMB1.10 million), accounting for 1.77% of the total assets (31 December 2017: 0.01%), of which short-term borrowings to mature within one year amounted to RMB272.49 million (31 December 2017: RMB0.40 million), accounting for 1.76% of total assets (31 December 2017: 0.003%) and long-term borrowings balance to mature after one year amounted to RMB0.70 million (31 December 2017: RMB0.70 million), accounting for 0.0045% of total assets (31 December 2017: 0.004%). Repayments of bank borrowings denominated in RMB and bank borrowings denominated in Hong Kong dollars during the Reporting Period amounted to RMB27.91 million and HK\$0.00 million, respectively. There was no distinct seasonal demand for each of the above borrowings.

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

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

9. Capital structure

The Group's capital structure comprises the shareholders' equity and liabilities. As at 30 June 2018, the shareholders' equity amounted to RMB10,868.09 million, the total liabilities amounted to RMB4,596.33 million and the total assets amounted to RMB15,464.42 million. Among which, the current liabilities of the Group amounted to RMB4,341.84 million (31 December 2017: RMB4,411.03 million), which decreased by 1.57% from the End of Last Year; the aggregated non-current liabilities amounted to RMB254.49 million (31 December 2017: RMB253.08 million), which increased by 0.56% from the End of Last Year. During the Reporting Period, the Group repaid liabilities of RMB27.91 million (31 December 2017: RMB350.00 million).

Equity attributable to the shareholders of the Company amounted to RMB10,377.01 million (31 December 2017: RMB10,772.74 million), down by 3.67% from the End of Last Year. Minority interests amounted to RMB491.08 million (31 December 2017: RMB460.88 million), which increased by 6.55% from the End of Last Year.

10. Capital Commitments

Items	<i>Amount denominated: RMB</i>	
	Balance at End of the Period	Balance at Beginning of the Period
Contracted but not recognized in the financial statements		
— Commitments for purchase and construction of long-term assets	55,166,639.35	43,824,827.39
Total	55,166,639.35	43,824,827.39

11. Interest rate

As at 30 June 2018, the aggregate interest-bearing bank borrowings and other borrowings amounted to RMB272.09 million (31 December 2017: RMB0.00 million). All borrowings bear interest at a fixed interest rate.

12. Ageing analysis of outstanding liabilities

Items	<i>Amount denominated: RMB million</i>	
	30 June 2018	31 December 2017
Within one year	1,045.69	662.26
1-2 years	—	—
2-5 years	—	—
Over 5 years	0.70	0.70
Total	1,046.39	662.96

13. Gearing ratio

As at 30 June 2018 and 31 December 2017, the gearing ratios were calculated by dividing the Group's total debts as at each respective date by shareholders' equity. The gearing ratio was 5.90% as at 31 December 2017 and increased to 9.62% as at 30 June 2018.

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

14. Interest Expenses and Capitalisation

Items	Reporting Period	<i>Amount denominated: RMB</i> Same Period Last Year
Interest expenses (note)	2,390,751.95	3,050,424.10
Capitalised interest	0.00	386,288.23
Total interest expenses	2,390,751.95	3,436,712.33

Note: Interest expenses mainly comprised of interests arising from the increase in the current capital loan of the subsidiary for the Period.

15. Foreign Exchange Risks

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

16. Contingent liabilities

As at 30 June 2018, the Group had no significant contingent liabilities.

17. Pledge of assets

As at 30 June 2018, the assets of the Company subject to pledge were as follows:

	30 June 2018 (RMB)	Reasons for being subject to restriction
Assets pledged:		
Bills receivable	59,583,079.78	Pledged bills for the bill pool business
Bank deposits	547,932.26	Guarantee deposit
Other monetary fund	17,863,006.66	Guarantee deposit
Total	77,994,018.70	

18. Staff, Remuneration, Pension Scheme and Training

As at 30 June 2018, the Group had 7,219 staff members (31 December 2017: 6,963 staff members). The remuneration of the employees was determined by the Group mainly according to the PRC laws and regulations, the Company’s economic performance and the remuneration level in the society. During the Reporting Period, the total wages, bonuses, allowances, compensation, welfare, housing funds and social insurance paid for the employees by the Group amounted to RMB468.89 million (31 December 2017: RMB657.14 million).

During the Reporting Period, there was no change in the employees remuneration policies. The employees of the Group have participated in the social basic endowment insurance system implemented by the local labor and social security departments. Upon retirement of the employees, the local labor and social security departments are obligated to pay social basic pension to the retired employees. The Group is required to contribute to the social basic old age insurance schemes at a specified rate of the employees’ salaries to fund the employee retirement benefits. The sole obligation of the Group with respect to the social basic old age insurance schemes is to make the required contributions under the scheme. There was no change in the details of the retirement benefits. In addition, the Company has completed the third unlocking under the Restricted A Shares Incentive Scheme. Please refer to the “Restricted A Shares Incentive Scheme” in Chapter IV of this Report for details.

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

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

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

In the first half of 2018, the Company continued to attach importance to the development and nurture of talents within the company, and develop a diversified and comprehensive staff training system with business schools as the core platform. According to the Group's strategic needs and talent classification, training of the company adopts a combination of online and offline diversified learning methods: 8 business school branches are established in each subsidiary, management of benchmark enterprises are visited, government policies are studied, Master's (Doctorate) degrees programmes are organised, professional continuing education and postgraduate programmes are organised in cooperation with relevant universities, staff-level intelligent office software application are organized, recruitment of fresh graduates, training for new employees; provide management of all levels with online courses for improvement of management skills, with diverse contents for improving learning efficiency and effectiveness. Meanwhile, the Company comprehensively upgraded the training of new employees. Through the classification of target trainees, training courses are enriched, high-quality lecturers in the company (and outside) and experts in various fields are invited for training new employees on quality control, production control, safety and environmental protection, financial system, personnel system, administrative system and information system, enabling new employees to fully understand the corporate culture of the Group, learn professional technical knowledge and develop team concept.

19. Investments

Subscription for new ordinary shares of Livzon Biologics

During the Reporting Period, please refer to the "Connected Transactions Defined in Hong Kong Listing Rules" in Chapter V of this Report for details of the subscription for newly issued ordinary shares of Livzon Biologics by Livzon International, an overseas wholly-owned subsidiary of the Company.

Investment in Global Health Science Fund II, L.P.

On 12 January 2018, the Board of the Company considered and approved the investment of USD30 million in Global Health Science Fund II, L.P. (the "Fund") (which is set up by GHS Partners Limited (as the ultimate general partner)) by Lian Hong Kong Limited, a wholly-owned subsidiary of the Company, and on the same date, has entered into the subscription agreement with GHS Partners Limited for the investment into the Fund.

The Fund is an offshore fund (limited partnership) registered Cayman Islands with the Company as the limited partner of the Fund. The target sum of the Fund is up to USD150 million, with an investment period of 3 years and a total term of 5 years. The term may be extended for two times, each time for one year, subject to project exit. The Fund invests primarily in businesses specializing in research and development of innovative and groundbreaking medical technology and products. It focuses on product and technology projects that enjoy huge market potential and outstanding cost advantages, and gives priority to growing enterprises that has reached the clinical stage and obtained patent protection. As of the date of the Report, the Company has subscribed for USD30.0 million.

Investing into the Fund can fully utilize the social capital, and effectively integrate the global resources, and the indirect investment and the Investee companies qualifying as the outstanding project under the international development strategy of the Company will be beneficial in broadening of the investment channels of the Company, enhancing the investment management standards and accelerating progress of internationalization. In addition, the professional and investment team can provide leading global edge for the Company in the medical healthcare sector, allowing the Company to capture the trend and conduct advance planning.

Save as disclosed above, during the Reporting Period, the Group did not make significant investment for the acquiring of equity interest and/or otherwise, and there was no significant change in the investments held by the Group compared with the relevant information disclosed in the 2017 annual report of the Company.

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

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(VI). INVESTMENT

1. Overall particulars of external investments

Applicable Not Applicable

Particulars of external investments		
Amount of investment for the Current Period (RMB)	Amount of investment for the Same Period Last Year (RMB)	Change
40,230,703.50	6,715,058.00	499.11%

Particulars of the investee		
Name of the company	Principal business	Shareholding in the investee attributable to the listed company
Shanghia Jianxin Biosciences Co., Limited (上海健信生物醫藥科技有限公司)	Engaged in technology development, technical consulting, technology transfer, and technical services in the field of biomedical technology.	5.10%
DOSERNA INC Xiangrong Biotech (Shanghai) Co., Limited (享融(上海)生物科技有限公司)	R&D of biotechnology. Engaged in biotechnology, technology of new materials, medical technology, chemical technology, technical consulting, technical services and technology transfer.	47.735% 15%
SCC VENTURE VI 2018-B, L.P.	Investment holding.	12.75%

2. Material Equity Investment during the Reporting Period

Applicable Not Applicable

Name of investees	Main business	Investment method	Investment amount	Shareholding ratio	Sources of funds	Partner	Investment period	Product type	Amount denominated: RMB			
									Progress as of the balance sheet date	Expected return	Investment profit and loss in the Period	Litigation incurred
Gongshan Livzon Yaoyuan Technology Co., Ltd. (貢山醫藥源科技有限公司)	Agricultural technology research and promotion; medical information consulting services; Chinese herbal medicine planting, acquisition, sales; acquisition, processing and sales of agricultural sideline products, warehousing service; sales of edible sugar, daily necessities, health supplies, medical testing equipment and instruments, fitness equipment.	Newly established	1,000,000.00	100%	Private capital	Nil	N/A	N/A	Not yet invested	-	-	No
Livzon San-Med Diagnostics Inc.	R&D of Biotechnology	Newly established	31,250,000.00 (USD 5,000,000.00)	35.19%	Private capital	Nil	N/A	N/A	Has invested USD50,000	-	-54,462.13	No
Total	-	-	32,250,000.00	-	-	-	-	-	-	-	-54,462.13	-

3. Material non-equity investment ongoing during the Reporting Period

Applicable Not Applicable

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

(VI). INVESTMENT (continued)

4. Shareholdings in Financial Institutions

✓ Applicable □ Not Applicable

Company names	Company Categories	Initial investment cost (RMB)	Number of shares held at the Beginning of the Period (shares)	Percentage of shares held at the Beginning of the Period	Number of shares held at the End of the Period (shares)	Percentage of shares held at the End of the Period	Carrying amount at the End of the Period (RMB)	Profit or loss for the Current Period (RMB)	Accounting items	Sources of shares
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	Commercial bank	95,325,760.00	84,936,000.00	1.5065%	84,936,000.00	1.5065%	75,325,760.00	-	Non-transactional equity instruments measured at fair value, with the change in fair value included in other consolidated earnings	Investee company
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	Commercial Bank	177,348.84	68,854.00	0.0004%	68,854.00	0.0004%	177,348.84	-	Non-transactional equity instruments measured at fair value, with the change in fair value included in other consolidated earnings	Investee company
Total		95,503,108.84	85,004,854.00	-	85,004,854.00	-	75,503,108.84	-	-	-

5. Investment in Securities

✓ Applicable □ Not Applicable

Unit: RMB

Types of securities	Securities codes	Securities abbreviations	Initial investment cost (RMB)	Number of shares held at the Beginning of the Period (Shares/unit)	Percentage of shares held at the Beginning of the Period	Number of shares held at the End of the Period (Shares/unit)	Carrying amount at the End of the Period (RMB)	Percentage of shares held at the End of the Period	Profit or loss for the Current Period (RMB)	Accounting items	Sources of fund
Shares	00135	Kunlun Energy	4,243,647.64	1,000,000.00	0.01%	1,000,000.00	0.01%	6,643,628.00	-1,066,177.70	Financial assets at fair value through profit or loss	Self funding
Funds	206001	Penghua Fund	150,000.00	804,520.74	0.31%	804,520.74	0.32%	862,446.23	-3,620.34	Financial assets at fair value through profit or loss	Self funding
Shares	000963	Huadong Medicine	39,851.86	183,118.00	0.02%	274,677.00	0.02%	13,253,165.25	3,518,612.37	Financial assets at fair value through profit or loss	Self funding
Other securities investment held at the end of the year			-	-	-	-	-	-	-	-	-
Total			4,433,499.50	1,987,638.74	-	2,079,197.74	-	20,759,239.48	2,448,814.33	-	-
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										

(VI). INVESTMENT *(continued)*

6. Shareholdings in other listed companies

Applicable Not Applicable

7. Entrusted Wealth Management, Derivatives Investment and Entrusted Loans

(1) Entrusted wealth management

Applicable Not Applicable

(2) Information on Derivatives Investment

Applicable Not Applicable

Unit: RMB'0,000

Name of derivative investment operator	Relationship	Connected transactions	Type of derivatives investment	Initial investment amount of derivatives investment	Commencement date	Maturity date	Investment amount at the Beginning of the Period	Investment amount at the End of the Period	Proportion of investment at the End of the Period to net assets at the End of the Reporting Period	Actual gains or losses during the Reporting Period
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	2,026.76	2018/1/23	2018/6/28	-	-	0.00%	7.11
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	1,318.09	2018/2/23	2018/11/2	-	410.24	0.04%	-4.46
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	12,949.84	2018/3/2	2018/9/25	-	1,727.59	0.17%	-9.50
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	442.72	2018/3/20	2019/3/22	-	463.16	0.04%	-
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	997.31	2017/10/30	2018/1/4	975.65	-	0.00%	23.79
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	5,130.11	2018/4/4	2018/11/5	-	4,085.21	0.39%	-29.28
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	42,344.11	2018/5/2	2019/1/4	-	43,823.01	4.22%	-0.65
Financial institution	Non-related party	No	Forward foreign exchange contract (sell)	2,778.40	2018/6/1	2018/12/13	-	2,863.11	0.28%	-
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	1,122.15	2017/11/29	2018/2/9	1,098.04	-	0.00%	-
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	564.62	2018/2/6	2018/6/15	-	-	0.00%	-6.69
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	468.46	2018/4/19	2018/6/15	-	-	0.00%	-31.89
Financial institution	Non-related party	No	Forward foreign exchange contract (buy)	175.53	2018/5/29	2018/7/13	-	179.74	0.02%	-
Total				70,318.09	-	-	2,073.69	53,552.06	5.16%	-51.57

Source of derivatives investment funds

Self funding

Litigation incurred (if applicable)

N/A

Announcement disclosure date of derivatives investment approval board

12 June 2018

Announcement disclosure date of shareholders' meeting for approval of derivatives investment (if any)

N/A

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

(VI). INVESTMENT *(continued)*

7. Entrusted Wealth Management, Derivatives Investment and Entrusted Loans *(continued)*

(2) Information on Derivatives Investment *(continued)*

Risk analysis of derivative positions held during the Reporting Period and explanation of control measures (including but not limited to market risk, liquidity risk, credit risk, operational risk, legal risk, etc.)

To effectively manage the uncertainty risk of assets denominated in foreign currencies of the Company arising from fluctuations in exchange rates, foreign exchange forward contracts and other financial derivatives are employed to fix relevant exchange rates so as to conduct hedging activities. The Company has formulated the "Foreign Exchange Risk Management Measures" for the operation and control of foreign exchange derivatives: 1. Market risk: uncertainties in exchange rate fluctuations in the foreign exchange market leads to relatively high market risk in the foreign exchange forward business. Control measures: The Company's foreign exchange forward business is entered into to hedge exchange rate risks associated with assets denominated in U.S. dollar and fix the future exchange settlement price of assets denominated in U.S. dollar. It is designed to be used as a hedge tool. Such foreign exchange derivatives cannot be subject to speculative trading. The principle of prudence and conservation shall be observed so as to effectively prevent market risk. 2. Operational risk: operational risk is arising from defective internal process, man-made operation and systems. Control measures: The Company has formulated the corresponding management methods to clearly define the responsibilities of all parties, improve the review and approval process and establish supervisory mechanism, so as to effectively reduce operational risk. 3. Legal risk: the Company's foreign exchange forward business shall be operated under applicable laws and regulations and shall clearly stipulate the relationship of rights and obligations with financial institutions. Control measures: in addition to strengthening the research on laws and regulations and market rules, the Company's responsible department also stipulates that the Company's legal department shall strictly review various contracts, agreements and other documents in relation to its business, clarify rights and obligations and strengthen compliance inspection, aiming to ensure that the Company's derivatives investment and operations meet the requirements of applicable laws and regulations as well as the Company's internal systems.

Gains and losses arising from changes in fair value of the forward settlement contracts during the Reporting Period were RMB-19,222.9 million.

Change in market price or fair value of invested derivatives during the Reporting Period (the analysis of the fair value of derivatives shall disclose the specific methods applied and the assumptions and parameters set)

Explanation as to whether the Company's accounting policies and accounting principles for derivatives during the Reporting Period have changed significantly as compared with the Previous Period.

Independent Directors' special opinions on the derivatives investment and risk control of the Company

No

Due to growing import and export business, the Company required a large amount of foreign exchange for transactions. To avert and control foreign exchange risk, we were of the view that the forward foreign exchange derivatives trading business proposed to be launched by the Company and its subsidiaries were in line with the actual development needs of the Company. When the Board considered the above proposal, the relevant procedure was in compliance with the laws, regulations, regulatory documents and the relevant provisions in the Articles of Association of the Company. In view of such, we approved the Company to formulate the management system for the foreign exchange derivative trading business in accordance with the relevant laws and regulations, and conduct such business with its own funds within the limit approved by the Board.

(3) Entrusted loans

Applicable Not Applicable

8. Utilization of Raised Funds

Applicable Not applicable

(1) Overall use of proceeds

Applicable Not Applicable

Unit: RMB'0,000

Total proceeds	142,030.04
Total amount of proceeds used during the Reporting Period	5,625.36
Accumulated amount of proceeds used	53,293.75
Total amount of proceeds involved in change of use during the Reporting Period	0.00
Accumulated amount of proceeds involved in change of use	30,600.00
Proportion of accumulated amount of proceeds involved in change of use	21.54%

(VI). INVESTMENT *(continued)*

8. Utilization of Raised Funds *(continued)*

Overall use of proceeds

- (1) 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 CSRC, the Company has issued 29,098,203 A Shares with a nominal value of RMB1.00 per share at RMB50.10 per share, raised proceeds amounted to RMB1,457.82 million, and the Company received net proceeds of RMB1,420.3004 million on 2 September 2016 million after deduction of issuance expenses of RMB37.5196 million.
- (2) The proceeds are mainly used to research and develop and commercialise the upgrade of innovative product of Ilaprazole series, construction of R&D platform of prolonged-action microspheres technologies, project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (phase I), technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory and supplement to working capital and repayment of bank borrowings, consistent with use passed by the Board of the Company. As of 30 June 2018, 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.

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

✓ Applicable Not Applicable

Unit: RMB'0,000

Investment projects undertaken and the use of the excess funds	Project change (including partially changed projects)	Total amount of proceeds undertaken for investment	Total investment amount after adjustment (1)	Invested amount during the Reporting Period	Cumulative invested amount as of End of the Period (2)	Progress of investment as of End of the Period (3)=(2)/(1)	Date of project reaching the working condition for its intended use	Results realised during the Reporting Period	Achieving its estimate results	Any material change in feasibility of project
Investment projects undertaken										
1. Deeper Development and Industrialization Upgrade of the innovative Ilaprazole product series	No	45,000.00	45,000.00	1,226.76	5,339.34	11.87%	31 December 2018	-	No	No
2. Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	Yes	30,600.00	-	-	-	-	-	-	-	-
3. Relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (First Phase)	Yes	-	14,328.94	-	-	0.00%	30 June 2019	-	No	No
4. Technology update of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory	Yes	-	5,311.73	1,608.55	3,969.34	74.73%	31 August 2018	-	No	No
5. Construction of Research & Development Platform of sustained release Microsphere Technologies	Yes	30,182.00	41,141.33	2,790.05	7,737.03	18.81%	31 December 2021	-	No	No
6. Supplementary working capital and banking loan repayment	No	36,248.04	36,248.04	-	36,248.04	100.00%	N/A	N/A	N/A	No
Subtotal of the investment projects undertaken	-	142,030.04	142,030.04	5,625.36	53,293.75	-	-	-	-	-
Use of the excess proceeds:						N/A				
Banking loan repayment (if any)	-	-	-	-	-	-	-	-	-	-
Supplementary working capital (if any)	-	-	-	-	-	-	-	-	-	-
Subtotal of the use of the excess proceeds	-	-	-	-	-	-	-	-	-	-
Total	-	142,030.04	142,030.04	5,625.36	53,293.75	-	-	-	-	-

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

(VI). INVESTMENT *(continued)*

8. Utilization of Raised Funds *(continued)*

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

Particulars of and reasons for not meeting schedule or estimated income (by specific projects)	<p>1. Ilaprazole Project: Due to adjustments to the national drug administration system, the approval for production of Ilaprazole for injection was obtained at a time later than expected, resulting in the timing and progress of launching of the IV stage clinical research and clinical research trials for new indications being later than expected, and leading to the failure to meet the expected schedule for use of relevant proceeds.</p> <p>2. Project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.: as the environment impact assessment of the project was delayed, the relocation and expansion project has not yet been officially launched.</p>
Particulars of material change in feasibility of project	Not applicable
Amount and uses of the excess proceeds and the progress of uses	Not applicable
Particulars of change in place of application of proceeds	For details, please refer to "Changes in projects funded with the proceeds raised"
Particulars of adjustment to way of application of proceeds	<p>The fund-raising investment project of in-depth development, industrialization and upgrade of innovative Ilaprazole product series was expected to be implemented by Livzon Pharmaceutical Group Inc., with an investment focus on the in-depth development, industrialization and upgrade of innovative Ilaprazole product series. In order to ensure the effective implementation of fund-raising projects, further increase production capacity, ensure the quality of products and continuously maintain the Company's technological and market advantages, the Resolution on Addition of Implementing Entity for the Fund-raising Investment Project of the Company was passed at the third Extraordinary Shareholders' Meeting in 2016, pursuant to which Livzon Group Livzon Pharmaceutical Factory, a subsidiary of the Company, was added as an implementing entity of the project.</p> <p>On 19 September 2017, the Resolution on Alteration to the Fund-raising Investment Project of the Non-Public of A Shares of the Company was considered and approved at the first Extraordinary Shareholders' Meeting in 2017, pursuant to which the following adjustments to the subprojects of the project of "construction of research & development platform of sustained release microsphere technologies" were approved: 1 change the original sub-project of "Renovation Project of Pilot Workshop" to "Microsphere Workshop Construction Project for Livzon Group Livzon Pharmaceutical Factory", and 2 additionally include Livzon Group Livzon Pharmaceutical Factory as one of the implementing entities; and terminate preclinical studies project of "Risperidone Sustained-release Microspheres for Injection (1 month)".</p> <p>The above-mentioned addition of an implementing entity to the fund-raised investment project will not lead to changes in the direction of investment of the Company's raised proceeds, or affect the normal implementation of fund-raised investment projects, or have an adverse impact on the financial position of the Company.</p>
Particulars of application of proceeds in early stage and replacement of proceeds	On 28 December 2016, the thirty-third meeting of the Eighth Session of the Board of the Company reviewed and approved "the Resolution on Replacement of Self-raised Funds Invested in Advance to Projects Financed by Proceeds Raised from Issuance of Preference Shares" and proceeds raised from fund-raising investment projects amounted to RMB41.8571 million were used by the Company. On 4 January 2017, the Company has transferred the funds from its special account.
Particulars of application of idle proceeds for temporary replenishment of working capital	Not applicable
Amount of 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

(VI). INVESTMENT ANALYSIS *(continued)*

8. Utilization of Raised Funds *(continued)*

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

✓ Applicable Not Applicable

Unit: RMB'0,000

Project after change	Corresponding originally committed project	Total amounts of proceeds intended to be invested in the project after change (1)	Actual investment amount for the Reporting Period	Actual accumulated investment amount as of the End of the Period (2)	Investment progress as of the End of the Period (3) = (2)/(1)	Date on which the project is ready for the intended use	Benefits achieved during the Reporting Period	Expected benefits achieved or not	Significant change in feasibility of the project or not
Project of relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (phase I)	Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	14,328.94	-	-	-	30 June 2019	-	-	No
Technological transformation project of bag infusion workshop for Livzon Group Limin Pharmaceutical Manufacturing Factory	Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	5,311.73	1,608.55	3,969.34	74.73%	31 August 2018	-	-	No
Construction of R&D platform of prolonged action microsphere technologies	Capital injections to Livzon MAB for its investment in the construction of "Research & Development and Industrialization of therapeutic antibody-based drugs"	41,141.33	2,790.05	7,737.03	18.81%	31 December 2021	-	-	No
Total	--	60,782.00	4,398.60	11,706.37	-	-	-	-	-

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

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

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

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

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

Not applicable

Particulars of material change in feasibility of projects after change

Not applicable

(4) Particulars of projects with the use of proceeds

For details, please refer to the "Overall use of proceeds" above.

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

(VI). INVESTMENT ANALYSIS *(continued)*

9. Significant Non-fundraising Investment Project

Applicable Not Applicable

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

(VII). DISPOSAL OF SUBSTANTIAL ASSETS AND EQUITY

1. Disposal of substantial assets

Applicable Not applicable

2. Disposal of substantial equity

Applicable Not applicable

(VIII). ANALYSIS OF MAJOR HOLDING AND INVESTEE COMPANIES

Applicable Not applicable

Company name	Company category	Industry	Major products or services	Registered capital	Total assets	Net assets	<i>Amount denominated: RMB</i>		
							Operating income	Operating profit	Net profit
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Subsidiary	Pharmaceutical	Principally engaged in production and sale of self-made chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	450,000,000.00	2,867,603,776.79	1,127,453,193.99	1,327,980,783.06	428,174,018.89	370,814,619.90
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in R&D, production and sale of traditional Chinese medicine, major products include Anti-viral Granules, Dexamlin Oral Paste, etc.	149,000,000.00	1,026,382,008.84	859,363,927.78	241,051,055.31	61,849,660.97	52,634,167.73
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Subsidiary	Pharmaceutical	Principally engaged in production and operation of Chinese drug preparations and pharmaceutical raw materials, etc., major products include Shenqi Fuzheng Injection, Xueshuantong, etc.	61,561,014.73	988,564,321.37	487,209,157.64	307,651,916.13	110,677,938.14	93,550,375.20
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production of biochemical and polypeptide bulk medicines, major products include biochemical bulk medicines such as Human Menopausal Gonadotropin and Human Chorionic Gonadotropin.	87,328,900.00	591,398,195.34	353,363,343.29	479,057,857.57	131,332,423.78	127,014,559.53
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production and operation of chemical bulk medicines, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium, etc.	128,280,000.00	768,574,232.38	231,370,288.59	436,363,007.87	73,910,272.62	62,940,361.20
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	Pharmaceutical	Principally engaged in sale of bulk medicines, intermediate products and export of related technologies, major products include Pravastatin, Mevastatin, Salinomycin, etc.	134,925,200.00	672,026,367.75	523,853,054.20	273,801,139.49	60,113,916.54	51,841,974.41

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

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

Company name	Company category	Industry	Major products or services	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production of antibiotics bulk medicines, intermediate and drug preparation products and chemical raw materials for pharmaceutical production, major products include Colistin, Vancomycin, Phenylalanine, etc.	USD41,700,000	822,966,668.76	483,267,194.67	273,246,575.89	97,425,880.91	81,197,029.41
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production and sale of diagnostic reagents, major products include Chlamydia Trachomatis Antigen Diagnostic Kit and ELISA HIV Testing Reagents Kit.	88,232,932.32	774,325,504.60	150,232,814.13	343,526,792.66	37,557,017.64	38,009,013.21
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary	Pharmaceutical	Principally engaged in technological R&D for biopharmaceutical products and antibiotics.	533,330,000.00	560,404,519.90	193,666,865.60	57,069.58	-78,381,653.54	-78,381,653.54

(IX). ACQUISITIONS AND DISPOSAL OF SUBSIDIARY DURING THE REPORTING PERIOD

✓ Applicable □ Not applicable

Company name	Method of acquiring and disposing of the subsidiary during the Reporting Period	Effect on the general operation and results
Gongshan Livzon Yaoyuan Technology Co., Ltd. (貢山麗珠藥源科技有限公司)	Establishment	No material impact
Livzon San-Med Diagnostics Inc.	Establishment	No material impact

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

(X). ESTIMATION OF OPERATING RESULTS FOR JANUARY TO SEPTEMBER 2018

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

Applicable Not applicable

	From the beginning of the year to the end of the next reporting period	Same period last year	Changes
Forecast of accumulated net profit (RMB'0,000)	87,721.29-95,037.04	424,624.19	-79.34% -- -77.62%
Basic earnings per share (RMB/share)	1.22-1.33	5.97	-79.56% -- -77.72%

- (1) On 18 April 2017, the Company and its subsidiary, Pharmaceutical Factory entered into an equity transfer agreement with Zhuhai Hengqin Weichuang Fortune Investment Co., Ltd.* (珠海橫琴維創財富投資有限公司) in relation to the transfer of 100% equity interest in its subsidiary of Zhuhai Weixing Shiye Co., Ltd. (珠海維星實業有限公司). The equity transfer was completed on 17 July 2017 and resulted in an increase of RMB3,284 million in the net profit attributable to the shareholders of the Company.
- (2) Excluding the extraordinary gains or losses, it is expected that net profit attributable to the shareholders of the Company after deducting the extraordinary gain or loss from the beginning of the year to the end of the next reporting period would increase by 17.06% to 26.95% as compared to the same period last year, which was primary attributable to the stable principal businesses and the increase in interest income due to further optimization of capital management.

Note: In June 2018, as a result of the implementation of conversion of capital reserve by the Company, earnings per share for the third quarter of 2017 has been adjusted based on the latest information of share capital in accordance with the requirement of applicable accounting standards.

(XI). STRUCTURAL BODY CONTROLLED BY THE COMPANY

Applicable Not applicable

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

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

(XIII). OTHER SIGNIFICANT EVENT

Save for transactions as disclosed herein, the Company had no significant investment, material acquisition or disposal involving any subsidiary or associated company, nor other significant event which is required to be disclosed during the Reporting Period.

(XIV). PROSPECTS FOR FUTURE DEVELOPMENT

1. Key risks and opportunities and relevant solutions

- (1) Risks associated with industry policy changes: As the pharmaceutical industry is highly regulated and China is deepening the reform of healthcare system with relevant policies and regulations gradually being formulated and improved. The introduction of policies may have impact on the research and development, production and sales of the Group at various extent, for example, factors including the adjustments to the 2017 Medical Insurance Catalogue, the promotion of Consistency Evaluation and lower bid price may have certain impact on the Group.

Response measures: The Company will pay close attention to and study relevant industry policies to catch up with the changing trends of the industry timely, in order to regulate its production and management, strengthen its core competitiveness and actively respond to industry changes.

- (2) Risks associated with new drug research and development: Generally speaking, the development of drugs has to undergo preclinical studies, clinical registry application, clinical trials approval, clinical trials, production registration filing, on-site assessment, production approval, etc., with involve many processes and lengthy period of time, therefore the approvals are uncertain and there is a risk in the research and development. Also, it is uncertain whether effective sales could be established in the market after the product is successfully developed.

Response measures: The Company will further optimise the innovative R&D system by introducing and cultivating high-end talents, continuously improving the R&D level, optimizing the R&D structure with the focus placed on promoting the research progress of the key products under research. Meanwhile, the Company will strengthen the secondary development of key products, improve the research level and reduce production costs.

- (3) Risk associated with lower price: After the drug product has been approved for the launch, it has to go through medical insurance approval and tendering to gain market access, which makes the pharmaceutical enterprises facing greater downward pressure on drug prices. Meanwhile, due to the industry policies such as macroeconomics, market competition, medical insurance budget, the drop may be exposed to the risk of a price drop.

Response measures: The Company will pay close attention to the development of the tenders to swiftly response and adjust the tender plan. Meanwhile, the Company will also conduct post-marketing clinical studies on some of the key products to strengthen their market competitiveness. In addition, the Company will continue to innovate and develop drugs of urgent clinical need with high added value, further develop the product under production with market potential, and optimize the product portfolio to ensure the substantiality of the Company.

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

(XIV). PROSPECTS FOR FUTURE DEVELOPMENT *(continued)*

1. Key risks and opportunities and relevant solutions *(continued)*

- (4) Risk associated with supply and price fluctuation of raw materials: raw materials such as traditional Chinese medicine, bulk medicines, supplemental materials, and packaging materials have been affected by various factors such as macroeconomics, monetary policy, environmental management, natural disasters, etc., which may lead to restrained resource supply or significant fluctuation in the prices, and affect the profitability of the Company to a certain extent.

Response measures: Firstly, some of the Company's key varieties of Chinese herbal medicine raw materials self-built GAP production base has been established for herbal medicines raw materials for certain key products; secondly, the Company will strengthen monitoring and analysis of the market, rationally arrange inventory and procurement cycle to reduce risks; in addition, the Company will carry out lean production and implement effective cost control measures with quality assurance.

2. Future development strategy

(1) Drug preparation business

In the second half of 2018, the marketing team will closely focus on the sales strategy of "marketing based on evidence, service-oriented marketing and marketing through cooperation" to implement fine management at all marketing levels. We will continue to refine hospital sales management, capture the lower-class market, increase sales to grassroots, and optimize product portfolio offered to the grassroots, in order to develop the grassroots, outpatient and privately-run hospital markets simultaneously. In addition, we will enhance the market share and strengthen the assessment and weighting of some key products. We will supplement the provincial-level medical insurance catalogue with key products and actively participate in standard tender and supplementary tender for new products. In the establishment of the sales team, we will strengthen the management team and further define their terms of reference.

As for the research and development of pharmaceutical preparations, we will continue to improve the project management mechanism, strengthen the management of the target and continuously promoting research and development progress in the second half of 2018. In addition, we will effectively integrate resources, strengthen external cooperation and, through various measures such as independent development, external referral and joint development, accelerate project development and reinforce the construction of product pool. Meanwhile, we will establish a network of key product patent and scientifically develop a patent portfolio.

In the production and quality of pharmaceutical preparations, timely delivery, product quality, and safe production will remain the production focuses of the Group. Meanwhile, we will facilitate the capacity construction and GMP certification according to the plan, in order to be well-prepared for the launch of the new products.

(2) Bulk Medicines business

In the second half of 2018, bulk medicines business will rationally coordinate the deployment of resources, continue to strengthen internal management, further enhance the overall profitability of bulk medicines, with an aim to continue achieving the upgrade of bulk medicines business.

In respect of R&D, we strive to develop outstanding product planning and portfolio, enhance the research and development of new products, and strengthen the introduction of new products, in particular, new foreign products or technologies, so as to establish product pool, develop hit products and create distinctive product competitiveness.

(XIV). PROSPECTS FOR FUTURE DEVELOPMENT *(continued)*

2. Future development strategy *(continued)*

(2) Bulk Medicines business *(continued)*

In respect of sales, we will further strengthen the team establishment and market segmentation with multi-business expansion, active development of customer resources, cooperation relationship and close cooperation with world-class companies to build a renowned "Livzon brand" in the global market by conducting. Meanwhile, we will pay close attention to the exchange rate and market trends in order to adjust sales strategies in a timely manner.

In respect of production, we strive to ensure safety and environmental protection, effectively reduce production costs, enhance product quality and improve production efficiency. Meanwhile, we actively promote the integration of the production capacity of bulk medicines and carry out the planning and construction of the new plant of bulk medicines.

(3) Precise pharmaceutical business

Livzon MAB: The company will place great importance on promoting key projects progress with higher efficiency and standard, and strengthen the construction of research and development and quality system to enhance industrialization capabilities and accelerate the accomplishment. The company will strengthen the business internationalization development and cooperation to conduct fast-paced and innovative research and development. Meanwhile, the company will optimize its operation management and further enhance the provision of multi-level incentives to the talents.

Livzon Reagents: To achieve the milestone of new products development as planned, in particular, the reagents and equipment of multiple immune platform, X-ray blood irradiator, nucleic acid infectious disease reagent products; To continue develop the molecular field and commence the research and development of molecular POCT products; To promote the launch of the self-produced gold strip, prepare the launch of X-ray irradiator and attract investment.

Livzon Gene: In respect of the marketing, the company continues to work closely with the pharmaceutical product sales team to adopt a variety of models including sample inspection, scientific research services, hospital-enterprise cooperation, and joint-establishment of testing laboratory to ensure the continued advancement of existing projects and the successful launch of new projects. In respect of the R&D projects, the company will commence the research and development of the self-built tumor immunity testing project, including PD-L1 detection and tumor mutation burden detection, and meanwhile, improve and optimize the whole inspection process of new project.

(4) Functions and strategies

The functional departments of the Company will center on the strategic objectives of the Company, actively cooperate, provide full support, implement rules and regulations, enhance operational efficiency, in order to provide strong protection for sales, production and research and development. In view of the medium and long-term strategic development of the Group, we will continue to optimise the internal equity management, share option incentive scheme, investment and cooperation in respect of innovative products and technologies.

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

(XV). REPURCHASE, SALE OR REDEMPTION OF SECURITIES

- (1) In view of that 13 original incentive participants under the first grant and 3 original incentive participants under the reserved grant of the Restricted A Shares Incentive Scheme have resigned and 1 original incentive participant under the reserved grant of the Restricted A Shares Incentive Scheme who holds restricted shares that then no longer satisfy the unlocking conditions, 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 Restricted Shares granted but still locked-up as held by above 16 resigned Incentive Participants, and has repurchased and cancelled the Restricted Shares that then no longer satisfy the unlocking conditions which were held by above 1 incentive participant under the reserved grant. On 11 May 2018, the Company has repurchased 77,774 Restricted Shares under the first grant at the price of RMB14.08 per share and 12,324 Restricted Shares under the reserved grant at the price of RMB18.16 per share, respectively, on the Shenzhen Stock Exchange, totaling 90,098 Restricted Shares (the "Repurchased A Shares") (the "Repurchase"). The aggregate purchase price payable for the Repurchase was RMB1,318,861.76, and the actual aggregate purchase price paid for the Repurchase is RMB1,300,873.16 after withholding individual income tax of RMB17,988.60. Pursuant to the Repurchase, the Repurchased A Shares have been cancelled on 15 May 2018.
- (2) In view of that 2 original incentive participants under the first grant and 4 original incentive participants under the reserved grant of the Restricted A Shares Incentive Scheme have resigned, pursuant to the provisions of "13. Handling unusual changes to the Company/Incentive Participants" under the Restricted A Shares Incentive Scheme, the Company has repurchased and cancelled the 25,701 Restricted Shares granted but still locked-up as held by the above 6 resigned Incentive Participants. On 8 June 2018, the Company has repurchased 14,196 Restricted Shares under the first grant at the price of RMB14.08 per share and 11,505 Restricted Shares under the reserved grant at the price of RMB18.16 per share, respectively, on the Shenzhen Stock Exchange, totaling 25,701 Restricted Shares (the "Repurchased A Shares") (the "Repurchase"). The aggregate purchase price payable for the Repurchase was RMB408,810.48, and the actual aggregate purchase price paid for the Repurchase is RMB353,851.97 after withholding individual income tax of RMB54,958.51. Pursuant to the Repurchase, the Repurchased A Shares have been cancelled on 11 June 2018.

Save as disclosed above, throughout the period from 1 January 2018 to 30 June 2018, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the listed securities of the Company.

For further details of the Restricted A Shares Incentive Scheme, please refer to section IV "The Restricted A Shares Incentive Scheme" of the Report.

(XVI).THE RESTRICTED A SHARES INCENTIVE SCHEME

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

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

On 29 March 2018, the Twelfth Meeting of the Ninth Session of the Board of the Company was convened to approve the Company to (i) proceed with matters concerning the third unlocking of the first grant under the Restricted A Shares Incentive Scheme, there were a total of 413 incentive participants satisfying the unlocking conditions, and may apply for 4,038,407 shares of Restricted Shares to be unlocked and traded, representing 27.20% of the total number of unlocked Restricted Shares under the Restricted A Shares Incentive Scheme. The unlocked Restricted Shares were traded on 13 April 2018; (ii) repurchase 14,196 shares granted to 2 incentive participant that no longer satisfy the unlocked conditions of the first grant at RMB14.08 per share and 11,505 shares of the Restricted Shares granted to 4 incentive participants that no longer satisfy the unlocking conditions of the reserved grant at RMB18.16 per share. On 11 June 2018, the Company has completed the repurchase and cancellation. Please refer to "Repurchase, sale or redemption of securities" contained in Section IV of this Report for the details of the repurchase and cancellation.

On 15 May 2018, the Company has completed the repurchase and cancellation of 90,098 Restricted Shares in total. Please refer to the "Repurchase, sale or redemption of securities" in Section IV of this Report for details of the repurchase and cancellation.

(XVII).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 Issuance.

The Issuance was completed as approved by the CSRC on 19 September 2016. The number of shares under the Issuance was 29,098,203 A Shares. The gross proceeds of the Issuance amounted to RMB1,457,819,970.30, net of issuance expenses totaling RMB37,519,603.53, the net proceeds were RMB1,420,300,366.77. On 20 September 2017, 37,827,664 restricted A Shares under the Issuance was issued and listed (after the proposed profit distribution plan of the Company for 2016, the number of restricted shares under the Issuance increased from 29,098,203 A Shares to 37,827,664 A Shares), and there are 19 Shareholders applied for unlocking restricted shares.

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

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

On 24 March 2017, the thirty-fifth meeting of the eighth session of the Board of the Company was convened, the Board has comprehensively inspected the progress of the projects invested with proceeds from the Issuance in 2016, and considered and approved to make adjustments to the projects invested with proceeds for which the difference between the originally planned use of proceeds and the actual use of proceeds exceeds 30%. The adjustments involved that to the major investment plan of the “Deeper development and industrialization upgrade of innovative llaprazole series” and that to the major investment plan of the capital injections to Livzon MAB for investment in the construction of “Research & Development and Industrialization of Therapeutic Antibody-based Drugs” (the “Adjustments”). The Adjustments are made by the Company in view of the actual progress of the projects invested with proceeds. There were only adjustments to the amount of proceeds used in each of the subsequent years of the project and the construction period of industrialization project, without changing the use of the proceeds. The adjustments have been considered and approved at the annual general meeting for 2016 on 23 June 2017.

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

On 23 March 2018, the eleventh meeting of the ninth session of the Board of the Company was convened to consider and approve the adjustment to the use of proceeds in projects invested with proceeds from the Issuance. Projects involved in the adjustments included the use of proceeds in the “deeper development and industrial upgrading of the innovative llaprazole series” and the “relocation and expansion of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (first phase)”. The aforesaid adjustments were made by the Company in view of the actual progress of the projects invested with proceeds. There were only adjustments to the amount of proceeds used in each of the subsequent years of the project, without changing the use of the proceeds. The adjustments have been considered and approved at the annual general meeting for 2017 on 21 May 2018.

(XVIII). ADOPTION OF SHARE OPTIONS INCENTIVE SCHEME

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

On 16 April 2018, the 2017 Share Options Incentive Scheme was passed at the 2018 Second Extraordinary General Meeting and the 2018 First Class Meeting of A Shareholders. Nonetheless, it was not passed at the 2018 First Class Meeting of H Shareholders, hence it was not approved and can not be implemented.

On 17 July 2018, the Company convened the sixteenth meeting of the ninth session of the Board to consider and approve the 2018 Share Options Incentive Scheme of the Company (Draft) (the "2018 Share Options Incentive Scheme"), proposing to grant 19,500,000 share options to its incentive participants, which involved an aggregate of 19,500,000 ordinary A Shares, representing 2.71% of the total issued share capital of the Company as at the date of this Report. In which, there were 17,550,000 shares options under the first grant, representing 90.00% of the aggregate number under the 2018 Share Options Incentive Scheme; and there were 1,950,000 shares options under the reserved grant, representing 10.00% of the aggregate number under the 2018 Share Options Incentive Scheme; The exercise price of the Shares options under the first grant was RMB47.01/A Shares with 1,116 incentive participants, including the Directors, senior management, mid-level management and relevant core personnel of the Company.

The validity period of the 2018 Share Options Incentive Scheme shall commence from the registration date of the grant of the share options and end on the date on which all the share options granted to the incentive participants have been exercised or otherwise cancelled, which shall not be longer than 60 months. Within the 60 days from passing of the 2018 Share Options Incentive Scheme on a general meeting of the Company and the A Shares and H Shares class meetings, the Company shall convene meeting of Board for the grant of share options to the incentive participants under relevant rules, and comply with announcement and registration requirements.

Pursuant to the Chapter 17 of the Hong Kong Listing Rules, the 2018 Share Options Incentive Scheme constitutes a share options scheme. On 26 July 2018, the Company is exempted from strict compliance with Note (1) to Rule 17.03(9) of the Hong Kong Listing Rules with respect to the exercise price of share options that may be granted under the 2018 Share Options Incentive Scheme. The 2018 Share Options Incentive Scheme shall be effective upon obtaining approval at the extraordinary general meeting and the class meetings of Shareholders to be convened on 5 September 2018.

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

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

✓ Applicable Not applicable

Date of reception	Type of reception	Type of guests	Index of basic information of research
9 January 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 9 January 2018 which the Company posted on the Cninfo website on 10 January 2018 for detail of said research
11 January 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 11 January 2018 which the Company posted on the Cninfo website on 11 January 2018 for detail of said research
19 January 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 19 January 2018 which the Company posted on the Cninfo website on 19 January 2018 for detail of said research
18 May 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 18 May 2018 which the Company posted on the Cninfo website on 22 May 2018 for detail of said research
22 May 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 22 May 2018 which the Company posted on the Cninfo website on 23 May 2018 for detail of said research
22 May 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 22 May 2018 which the Company posted on the Cninfo website on 29 May 2018 for detail of said research
8 June 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 8 June 2018 which the Company posted on the Cninfo website on 8 June 2018 for detail of said research
26 June 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 26 June 2018 which the Company posted on the Cninfo website on 27 June 2018 for detail of said research
27 June 2018	On-site investigation	Institution	Please refer to the Investor Relationship Event Record Form on 27 June 2018 which the Company posted on the Cninfo website on 28 June 2018 for detail of said research

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

1. General meetings during the Reporting Period

Session of meeting	Type of meeting	Attendance rate of investors	Date of meeting	Date of disclosure	Disclosure index
2018 First Extraordinary General Meeting	Extraordinary General Meeting	33.3349%	7 February 2018	8 February 2018	"Announcement of Resolution of the 2018 First Extraordinary General Meeting" (Announcement No.: 2018-012), announcement website: Cninfo (http://www.cninfo.com.cn/)
2018 Second Extraordinary General Meeting	Extraordinary General Meeting	34.1665%	16 April 2018	17 April 2018	"Announcement of Resolutions of the 2018 Second Extraordinary General Meeting, 2018 First Class Meeting of A Shareholders and 2018 First Class Meeting of H Shareholders" (Announcement No.: 2018-038), announcement website: Cninfo (http://www.cninfo.com.cn/)
2018 First Class Meeting of A Shareholders	Class Meeting of Shareholders	39.2245%			
2018 First Class Meeting of H Shareholders	Class Meeting of Shareholders	24.8763%			
2017 Annual General Meeting	Annual General Meeting	49.3432%	21 May 2018	22 May 2018	"Announcement of Resolutions of the 2017 Annual General Meeting, 2018 Second Class Meeting of A Shareholders and 2018 Second Class Meeting of H Shareholders" (Announcement No.: 2018-049), announcement website: Cninfo (http://www.cninfo.com.cn/)
2018 Second Class Meeting of A Shareholders	Class Meeting of Shareholders	39.5703%			
2018 Second Class Meeting of H Shareholders	Class Meeting of Shareholders	67.8732%			

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

Applicable Not applicable

(II). CORPORATE GOVERNANCE

1. Highlights

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

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

2. Compliance with the Corporate Governance Code

The Company confirmed that since 1 January 2018 up to 30 June 2018, the Company strictly complied with principles and all of the code provisions (the "Code Provisions") in the Corporate Governance Code as set out in Appendix 14 of Hong Kong Listing Rules, excluded the following deviation:

The Code Provision E.1.2 provides that the chairman of the Board should attend the annual general meeting. Mr. Zhu Baoguo, the Chairman of the Board, did not attend the 2017 annual general meeting due to urgent business trip.

3. Compliance with the Model Code

The Company adopted the Model Code as set out in Appendix 10 of the Hong Kong Listing Rules as its own Model Code regarding the securities transactions in the H Shares of the Company by the Company's Directors, Supervisors and the "Relevant Employees" as defined in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. After making sufficient and specific enquiries to all of the Directors and Supervisors of the Company, the Company was not informed of any information which reasonably revealed that each of the Directors and Supervisors had not complied with the standard required by the above codes during the period from 1 January 2018 to 30 June 2018. 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 2018 to 30 June 2018. 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.

4. Special Committees of the Board

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

(II). CORPORATE GOVERNANCE *(continued)*

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

Audit Committee

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

The Audit Committee has reviewed the unaudited results and interim report of the Group for the six months ended 30 June 2018 and agreed to submit to the Board for consideration.

Remuneration and Assessment Committee

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

Nomination Committee

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

Strategy Committee

The Strategy Committee under the Ninth Session of Board is comprised of two Directors. The Chairman of the committee is Mr. Zhu Baoguo (Non-executive Director), and the other committee member is Mr. Tao Desheng (Executive Director). Mr. Zhong Shan (previously a committee member of the Strategy Committee) resigned as Non-Executive Director of the Company due to personal work and time arrangement, effective from 1 September 2017. The Company will elect and appoint a new member according to the terms of reference for strategy committee of the Board as soon as possible. The key responsibilities of the Strategy Committee are to conduct research on the Company's long-term development strategy and major investment decisions, and give recommendations thereon.

V. MAJOR EVENTS

(III). LITIGATION

MATERIAL LITIGATION AND ARBITRATION

Applicable Not applicable

OTHER LITIGATION

Applicable Not applicable

(IV). QUESTIONING FROM MEDIA

Applicable Not applicable

(V). MATTERS RELATED TO BANKRUPTCY RECTIFICATION

Applicable Not applicable

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

Applicable Not applicable

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

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

Applicable Not applicable

For details of the Restricted A Shares Incentive Scheme, please refer to “Restricted A Shares Incentive Scheme” under Section IV of the Report.

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

Applicable Not applicable

- (1) On 30 March 2018, Gongshan Livzon Yaoyuan Technology Co., Ltd. (貢山麗珠藥源科技有限公司) was established with 100% registered capital by Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司).
- (2) On 8 May 2018, Livzon San-Med Diagnostics Inc. was established with 100% registered capital by Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司).

(IX). APPOINTMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANTS

After consideration and approval at the 2017 Annual General Meeting of the Company, the re-appointment of Ruihua Certified Public Accountants (LLP) as the auditors firm of the Company for the year 2018 has been approved.

Whether the interim financial report has been audited

Yes No

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

(X). PUNISHMENT AND RECTIFICATION

Applicable Not applicable

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

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

Applicable Not applicable

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

(XII). 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.

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

1. Connected Transactions in the Ordinary Course of Business

✓ Applicable Not applicable

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transactions	Disclosure date	Disclosure index
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	81.13	0.07%	Bank settlement	24 March 2018	"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2017 and the Expected Connected Transactions in the Ordinary Course of Business for 2018 Announcement" (Announcement No.: 2018-025)
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	4,539.99	4.08%	Bank settlement	24 December 2016, 26 October 2016	"Resolution announcement of the 2016 Third Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-118)", "Announcement relating to the 2017-2019 three years continuing connected transactions framework agreement entered into by the Company and Joicare" (Announcement No.: 2016-91)
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Procurement of commodities	Procurement of finished products	Determined by negotiation based on market price	18.21	0.02%	Bank settlement	24 March 2018	"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2017 and the Expected Connected Transactions in the Ordinary Course of Business for 2018 Announcement" (Announcement No.: 2018-025)
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	17,091.62	15.36%	Bank settlement	24 December 2016, 26 October 2016	"Resolution announcement of the 2016 Third Extraordinary General Meeting of Livzon Pharmaceutical Group Inc." (Announcement code: 2016-118)", "Announcement relating to the 2017-2019 three years continuing connected transactions framework agreement entered into by the Company and Joicare" (Announcement No.: 2016-91)

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

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

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transaction (RMB'000)	Proportion to transaction amount of the same category	Settlement method of connected transactions	Disclosure date	Disclosure index	
CYNVENIO BIOSYSTEMS, INC	A company in which Directors are holding position	Procurement of commodities	Procurement of raw materials	Determined by negotiation based on market price	25.15	0.02%	Bank settlement			
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Acceptance of services	Water, electricity and power	Determined by negotiation based on market price	454.21	3.38%	Bank settlement			
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of commodities	Sale of finished products	Determined by negotiation based on market price	1,594.95	0.35%	Bank settlement			
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of raw materials	Determined by negotiation based on market price	4,786.67	1.05%	Bank settlement			
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished products	Determined by negotiation based on market price	41.54	0.01%	Bank settlement		"Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2017 and the Expected Connected Transactions in the Ordinary Course of Business for 2018 Announcement" (Announcement No.: 2018-025)	
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Processing fee, testing	Determined by negotiation based on market price	0.20	22.30%	Bank settlement	24 March 2018		
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Water, electricity and power	Determined by negotiation based on market price	19.45	8.36%	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	212.96	91.49%	Bank settlement			
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	Leasing out of equipment	Determined by negotiation based on market price	3.77	4.86%	Bank settlement			
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	Leasing out of office premise	Determined by negotiation based on market price	4.50	5.80%	Bank settlement			
Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Lease of assets	Lease of office premise	Determined by negotiation based on market price	38.61	7.81%	Bank settlement			
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Lease of assets	Lease of office premise	Determined by negotiation based on market price	18.24	3.96%	Bank settlement			
Total					28,931.20					
Substantial amount of returned products				Not Applicable						
Projected total amount of connected transactions in the ordinary course of business during the current period by type and actual performance during the Reporting Period (if any)				During the Current Period, the total amount of the connected transactions actually conducted in the ordinary course was RMB289.3120 million. Among which, the amount of connected transactions actually conducted in the ordinary course between the Company and the controlling shareholder (Jincare) and their subsidiaries was RMB270.1701 million, representing 56.97% of the projected amount (RMB474.2218 million) approved by the operating management, the Board and the general meeting of shareholders of the Company; the amount of connected transactions actually conducted in the ordinary course between the Company and Blue Treasure Pharma (藍寶製藥) was RMB18.8904 million, representing 45.15% of the projected amount (RMB41.8397 million) approved by the operating management and the Board of the Company; the amount of connected transactions conducted in the ordinary course between the Company and Cynveno Biosystems, Inc. was RMB0.2515 million, representing 1.48% of the projected amount (RMB16.9889 million) approved by the Board of the Company. The above connected transactions have not exceeded the projected amount approved.						
Reason for the significant difference between the transaction amounts and referential projection amounts (if applicable)				Not Applicable						

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

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

✓ Applicable Not applicable

Connected parties	Relationships with connected parties	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Carrying value of the assets transferred (RMB'000) (RMB'000)	Consideration of transfer (RMB'000)	Settlement method of connected transactions	Profit or loss of the transactions (RMB'000)	Disclosure date	Disclosure index
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Transfer of assets	Procurement of equipment	Determined by negotiation based on market price	107.41	107.41	Bank settlement	0.00	N/A	N/A
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Transfer of assets	Procurement of equipment	Determined by negotiation based on market price	997.16	997.16	Bank settlement	0.00	N/A	N/A
CYNVENIO BIOSYSTEMS,INC	A company in which Directors are holding position	Transfer of assets	Acquisition of technical know-how	Determined by negotiation based on market price	658.36	658.36	Bank settlement	0.00	N/A	N/A
CYNVENIO BIOSYSTEMS,INC	A company in which Directors are holding position	Transfer of assets	Procurement of equipment	Determined by negotiation based on market price	79.96	79.96	Bank settlement	0.00	N/A	N/A
Reason for the significant difference between transfer consideration and carrying value or evaluation value (if any)				Not applicable						
Effect on the operating results and financial position of the Company				No significant effect on the operating results and financial position of the Company						
Achievement progress of performance target during the Reporting Period where relevant transaction involves committed performance				Not applicable						

3. Connected Transactions on Joint External Investment

 Applicable Not applicable

(XIII). SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)***4. Credits and Debts with Connected Persons**✓ Applicable Not applicable**Non-operating credits and debts with connected persons**✓ Yes No**Liabilities receivable from the connected persons**

Connected parties	Relationships with connected parties	Reason for occurrence	Use of extraordinary capital	Balance at the Beginning of the Period (RMB0'000)	Amount increased for the Period (RMB0'000)	Amount recovered for the Period (RMB0'000)	Interest rate	Interest of the Period (RMB0'000)	Balance at the End of the Period (RMB0'000)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of finished products, provision of services	No	1,066.65	2,103.61	1,559.72	-	-	1,610.54
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of raw materials and fixed assets	No	272.64	5,582.09	3,807.38	-	-	2,047.35
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Subsidiary of the controlling shareholder	Sale of finished products	No	54.00	48.60	102.60	-	-	0.00
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Processing fee, testing	No	0.00	0.23	0.23	-	-	0.00
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	No	0.00	26.92	10.18	-	-	16.74
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Prepayments for procurement of finished products	No	7.11	20.34	23.12	-	-	4.33
CYNVENIO BIOSYSTEMS,INC	A company in which Directors are holding position	Prepayments for equipment, payment for purchasing goods	No	11.03	105.11	20.90	-	-	95.24
CYNVENIO BIOSYSTEMS,INC	A company in which Directors are holding position	Acquisition of technical know-how	No	0.00	658.36	658.36	-	-	0.00
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing out of assets	No	0.00	5.00	5.00	-	-	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Dividends receivables	No	0.00	267.75	0.00	-	-	267.75
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.							

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

4. Credits and Debts with Connected Persons (continued)

Liabilities payable to the connected persons

Connected parties	Relationships with connected parties	Reason for occurrence	Balance at the Beginning of the Period (RMB0'000)	Amount increased for the Period (RMB0'000)	Amount recovered for the Period (RMB0'000)	Interest rate	Interest of the Period (RMB0'000)	Balance at the End of the Period (RMB0'000)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of raw materials	1.18	94.78	79.68	-	-	16.28
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of raw materials	2,369.11	5,057.77	4,213.70	-	-	3,213.18
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of raw materials	14,494.83	25,368.12	21,273.08	-	-	18,589.87
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling Shareholder	Procurement of goods, hiring of assets	1.30	43.32	43.32	-	-	1.30
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Water, electricity and power	638.60	536.69	674.01	-	-	501.28
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	Company controlled by the director of the subsidiary of the Company	Dividends payable	16,840.43	0.00	1,960.00	-	-	14,880.43
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Procurement of equipment	0.00	1,166.68	25.37	-	-	1,141.31
Topsino Industries Limited (天誠實業有限公司)	Subsidiary of the controlling shareholder	Dividends payable	0.00	20,038.52	0.00	-	-	20,038.52
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.						

(XIII). SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)***5. Other 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 Report. Save for the above, the Group has no other major connected transactions during the Reporting Period.

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

Title of the Interim Announcement	Disclosure Date of the Interim Announcement	Name of Website Disclosing the Interim Announcement
Livzon Pharmaceutical Group Inc. Execution of Connected Transactions in the Ordinary Course of Business for 2017 and Connected Transactions in the Ordinary Course of Business for 2018 Announcement	24 March 2018	Cninfo (http://www.cninfo.com.cn/)
“Announcement relating to the update on the change in shareholding structure and connected transactions of Livzon MABPharm Inc., a subsidiary controlled by the Company”	8 March 2018	Cninfo (http://www.cninfo.com.cn/)
“Announcement relating to the update on the change in shareholding structure and connected transactions of Livzon MABPharm Inc., a subsidiary controlled by the Company”	8 February 2018	Cninfo (http://www.cninfo.com.cn/)

(XIV). CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES**1. One-Off Connected Transactions****Change in the Shareholding Structure of Livzon MAB**

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

(XIV).CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES*(continued)***1. One-Off Connected Transactions** *(continued)***Change in the Shareholding Structure of Livzon MAB** *(continued)*

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

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

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

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

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

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

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

(continued)

1. One-Off Connected Transactions *(continued)*

Provision of Financing Guarantees for Livzon MAB

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

On 8 December 2017, the Company issued a letter of guarantee to China Merchants Bank Co., Ltd., Zhuhai Branch ("CMB") for providing the CMB Guarantee which is limited up to RMB300,000,000 (or its equivalent in foreign currencies) in favour of the CMB to secure the CMB Facilities to be provided by the CMB to Livzon MAB.

On 16 April 2018, the Company and Livzon MAB entered into the framework agreement pursuant to which the Company agreed to provide the five guarantees (comprising the CZB Guarantee and four guarantees of up to RMB200,000,000 (or its equivalent in foreign currencies) in aggregate (the "Four Guarantees") provided by the Company in favour of another four banks) of up to RMB500,000,000 (or its equivalent in foreign currencies) in aggregate in favour of the relevant banks to secure the relevant facilities to be applied by Livzon MAB subject to the terms and conditions of the specific guarantee agreements to be entered into between the banks and the Company.

As at the date of entering into the framework agreement, Joicare directly and indirectly holds approximately 44.80% of the total issued share capital of the Company, and Livzon MAB is indirectly held as to 49% by Joicare. Therefore, Livzon MAB is a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. As such, the framework agreement and the CZB Guarantee and the Four Guarantees contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the CMB Guarantee was entered into within a 12-month period prior to and inclusive of the date of the framework agreement, the transaction amounts of the CMB Guarantee, the CZB Guarantee and the Four Guarantees (collectively "the Livzon MAB Guarantees") shall be aggregated. As the highest applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the Livzon MAB Guarantees exceeds 5% but is less than 25%, the Livzon MAB Guarantees, in aggregate, constitute discloseable and connected transactions of the Company under the Hong Kong Listing Rules and are subject to reporting, announcement and Independent Shareholders' approval. Livzon MAB Guarantees have been approved at the 2017 Annual General Meeting on 21 May 2018.

The reason for providing Livzon MAB Guarantees is that Livzon MAB is still in the development stage, it is unable to generate sufficient cashflow to support its operating use, and thus, external funding is required to support its research and development activities and for the future development of Livzon MAB. In addition, the Company will benefit from alleviating its capital contribution requirement into Livzon MAB and optimising its capital allocation to the other profitable business segments, therefore benefiting the overall business development and financial position of the Group.

(XIV).CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES*(continued)***1. One-Off Connected Transactions** *(continued)***Equity Transfer of Xinbeijiang Pharmaceutical**

On 23 April 2018, the Board of the Company has considered and approved the resolution on the transfer of 15% equity interests in Livzon Group (Qingyuan) Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團清遠新北江製藥股份有限公司). On 4 May 2018, the Company has entered into the equity transfer agreement with Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) * (珠海中匯源投資合夥企業(有限合夥)), pursuant to which the Company agreed to sell and Zhuhai Zhong Hui Yuan agreed to acquire 15% equity interest in Xinbeijiang Pharmaceutical at a consideration of RMB66,201,050 (the "Disposal"). Upon completion of the Disposal, the Company will hold 77.14% equity interest in Xinbeijiang Pharmaceutical. The Company intended to utilize all the net proceeds from the Disposal for general working capital purpose.

The Disposal is a measure of the Group to implement multi-level business partnerships. Upon completion of the Disposal, the management team and core personnel of Xinbeijiang Pharmaceutical will indirectly hold equity interests of Xinbeijiang Pharmaceutical. The Disposal could motivate the management team and core personnel of Xinbeijiang Pharmaceutical by way of sharing of economic benefits and risks, which could contribute to the improvement of the management and business performance of Xinbeijiang Pharmaceutical.

As at the date of entering into the equity transfer agreement, Zhuhai Zhong Hui Yuan is a connected person of the Company at the subsidiary level by virtue of being an associate of Mr. Tang Yanggang, directors of certain whollyowned or non-wholly-owned subsidiaries of the Company. Accordingly, the Disposal under the equity transfer agreement constitutes connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the Disposal under the Equity Transfer Agreement exceed 0.1% but are less than 5% and the consideration for the Disposal exceeds HK\$3,000,000, the Disposal under the equity transfer agreement is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As of 29 June 2018, the Company has received 50% of the consideration, being RMB33,100,525. Xinbeijiang Pharmaceutical has completed the business registration of Industry and Commerce for the equity transfer and the Company now holds 77.14% equity interest in Xinbeijiang Pharmaceutical.

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

(continued)

1. One-Off Connected Transactions *(continued)*

Subscription for New Ordinary Shares of Livzon Biologics

On 22 June 2018, after the approval of the Board, Livzon Biologics, Biologics Limited, Livzon MAB, Livzon International, Lizhu HK, YF Pharmab Limited (“YF Pharmab”) and the Company has entered into the share subscription agreement. Pursuant to which, Livzon International agreed to contribute USD98,299,320.00 to subscribe for 24,574,830 newly issued ordinary shares of Livzon Biologics (the “Share Subscription”). YF Pharmab, an independent third party, also agreed to contribute USD50 million to subscribe for 12,500,000 newly issued series A preferred shares of Livzon Biologics.

The reason for Livzon International to subscribe for new ordinary shares of Livzon Biologics is to provide sufficient capital for Livzon MAB’s business development, which includes clinical research and application in domestic and international markets, technical cooperation, product introduction and enrichment of scientific research team, to optimize the capital structure of Livzon MAB and to accelerate the efficiency of its business progress.

As at the date of entering into the share subscription agreement, Livzon International, an indirectly wholly-owned subsidiary of the Company, and Joicare BVI, an indirectly wholly-owned subsidiary of Joicare, hold 51% and 49% of the issued share capital of Livzon Biologics respectively. Therefore, Livzon Biologics is a connected person of the Company for the purposes of Chapter 14A of the Hong Kong Listing Rules. Accordingly, the Share Subscription contemplated under the share subscription agreement constitutes a connected transaction of the Company. As one or more of the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the Share Subscription exceed 0.1% but are less than 5%, the Share Subscription is subject to the reporting and announcement requirements, but is exempt from the independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

2. Continuing Connected Transactions

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

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

Applicable Not applicable

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

Hiring

Applicable Not applicable

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

Leasing

Applicable Not applicable

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

(XV). MAJOR CONTRACTS AND ITS ENFORCEMENT (continued)**2. Guarantees**

✓ Applicable □ Not applicable

During the Reporting Period, the Company had no guarantee provided for companies other than its subsidiaries.

Guarantees

Unit: RMB'0,000

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 Period (A1)				-	Total of actual external guaranteed amount approved during the Reporting Period (A2)			-
Total of external guaranteed amount approved at the End of the Period (A3)				-	Total of actual external guaranteed amount approved at the End of the Reporting Period (A4)			-
Guarantees between the Company and its subsidiaries								
Name of guaranteed party	Disclosure date of related announcements of guaranteed amount	Guaranteed amount	Actual date of event (Signing date of the Agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Performance completion	Related party guarantee
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.3.24	17,000.00	2016.11.30	512.76	Joint obligation guarantee	2016.11.30-2019.11.30 Bank of Communication, Zhuhai Branch (交通銀行珠海分行)	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.3.24	15,000.00	2018.05.07	12,952.81	Joint obligation guarantee	2018.4.8-2020.4.8 Industrial and Commercial Bank of China, Zhuhai Branch (工商銀行珠海分行)	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.3.24	10,000.00	2017.06.28	5,028.50	Joint obligation guarantee	2017.6.28-2019.6.30 HSBC China, Zhuhai Branch (滙豐中國珠海分行)	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.3.24	10,000.00	2018.03.28	1,303.36	Joint obligation guarantee	2018.3.28-2022.9.28 China Merchants Bank, Zhuhai Branch (招商銀行珠海分行)	No	No
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.3.24	10,000.00	2018.03.23	6,389.50	Joint obligation guarantee	2018.3.23-2019.3.23 Industrial Bank, Zhuhai Branch (興業銀行珠海分行)	No	No
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2018.3.24	4,000.00	2015.09.11	323.25	Joint obligation guarantee	2015.9.11-2018.9.11 Bank of China, Zhuhai Branch (中國銀行珠海分行)	No	No
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2018.3.24	10,000.00	2017.10.09	5,768.25	Joint obligation guarantee	2017.08.22-2022.08.21 Standard Chartered China, Zhuhai Branch (渣打中國珠海分行)	No	No
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2018.3.24	5,000.00	2016.06.22	48.81	Joint obligation guarantee	2016.6.22-2019.6.22 Bank of Communication, Zhuhai Branch (交通銀行珠海分行)	No	No

(XV). MAJOR CONTRACTS AND ITS ENFORCEMENT (continued)

2. Guarantees (continued)

Guarantees (continued)

Unit: RMB'0,000

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. (珠海市麗珠葯抗生物技術有限公司)	2018.3.24	30,000.00	2017.12.08	28,133.46	Joint obligation guarantee	2017.12.8-2021.6.8 China Merchants Bank, Zhuhai Branch (招商銀行珠海分行)	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製葯有限公司)	2018.3.24	20,000.00	2016.12.26	6,509.10	Joint obligation guarantee	2016.12.26-2019.12.26 Bank of Communication, Zhuhai Branch (交通銀行珠海分行)	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製葯有限公司)	2018.3.24	10,000.00	2017.10.09	9,854.20	Joint obligation guarantee	2017.08.22-2022.08.21 Standard Chartered China, Zhuhai Branch (渣打中國珠海分行)	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製葯有限公司)	2018.3.24	23,000.00	2018.04.24	3,316.20	Joint obligation guarantee	2018.4.24-2019.4.23 Guangdong Development Bank, Zhuhai Branch (廣發銀行珠海分行)	No	No
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製葯有限公司)	2018.3.24	16,000.00	2018.03.20	1,082.72	Joint obligation guarantee	2018.3.28-2022.9.28 China Merchants Bank, Zhuhai Branch (招商銀行珠海分行)	No	No
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製葯股份有限公司)	2018.3.24	4,000.00	2017.12.27	1,062.66	Joint obligation guarantee	2016.12.26-2019.12.26 Bank of Communication, Zhuhai Branch (交通銀行珠海分行)	No	No
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製葯有限公司)	2018.3.24	8,000.00	2018.03.15	3,119.42	Joint obligation guarantee	2018.3.15-2019.3.15 Industrial Bank, Zhuhai Branch (興業銀行珠海分行)	No	No
Livzon Group Limin Pharmaceutical Manufacturing Co., Ltd. (麗珠集團利民製葯廠)	2018.3.24	1,500.00	2018.02.02	638.86	Joint obligation guarantee	2016.12.26-2019.12.26 Bank of Communication, Zhuhai Branch (交通銀行珠海分行)	No	No
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製葯有限公司)	2018.3.24	28,000.00	2017.11.14	3,903.41	Joint obligation guarantee	2017.11.14-2018.11.13 China Bohai Bank, Guangzhou Branch (渤海銀行廣州分行)	No	No

(XV). MAJOR CONTRACTS AND ITS ENFORCEMENT (continued)**2. Guarantees** (continued)**Guarantees** (continued)

Unit: RMB'0,000

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 Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2018.3.24	22,000.00	2018.03.28	3,296.67	Joint obligation guarantee	2018.3.28-2022.9.28	No	China Merchants Bank, Zhuhai Branch (招商銀行珠海分行)
Total of guaranteed amount to its subsidiaries approved during the Reporting Period (B1)			563,100.00	Total of actual guaranteed amount to its subsidiaries approved during the Reporting Period (B2)		99,132.23		
Total of guaranteed amount to its subsidiaries approved at the End of the Reporting Period (B3)			563,100.00	Total of actual guaranteed amount to its subsidiaries approved at the End of the Reporting Period (B4)		93,243.95		
Subsidiaries' guarantees to subsidiaries								
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 Reporting Period (C1)			-	Total of actual guaranteed amount to its subsidiaries approved during the Reporting Period (C2)		-		
Total of guaranteed amount to its subsidiaries approved at the End of the Reporting Period (C3)			-	Total of actual guaranteed amount to its subsidiaries approved at the End of the Reporting Period (C4)		-		
Total guaranteed amount of the Company (the total of the above three items)								
Total of guaranteed amount approved during the Reporting Period (A1+B1+C1)			563,100.00	Total of actual guaranteed amount approved during the Reporting Period (A2+B2+C2)		99,132.23		
Total of guaranteed amount approved at the end of the Reporting Period (A3+B3+C3)			563,100.00	Total of actual guaranteed amount approved at the End of the Reporting Period (A4+B4+C4)		93,243.95		
Total of actual guaranteed amount (A4+B4+C4) proportion to the net assets of the Company					8.99%			
Among which:								
Guaranteed amount provided to shareholders, the ultimate beneficial owner and their related parties (D)			-					
Debt guaranteed amount to guaranteed party asset-liability ratio exceeding 70% directly or indirectly (E)			-					
The amount exceeding 50% of net assets in total guaranteed amount (F)			-					
Total of guaranteed amount of the above three items (D+E+F)			-					
For not yet mature guarantees, may undertake joint obligation (if any)			Not Applicable					
Illegal external guarantees (if any)			Not Applicable					

(XV). MAJOR CONTRACTS AND ITS ENFORCEMENT *(continued)***2. Guarantees** *(continued)***Bill pledges guaranteed**

On 23 April 2018, the thirteenth meeting of the ninth session of the Board of the Company reviewed and approved “the Resolution on Conducting Notes Pool Business” and agreed that an amount not exceeding RMB1.4 billion for conducting notes pool business is to be shared by the Company and its subsidiaries. The amount of funds may be re-utilized. As of 30 June 2018, the bill pledges guaranteed are as follows:

Unit: RMB0'000

Guarantor	Pledgee	Bill pledge amount receivable	Name of guaranteed party	Description of guarantee	Guaranteed amount	Period of guarantee
The Company	(Industrial and Commercial Bank of China, Zhuhai Branch) (工商銀行珠海分行)	5,958.31	Livzon group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Opening bank acceptance bills, joint liability guarantee	316.00	Till 26 December 2018
			Livzon Group Limin Pharmaceutical Manufacturing Co., Ltd. (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	566.00	Till 28 December 2018
Total balance of actual amount guaranteed for subsidiaries at the End of the Reporting Period					882.00	

Information on illegal external guarantees

Applicable Not applicable

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

(XV). MAJOR CONTRACTS AND ITS ENFORCEMENT *(continued)***3. Other Major Contracts**✓ Applicable Not applicable

Name of the contracted company	Name of the contracted counterparty	Contract subject	Date of contract	Pricing principle	Transaction consideration (RMB'000)	Connected transaction or not	Connected relationships	Execution as of the end of the Reporting Period	Date of disclosure	Index of disclosure
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Hangzhou ZhongmeiHuadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司)	Acarbose bulk medicines	31 May 2017	Determined by negotiation based on market price	48,060.00	No	Nil	As of the End of the Reporting Period, an aggregate of RMB267.3689 million transaction amount (tax inclusive) has been recorded, representing 55.63% of the contracted amount	2 June 2017	Announcement of Livzon Pharmaceutical Group Inc. in Relation to the Entering into Material Contracts for Daily Operation by Its Subsidiaries (No.2017-046)

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

4. Other Material Transactions

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

(XVI). SHARES PLEDGED BY THE CONTROLLING SHAREHOLDER Applicable Not applicable**(XVII). SIGNIFICANT EVENT OF SUBSIDIARIES OF THE COMPANY**✓ Applicable Not applicable**The transfer of equity interest in Livzon Shengmei from Livzon Reagents**

In order to optimize the shareholding structure of Livzon Shengmei, which is the indirect controlling subsidiary of the Company, and adapt to the new business development needs, on 11 June 2018, the Company convened the fourteenth meeting of the ninth session of the Board to consider and approve the transfer of 69% equity interests in Livzon Shengmei from Livzon Reagents to the Company, Zhuhai Zhenglu Enterprise Management Consulting LP (Limited Partnership) ("Zhuhai Zhenglu"), Zhuhai Lishen Enterprise Management Consulting LP (Limited Partnership) ("Zhuhai Lishen"), Li Lin, Shi Jianfeng and Lin Yan.

(XVII). SIGNIFICANT EVENT OF SUBSIDIARIES OF THE COMPANY *(continued)***The transfer of equity interest in Livzon Shengmei from Livzon Reagents** *(continued)*

Pursuant to the "Equity Transfer Framework Agreement", Livzon Reagents agreed to sell and the Company agreed to purchase 33.15% equity interests in Livzon Shengmei at the consideration of RMB44.2 million. Livzon Reagents agreed to sell and Li Lin agreed to purchase 10.10% equity interests in Livzon Shengmei at the consideration of RMB13.46667 million. Livzon Reagents agreed to sell and Shi Jianfeng agreed to purchase 7.79% equity interest in Livzon Shengmei at the consideration of RMB10.386667 million. Livzon Reagents agreed to sell and Lin Yan agreed to purchase 5.03% equity interests in Livzon Shengmei at the consideration of RMB6.706667 million. Livzon Reagents agreed to sell and Zhuhai Lishen agreed to purchase 2.93% equity interests in Livzon Shengmei at the consideration of RMB3.906667 million. Livzon Reagents agreed to sell and Zhuhai Zhenglu agreed to purchase 10% equity interests in Livzon Shengmei at the consideration of RMB13.33333 million.

Following the completion of the equity transfer, Livzon Shengmei will be held as to 33.15%, 41.10%, 7.79%, 5.03%, 2.93% and 10.00% by the Company, Li Lin, Shi Jianfeng, Lin Yan, Zhuhai Lishen and Zhuhai Zhenglu respectively.

The equity transfer represents a substantial initiative of the Company in optimizing the business structure in the precision medicine sector and innovating the growth incentive model. Upon the completion of the equity transfer, there will be changes in the scope of consolidated statements of the Company and the financial data of Livzon Shengmei will cease to be consolidated to the financial statements of the Company. With the operations management members and key personnel of Livzon Shengmei becoming its controlling and substantial shareholders, its research and development and commercialization in the field of Liquid Biopsy for tumor will accelerate.

As at the date of this Report, Livzon Reagents has received an amount of RMB92 million for the equity transfer, Livzon Shengmei has completed the business registration of Industry and Commerce for the equity transfer.

Acquisitions and mergers of subsidiaries

In order to achieve coordination management of the enterprises within the bulk medicines segment of the Group, optimize the resources allocation, improve the management efficiency, thereby further enhancing the comprehensive competitiveness of the Group in respect of the bulk medicines aspects, Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司) a subsidiary of the Company, with the approval from Administration of Industry and Commerce, has completed the acquisitions and mergers of Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司) a subsidiary of the Company, and changed its name to Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司) on 10 May 2018.

In addition to the above disclosure, please refer to "Connected Transactions as defined in the Hong Kong Listing Rules" under Section V of the Report for details of significant events of subsidiaries of the Company.

(XVIII). DIVIDENDS AND BONUS SHARES

On 21 May 2018, the Company convened the 2017 Annual General Meeting to consider and approve the distribution of cash dividend of RMB20.00 (tax inclusive) for every 10 shares to all shareholders of the Company (the "Cash Dividend") and to issue 3 bonus shares for every 10 shares to all shareholders of the Company by way of conversion of capital reserve (the "Bonus Issue"), based on the total share capital of the Company of 553,231,369 shares as at 31 December 2017. If the total share capital of the Company changes during the period from the promulgation to implementation of the 2017 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital as at the registration date of shareholding as determined by the implementation of the 2017 Annual Profit Distribution Plan, with the distribution ratio unchanged. The total share capital as at the registration date of shareholding as determined by implementation of 2017 Annual Profit Distribution Plan is 553,115,570 shares. Therefore, the aggregate amount of Cash Dividend is RMB1,106,231,140 and there are 165,934,670 Bonus Shares in total. The distribution of the Cash Dividend and the Bonus Issue for A Shares of the Company was completed on 22 June 2018. The distribution of the Cash Dividend and the Bonus Issue for H Shares of the Company was completed on 17 July 2018.

The Board resolved not to distribute interim dividend for the six-month period ended 30 June 2018. For the six-month period ended 30 June 2017, the Company did not distribute any dividend.

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

Applicable Not applicable

(XX). DURING THE REPORTING PERIOD, THE EXPLANATION OF "NON-STANDARD AUDITORS' REPORT" GIVEN BY THE BOARD OF DIRECTORS, THE SUPERVISORY COMMITTEE

Applicable Not applicable

(XXI). THE EXPLANATION OF RELEVANT INFORMATION ON "NON-STANDARD AUDITORS' REPORT" FOR LAST YEAR BY THE BOARD

Applicable Not applicable

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

Applicable Not applicable

(XXIII). SOCIAL RESPONSIBILITY**1. Fulfilling social responsibility of targeted poverty alleviation****(1) Targeted poverty alleviation plan**

Basic strategy:

Under the guidance of the spirit of the Party's Eighteenth Congress, the Third, Fourth, Fifth Plenary Session of the Eighteenth Congress, the company fully implement the important instructions put forward by General Secretary Xi Jinping on strengthening poverty alleviation work. In accordance with the requirement of "Five Groups" supporting program, we establish the concept of "Targeted Poverty Alleviation+ Huangqi(黄芪) Industry", promote the integration of poverty alleviation policy, industry development projects and occupational skills training, and implement poverty alleviation model of "Company + Base + Poor households", encouraging the poor households to cultivate and process Huangqi and develop a Huangqi industry with reference to the local conditions, which become a pillar industry for poverty relief in the long-term. The company will explore the development of Huangqi Industry based on the local resources characteristics to achieve poverty elimination and the construction of "Chinese Medicine Ecological Base".

General objective:

To achieve full-scale and stable poverty elimination through the industry for 150 people in three counties, namely Hunyuan, Tianzhen in Shanxi province and Zizhou in Shaanxi province from 2018 to 2020.

Major Tasks of 2018:

1. Complete the training on standardized Huangqi plantation and processing technology for 50 people and enhance the occupational skills of poor households;
2. Adopt the poverty alleviation model "Company + Base + Poor households" and "Company + Specialised farmers cooperatives + Poor households" to achieve poverty elimination for 10 poor households through Huangqi industry, establish demonstration base of standard production, bring poor households into the scope of base construction and improve the Huangqi production condition in poverty-stricken areas;

Protection measures: Signing purchasing order with the poor households and their products will be given preference subject to the fulfillment of enterprises' requirement under the standardized production.

(2) Summary of targeted poverty alleviation during the Reporting Period

During the Reporting Period, Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司) ("Datong Livzon"), the subsidiary of the Company, has employed around 80 workers for the self-built base and jointly-constructed base, including around 20 poor people (workers at the base and processing staff at the workshop); Datong Livzon has conducted poverty alleviation for around 10 poor households who worked for Huangqi plantation and provided assistance in pest control, which avoided a loss of 2000 mus of Huangqi.

(XXIII). SOCIAL RESPONSIBILITY *(continued)***1. Fulfilling social responsibility of targeted poverty alleviation** *(continued)***(3) Effectiveness of targeted poverty alleviation**

Indicators	Unit	Quantity and Progress
I. Overall situation	—	—
Including: 1. Funds	RMB0'000	10.38
2. Value of resources donated	RMB0'000	—
3. Number of registered poor people lifted out of poverty	Person	20
II. Investment breakdown	—	—
1. Industrial development for poverty alleviation	—	—
Including: 1.1 Type of industrial poverty alleviation projects	—	Poverty alleviation project through forestry and agriculture
1.2 Number of industrial poverty alleviation projects	Project	1
1.3 Amount invested in industrial poverty alleviation projects	RMB0'000	10.38
1.4 Number of registered poor people lifted out of poverty	Person	20

(4) Subsequent targeted poverty alleviation plans

Adhering to the work guideline of “remaining practical and realistic, acting according to circumstances, giving different guidance to different categories of enterprises, and performing targeted poverty alleviation”, poverty alleviation measures and effectiveness for poverty households and poverty population are ensured with emphasis placed on “people” and “money”. According to the general objectives and requirements of poverty alleviation of the Group and Datong Livzon, Datong Livzon will implement the targeted poverty alleviation for 2018 to 2020 as follows:

- Datong Livzon will provide employment posts for 150 poor people to increase their income and provide learning opportunities on Huangqi plantation and processing technology at the bases in Hunyuan, Tianzhen in Shanxi province and Zizhou in Shaanxi province.
- Datong Livzon will enter into agreements with more than 10 poor Huangqi growers for the joint establishment of Huangqi base to provide them with technical support. Meanwhile, Datong Livzon will enter into the purchase agreements with the poor Huangqi growers in order to ensure a sales channel for their Huangqi.
- Datong Livzon will perform collaboration with specialised farmers cooperatives and poverty households to promote the development of local Huangqi industry, which will continuously optimise the promotion mechanism of industrial development, enhance industrial development level, capitalize on the “Teaching, Assistance and Guidance” functions and influence of the demonstration base, cultivating the poverty households into experts for the development of Huangqi industry and performing poverty alleviation for 150 poverty households, as well as improving the Huangqi production conditions in poverty-stricken areas and achieving the poverty elimination.
- Providing trainings on cooperation, production order and orientation to around 50 people, with a focus on the Huangqi production staff, technical support servicing staff, rural operation leader and poverty households, in order to perform Huangqi plantation technology trainings for “new type of professional farmers” and enhance the establishment of Huangqi poverty alleviation technology services team.

(XXIII). SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events

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

Yes No Not applicable

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

Name of company and subsidiary	Name of major pollutants and special types of pollutants	Discharge mode	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration (mg/L)	Implemented standards for discharge of (mg/L)	Total amount of discharge (t)	Approved total amount of discharge (t/a)	Excessive discharge
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.	Chemical oxygen demand	Interval	1	The northwest side of the factory	65.75	100	30.354	124.5	None
	Ammonia nitrogen				0.63	15	0.29	18.7	None

Note: discharge concentration is the actual discharge concentration, the standards represent the standards for discharge to the environment by Jiangyin sewage plant (i.e. COD \leq 100 mg/L, Ammonia nitrogen \leq 15 mg/L), and the agreed standard for discharge of COD and Ammonia nitrogen from the Company to Jiangyin sewage plant shall be \leq 500 mg/L and \leq 60 mg/L respectively. The data of which was obtained from Fuqing Environmental Protection Bureau.

Construction and operation of pollution prevention & treatment facilities:

As the production begins, "Three wastes" will be collected and treated effectively in accordance with the requirements of the "Three Simultaneous", the designed sewage treatment capacity is 4000 tonnes per day, with an upfront investment of more than RMB18 million. By employing an advanced sewage treatment process known as "Regulating pool + Hydrolysis acidification tank + SBR + Precipitation + Air float", the treatment system has an effective pool capacity of 14,000 cubic meters and accommodates over 20 sets of treatment equipment, with an installed capacity of 700 KW, its operating system is automatically controlled by the PLC programmable control system. To date, nearly RMB10 million has successively been invested to improve the water treatment process, so as to ensure all indicators of discharges from wastewater treatment consistently meet the relevant standards. After satisfying the third-grade discharge standards and the standards provided in the agreement entered into with Jiangyin sewage plant, wastewater after treatment will be piped into Jiangyin sewage plant operated by Fujian Huadong Water Treatment Co., Ltd. (福建華東水務有限公司) via sewage pipe network at the industrial park area.

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

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

(XXIII). SOCIAL RESPONSIBILITY *(continued)***2. Major Environmental Events** *(continued)***(1) The Listed Company and its subsidiaries belonging to key units discharging pollutants as announced by the environmental protection department** *(continued)*(i) Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司) *(continued)*

Environmental Emergency Response Plan:

Pursuant to the relevant requirement, "Environmental Emergency Response Plan of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd." was prepared based on the following principle "Prevention, Self-help, United command, Division of Responsibility" and passed in May 2017. Certificate No. 350181-2017-013-M. When environmental emergency incidents happen, immediate, quick, effective and disciplined implementation of emergency rescues will control and prevent the spread of contamination, protect the surrounding environment effectively and ensure the personal life and property safety of all of the employees, the company and the society. In accordance with the content and requirements of the plan, the company provides training and drills for the employer to get them well-prepared for environmental emergency incidents, so that rescue works could be carried out in a timely manner and incidents could be controlled effectively in a short period of time in case of any environmental emergency incidents.

Environmental Self-monitoring Program:

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

(ii) Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)

Name of company and subsidiary	Name of major pollutants and special types of pollutants	Discharge mode	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration (mg/L)	Implemented	Total amount of discharge (t)	Approved	Excessive discharge
						standards for discharge of (mg/L)		total amount (t/a)	
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.	Chemical oxygen demand	Interval	1	Sewage treatment workshop	99.95	240	50.99	162.46	None
	Ammonia nitrogen				13.82	70		7.05	

Note: The discharge concentration represents the discharge concentration into Qingyuan Henghe sewage plant, where the standard implemented represents the standard stipulated in the pollutant emission license of the Company (i.e. COD \leq 240 mg/L, Ammonia nitrogen \leq 70 mg/L), the data of which was obtained from Qingyuan Environmental Protection Bureau.

(XXIII). SOCIAL RESPONSIBILITY *(continued)***2. Major Environmental Events** *(continued)***(1) The Listed Company and its subsidiaries belonging to key units discharging pollutants as announced by the environmental protection department** *(continued)*

- (ii) Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)
(continued)

Construction and operation of pollution prevention & treatment facilities:

“Three wastes” will be collected and treated effectively by strictly complied with the “Three Simultaneous”, the upfront investment is more than RMB30 million, with a designed sewage treatment capacity of 3,000t/d, with. By employing a treatment process known as “Pre-treatment+ Aerobic pool + Hydrolysis acidification tank + SBR + Catalytic oxidation + Air float”, waste water after treatment will be discharged through municipal pipeline network and piped into Qingyuan Henghe sewage plant.

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

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

Environmental Emergency Response Plan:

Pursuant to the relevant regulations and requirement, “Environmental Emergency Response Plan of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.” was prepared based on the following principle “Prevention, On-alert; Division of Management, Division of Response; Department Cooperation, Division of Responsibility; Scientific Prevention, Effective Disposal” and passed and announced. The company regularly identifies internal environmental factors and source of hazards and carries out drills in accordance with emergency response plan, to improve the emergency response plan’s operability, enhance the performance level of the emergency rescue persons, enhance the emergency response capacity of the rescue team and enhance the collaboration capabilities relating to interconnection between different positions.

Environmental Self-monitoring Program:

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

(XXIII). SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (continued)

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

(iii) Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Implemented	Total Amount of Emission (t)	Approved	Excessive Emission
						Pollutant Emission Standard (mg/L)		Total Amount of Emission (t/a)	
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.	Chemical oxygen demand	Indirect	1	Wastewater treatment station	68.10	192	8.16	49.10	None
	Ammonia nitrogen (NH ₃ -N)				29.74	40	3.22	4.91	None
	Sulfur dioxide	Continuous organized emission	3	Boiler Room	11	50	0.24	2.787	None
	Nitrogen oxide	Continuous organized emission	3	Boiler Room	61	200	2.8	11.513	None
	Particulate matter	Continuous organized emission	3	Boiler Room	13.3	30	0.17	/	None
	Hydrogen chloride	Continuous organized emission	7	Workshop	4.8	100	1.59	/	None
	Non-methane hydrocarbons	Continuous organized emission	7	Workshop	18.3	120	9.61	/	None

Note: The discharge concentration represents the discharge concentration into south district sewage plant, where the standard implemented represents the standard stipulated in the pollutant emission license of the Company (i.e. COD≤192 mg/L, Ammonia nitrogen≤40 mg/L).

Construction and operation of pollution prevention facilities:

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

(XXIII). SOCIAL RESPONSIBILITY *(continued)***2. Major Environmental Events** *(continued)***(1) The Listed Company and its subsidiaries belonging to key units discharging pollutants as announced by the environmental protection department** *(continued)*

- (iii) Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)
(continued)

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

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

Environmental Emergency Response Plan:

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

Environmental self-monitoring scheme:

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

(XXIII). SOCIAL RESPONSIBILITY *(continued)***2. Major Environmental Events** *(continued)***(1) The Listed Company and its subsidiaries belonging to key units discharging pollutants as announced by the environmental protection department** *(continued)*

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

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Carried	Approved		Excessive Emission
						Emission Standard (mg/L)	Total Amount of Emission (t)	Total Amount of Emission (t/a)	
Gutian Fuxing Pharmaceutical Co., Ltd.	Chemical oxygen demand	Continuous	1	Southeast of the factory	47.41	120	6.49	108	None
	Ammonia nitrogen				7.22	35	0.99	31.5	None

Note: The discharge concentration represents the actual discharge concentration to the environment, where the standard implemented represents the standard stipulated in the pollutant emission license of the Company (i.e. COD \leq 120 mg/L, Ammonia nitrogen \leq 35 mg/L). The data of which was obtained from Ningde Municipal Environmental Protection Bureau.

Construction and operation of pollution prevention facilities:

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

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

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

(XXIII). SOCIAL RESPONSIBILITY *(continued)*2. Major Environmental Events *(continued)*(1) The Listed Company and its subsidiaries belonging to key units discharging pollutants as announced by the environmental protection department *(continued)*(iv) Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司) *(continued)*

Environmental Emergency Response Plan:

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

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

Environmental self-monitoring scheme:

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

(v) Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Distribution Outlets of Outlets	Concentration of Emission (mg/L)	Carried	Approved		Excessive Emission
					Pollutant Emission Standard (mg/L)	Total Amount of Emission (t)	Total Amount of Emission (t/a)	
Livzon Group Limin Pharmaceutical Manufacturing Factory	Chemical oxygen demand	Intermittent	1	Wastewater	110 mg/L	5.7 t/a	21.52 t/a	None
	Ammonia nitrogen			treatment station	0.264 mg/L	15 mg/L	0.034 t/a	0.24 t/a

(XXIII). SOCIAL RESPONSIBILITY *(continued)***2. Major Environmental Events** *(continued)***(1) The Listed Company and its subsidiaries belonging to key units discharging pollutants as announced by the environmental protection department** *(continued)*

(v) Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠) *(continued)*

Construction and operation of pollution prevention facilities:

The “three simultaneous” system was strictly implemented in the treatment of the three wastes, the “three wastes” were effectively collected and treated, and an amount of more than RMB13.00 million was invested in sewage treatment, thus having a designed treatment capacity of 1,500 t/d; the treatment process of “pretreatment + hydrolytic acidification tank + facultative tank + aerobic tank + secondary precipitation” was adopted; the treated sewage was discharged through the municipal pipe network into the Second Sewage Treatment Plant of Shaoguan City; in respect of waste gas treatment, an amount of more than RMB200,000 was invested to treat boiler fuel gas; in respect of noise pollution prevention, an amount of more than RMB100,000 was invested to build sound-insulating walls so as to reduce noise. In January 2018, one natural gas boiler with a capacity of 8 tonnes was acquired, and the installation and testing were completed. It is undergoing production trial with an aim to phase out the biomass boilers gradually.

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

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

Environmental Emergency Response Plan:

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

(XXIII). SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (continued)

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

(v) Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠) (continued)

Environmental self-monitoring scheme:

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

(vi) Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd (麗珠集團寧夏福興製藥有限公司)

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Carried Pollutant Standard (mg/L)	Approved Total Amount of Emission (t)	Approved Total Amount of Emission (t/a)	Excessive Emission
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd	Chemical oxygen demand	Continuous	1	Sewage treatment plant at the north side of the factory	119	200	24.77	66.97	None
	Ammonia nitrogen				3.39	25	0.72	16.74	None
	Sulfur dioxide	Continuous	1	Boiler plant at the north side of the factory	75.4	200	40.17	156.816	None
	Nitrogen oxide	Continuous			96.4	200	58.78	156.816	None
	Particulate matter	Continuous			16.2	30	9.86	23.522	None

Note: The wastewater from Ningxia Fuxing Company is not directly discharged into the environment but into the sewage plant of Ningxia Xin'an Company for re-treatment, and the concentration of emission is the concentration of emission of the wastewater from Ningxia Fuxing Company at the inlet of the sewage treatment system of Xin'an Company. The discharge standard implemented represents the accepted standard of the sewage plant of Xin'an Company (i.e. COD \leq 200 mg/L, Ammonia nitrogen \leq 25 mg/L). The data is from Ningxia Xin'an Company where the total amount of discharge is based on the data for January to June 2018. The data concerning the concentration of emission, carried standard and the total amount of emission of sulfur dioxide, nitrogen oxide and particulate matter is the data of January to June 2018, and the approved total amount of emission represents the total amount stipulated in the pollutant emission license.

(XXIII). SOCIAL RESPONSIBILITY *(continued)***2. Major Environmental Events** *(continued)***(1) The Listed Company and its subsidiaries belonging to key units discharging pollutants as announced by the environmental protection department** *(continued)*

- (vi) Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd (麗珠集團寧夏福興製藥有限公司)
(continued)

Construction and operation of pollution prevention facilities:

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

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

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

Environmental Emergency Response Plan:

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

Environmental self-monitoring scheme:

According to the planning requirements of Shizuishan Environmental Protection Bureau, Ningxia Fuxing Company has conducted self-monitoring since January 2018 and will conduct it once each quarter; the self monitoring plan of the first and second quarter of 2018 has been submitted to Shizuishan Environmental Protection Bureau for review and publication, and the self-monitoring of the third quarter is planned to be completed on 29 September 2018 and then disclosed to the public. The automatic monitoring equipment has been connected with and accepted by the competent environmental protection department; the automatic monitoring equipment is sound and the monitoring data is accurate, effective and true.

(XXIII). SOCIAL RESPONSIBILITY (continued)

2. Major Environmental Events (continued)

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

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

Company or Subsidiary Name	Names of Key Pollutant and Specific Pollutant	Way of Emission	Quantity of Outlets	Distribution of Outlets	Concentration of Emission (mg/L)	Carried Pollutant Standard (mg/L)	Total Amount of Emission (t)	Approved Total Amount of Emission (t/a)	Excessive Emission
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd.	Chemical oxygen demand	Continuous	1	Sewage treatment plant at the north side of the factory	119	200	57.79	180.74	None
	Ammonia nitrogen				3.39	25	1.7	45.19	None
	Sulfur dioxide	Continuous	1	Boiler plant at the north side of the factory	Discontinued	Discontinued	Discontinued	None	None
	Nitrogen oxide	Continuous			Discontinued	Discontinued	Discontinued	None	None
	Particulate matter	Continuous			Discontinued	Discontinued	Discontinued	None	None

Note: The wastewater from Ningxia Xinbeijiang Company is not directly discharged into the environment but into the sewage plant of Ningxia Xin'an Company for re-treatment, and the concentration of emission is the concentration of emission of the wastewater from Ningxia Fuxing Company at the inlet of the sewage treatment system of Xin'an Company. The discharge standard implemented represents the accepted standard of the sewage plant of Xin'an Company (i.e. COD \leq 200 mg/L, Ammonia nitrogen \leq 25 mg/L). The data is from Ningxia Xin'an Company where the total amount of discharge is based on the data for January to June 2018.

Construction and operation of pollution prevention facilities:

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

(XXIII). SOCIAL RESPONSIBILITY *(continued)***2. Major Environmental Events** *(continued)***(1) The Listed Company and its subsidiaries belonging to key units discharging pollutants as announced by the environmental protection department** *(continued)*

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

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

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

Environmental Emergency Response Plan:

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

Environmental self-monitoring scheme:

According to the planning requirements of Shizuishan Environmental Protection Bureau, Ningxia Xinbeijiang Company has conducted self-monitoring since January 2018 and will conduct it once in each quarter; the self-monitoring plan of the first and second quarter of 2018 has been submitted to Shizuishan Environmental Protection Bureau for review and publication, and the self-monitoring plan of the third quarter is planned to be completed on 29 September 2018 and then disclosed to the public. The automatic monitoring equipment has been connected with and accepted by the competent environmental protection department; the automatic monitoring equipment is sound and the monitoring data is accurate, effective and true.

(XXIV). OTHER SIGNIFICANT EVENT

Save as disclosed in this 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 Reporting Period.

VI. CHANGES IN EQUITY AND SHAREHOLDERS

(I). CHANGES IN SHARES

1. Changes in Shares

As at the date of this Report, the share capital structure of the Company is as follows:

Unit: Shares

	Before the current change		Increase/Decrease (+, -) due to the current change			After the current change	
	Number	Percentage (approximately)	Others	Others	Sub-total	Number	Percentage (approximately)
I. Shares subject to selling restrictions	15,503,755	2.80%	+3,207,346	-3,378,458	-171,112	15,332,643	2.13%
1. State-owned shares							
2. State-owned legal person shares	10,240,432	1.85%	+3,072,129	-	+3,072,129	13,312,561	1.85%
3. Other domestic shares	5,263,323	0.95%	+135,217	-3,378,458	-3,243,241	2,020,082	0.28%
Of which: Domestic legal person shares							
Domestic natural person shares	5,263,323	0.95%	+135,217	-3,378,458	-3,243,241	2,020,082	0.28%
Funds and asset management products							
4. Foreign shares							
Of which: Overseas legal person shares							
Overseas natural person shares							
II. Shares not subject to selling restrictions	537,727,614	97.20%	+162,727,324	+3,262,659	+165,989,983	703,717,597	97.87%
1. Ordinary shares denominated in Renminbi	348,458,846	62.99%	+105,946,694	+3,262,659	+109,209,353	457,668,199	63.65%
2. Domestically listed foreign shares							
3. Overseas listed foreign shares	189,268,768	34.21%	+56,780,630	-	+56,780,630	246,049,398	34.22%
4. Others							
III. Total number of shares	553,231,369	100.00%	+165,934,670	-115,799	+165,818,871	719,050,240	100.00%

Reasons for changes in equity

Applicable Not applicable

The Company has completed the third unlocking in March 2018 under the Restricted A Shares Incentive Scheme and 4,038,407 shares have been unlocked with 775,748 locked shares held by the senior management, resulted in an actual increase of 3,262,659 non-restricted shares of the Company and listed on 13 April 2017.

In May 2018, the Company repurchased and cancelled Restricted Shares held by 17 Participants, and the total share capital of the Company has decreased by 90,098 shares.

In June 2018, the Company repurchased and cancelled Restricted Shares held by 6 Participants, and the total share capital of the Company has decreased by 25,701 shares. Subsequently, the Company has completed the issuance of 3 A Shares for every 10 A Shares to all A Shareholders of the Company by way of conversion of capital reserve. After the conversion of capital reserve, the A Shares of the Company has increased 109,154,040 shares. On 30 June 2018, the Company has 473,000,842 A Shares in issue and 189,268,768 H Shares in issue.

In July 2018, the Company completed the issuance of 3 H Shares for every 10 H Shares to all H Shareholders of the Company by way of conversion of capital reserve. Following the conversion, the H Shares of the Company increased by 56,780,630 shares.

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

Applicable Not applicable

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

On 29 March 2018, "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive" and the "Resolution on Granting Shares to be Unlocked during the Third Unlocking Period for the First Grant under the Restricted Shares Incentive Scheme of the Company" were being passed at the twelfth meeting of the ninth session of the Board and the ninth meeting of the ninth session of the Supervisory Committee of the Company.

Transfer of changes in equity

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

Please see Chapter VI "Changes in Shares" of this Report for details.

VI. CHANGES IN EQUITY AND SHAREHOLDERS

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

2. Changes in shares with selling restrictions

✓Applicable □Not applicable

Name of shareholder	Number of A Shares with selling restrictions at the Beginning of the Period	Number of A Shares relieved from restrictions for the Period	Increase in number of A Shares with selling restrictions in the Period	Number of A shares with selling restrictions at the End of the Period	Reasons for selling restrictions	Date of relieving from restrictions
Guangzhou Begol Trading Holdings Limited (廣州市保科力貿易公司)	10,240,432	–	3,072,129	13,312,561	shares pledged, shares locked, shares with selling restriction before initial issue	not confirmed
Tao Desheng	269,090	107,636	188,363	349,817	locked shares held by the senior management	13 April 2018
Yang Daihong	172,126	68,851	120,489	223,764	locked shares held by the senior management	13 April 2018
Xu Guoxiang	269,090	107,636	188,363	349,817	locked shares held by the senior management	13 April 2018
Lu Wenqi	172,126	68,851	120,489	223,764	locked shares held by the senior management	13 April 2018
Si Yanxia	107,610	43,044	75,328	139,894	locked shares held by the senior management	13 April 2018
Zhou Peng	61,937	28,291	46,871	80,517	locked shares held by the senior management	13 April 2018
Yang Liang	51,207	20,483	35,845	66,569	locked shares held by the senior management	13 April 2018
Incentive participants (non-senior management) <i>Note 1</i>	4,160,137	3,593,615	135,217	585,940	restricted shares under the share incentive scheme	13 April 2018, 15 May 2018, 11 June 2018
Total	15,503,755	4,038,407	910,965	15,332,643		

Note 1: During the Reporting Period, apart from the 3,593,615 shares released from the selling restrictions under the first grant of the Restricted A Shares Incentive Scheme, shares with selling restrictions held by incentive participants (excluding senior management) were repurchased by 115,799 shares and then increased by 135,217 shares because of the bonus conversion. As a result, the number of shares with selling restrictions was 585,940 shares as at the End of the Reporting Period.

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

3. Sufficient public float

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

(II). NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS

1. Number of Shareholders

At the End of the Reporting Period, the Company had a total of 42,450 Shareholders which included 12 H Shareholders (Note 1) and 42,438 A Shareholders.

Total number of ordinary Shareholders at the End of the Period	42,450 holders (including 42,438 A Shareholders)	Total number of preferential Shareholders with voting rights resumed at the End of the Period (if any)	0
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Unit: Shares

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

Name of Shareholder (full name)	Nature of Shareholder	Class of shares	Shareholding percentage	Number of ordinary shares held at the End of the Period	Change during the Reporting Period (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	28.57%	189,212,703	+7,010	-	189,212,703	-	-
Joincare Pharmaceutical Industry Group Co., Ltd.	Domestic non-state owned legal person	A Share	25.71%	170,289,838	+39,297,655	-	170,289,838	-	-
Penghua Asset Management-SPDB-Hwabao Trust – Hwabao –Kang Sheng Tian Tian Xiang Shang Assembled Funds Trust Scheme	Others	A Share	2.33%	15,415,659	+1,542,794	-	15,415,659	-	-
Guangzhou Begol Trading Corporation	State owned legal person	A Share	2.01%	13,312,561	+3,072,129	13,312,561	-	Pledged and locked up	13,312,561
Shenzhen Haibin Pharmaceutical Co., Ltd.	Domestic non-state owned legal person	A Share	1.95%	12,946,796	+2,987,722	-	12,946,796	-	-
Central Huijin Investment Company Limited	State owned legal person	A Share	1.40%	9,274,416	+2,140,250	-	9,274,416	-	-
China Huarong Asset Management Co., Ltd.	State owned legal person	A Share	0.89%	5,895,500	+1,095,500	-	5,895,500	-	-
National Social Security Fund 413	Others	A Share	0.79%	5,200,057	+1,200,013	-	5,200,057	-	-
The Bank of China – Harvest Income Growth Securities Investment Fund	Others	A Share	0.59%	3,907,069	+1,160,569	-	3,907,069	-	-
Bank of China Limited – Harvest Shanghai Hong Kong-Shenzhen selected equity securities investment fund	Others	A Share	0.59%	3,899,858	+3,899,858	-	3,899,858	-	-

Description on strategic investors or general legal persons becoming the top ten ordinary Shareholders by placing of new shares (if any) Not applicable

Description on connection and concert in actions among the aforesaid Shareholders

(1) On 2 January 2004, Joincare and Begol (保科力) entered into a share transfer and custody agreement and a share pledge agreement, pursuant to which the 6,059,428 A Shares (the number of shares was increased to 7,877,256 A Shares after the Company's implementation of 2016 Equity Distribution, the number of shares was increased to 10,240,432 A Shares after the Company's implementation of 2016 Equity Distribution, the number of shares was increased to 13,312,561 A Shares after the Company's implementation of 2017 Equity Distribution) of the Company held by Begol have been directly transferred, entrusted and pledged to Joincare; (2) Haibin Pharma (海濱製藥) is Joincare's directly and indirectly wholly owned subsidiary; (3) both Bank of China – Harvest Income Growth Securities Investment Fund and Bank of China Limited – Harvest Shanghai-Hong Kong-Shenzhen selected equity securities investment fund belong to Harvest Fund Management Co., Ltd; (4) the Company does not aware whether the other Shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administration Procedures of the Takeover of Listed Companies.

Note: The shareholding of the above top 10 shareholders at the End of the Reporting Period is based on the shareholder registers as at 30 June 2018, provided by China Securities Depository and Clearing Corporation Limited and Tricor Investors Services Limited in Hong Kong.

VI. CHANGES IN EQUITY AND SHAREHOLDERS

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

3. Shareholdings of top ten Shareholders without selling restrictions

Name of Shareholder	Number of shares held without selling restriction at the End of the Reporting Period (Shares)	Type of shares	
		Category of shares	Number (Shares)
HKSCC Nominees Limited <i>(Note 2)</i>	189,212,703	Overseas listed foreign shares	189,212,703
Joincare Pharmaceutical Industry Group Co., Ltd.	170,289,838	Ordinary shares denominated in Renminbi	170,289,838
Penghua Asset Management – SPDB – Hwabao Trust – Hwabao – Kang Sheng Tian Tian Xiang Shang Assembled Funds Trust Scheme	15,415,659	Ordinary shares denominated in Renminbi	15,415,659
Shenzhen Haibin Pharmaceutical Co., Ltd.	12,946,796	Ordinary shares denominated in Renminbi	12,946,796
Central Huijin Investment Company Limited	9,274,416	Ordinary shares denominated in Renminbi	9,274,416
China Huarong Asset Management Co., Ltd.	5,895,500	Ordinary shares denominated in Renminbi	5,895,500
National Social Security Fund 413	5,200,057	Ordinary shares denominated in Renminbi	5,200,057
The Bank of China – Harvest Income Growth Securities Investment Fund	3,907,069	Ordinary shares denominated in Renminbi	3,907,069
Bank of China Limited – Harvest Shanghai Hong Kong-Shenzhen selected equity securities investment fund	3,899,858	Ordinary shares denominated in Renminbi	3,899,858
Hong Kong Securities Clearing Company Limited	3,757,355	Ordinary shares denominated in Renminbi	3,757,355

(II). NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS *(continued)***3. Shareholdings of top ten ordinary Shareholders without selling restrictions** *(continued)*

Description on connection and concert in actions among top ten 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 A Shares (the number of shares was increased to 7,877,256 A Shares after the Company's implementation of 2014 Equity Distribution, the number of shares was increased to 10,240,432 A Shares after the Company's implementation of 2016 Equity Distribution, the number of shares was increased to 13,312,561 A Shares after the Company's implementation of 2017 Equity Distribution) of the Company held by Begol have been directly transferred, entrusted and pledged to Joincare (健康元); (2) Haibin Pharma (海濱製藥) is Joincare's directly and indirectly wholly-owned subsidiary; (3) both Bank of China – Harvest Income Growth Securities Investment Fund and Bank of China Limited – Harvest Shanghai-Hong Kong-Shenzhen selected equity securities investment fund belong to Harvest Fund Management Co., Ltd; (4) the Company does not know whether the other shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administration Procedures of the Takeover of Listed Companies.
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Description of the top ten shareholders of ordinary shares involved in the margin financing and securities lending business (if any)	Not Applicable
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Note 1: Total number of H Shareholders is calculated based on the record of Tricor Investor Services Limited, the H Share Registrar of the Company.

Note 2: HKSCC Nominees Limited is a nominee holder of H Shares of the Company, and the Company cannot ascertain whether such H Shares are subject to any pledge or lock-up, and the shareholdings under HKSCC Nominees Limited's name for others include 96,665,487 H Shares held by Topsino (天誠實業), which is a wholly-owned subsidiary of Joincare (健康元), the Company's controlling shareholder.

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.

(II). NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS *(continued)***4. Changes in controlling shareholders during the Reporting Period****Changes in controlling shareholders during the Reporting Period**

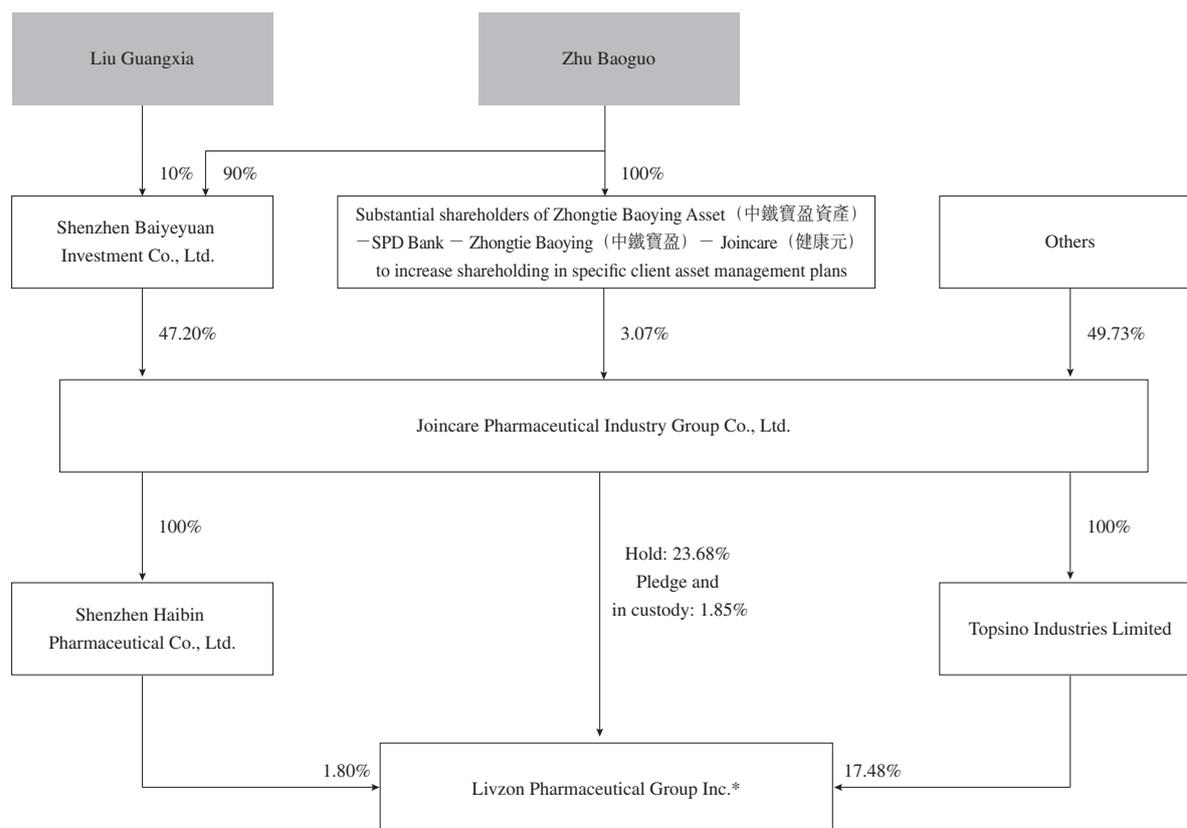
Applicable Not applicable

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

Changes in ultimate beneficial owners during the Reporting Period

Applicable Not applicable

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

Structure chart on ownership and controlling relationship between the Company and its ultimate beneficial owner as of the date of this Report**Notes:**

1. Zhu Baoguo (朱保國) is the spouse of Liu Guangxia (劉廣霞).
2. On 19 June 2018, 850,000 restricted shares have been repurchased and cancelled by Jincare, of which share capital decreased from 1,573,778,272 shares to 1,572,928,272 shares. As such, the shareholding of Baiyeyuan in Jincare increased to 47.20% from 47.17%. Mr. Zhu Baoguo holds 48,277,046 shares in Jincare (健康元) in the form of targeted asset management scheme(s), with the proportion to the total share capital of Jincare unchanged at 3.07%.

(II). NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS *(continued)***5. Proposal on or implementation of a share acquisition plan by Shareholders of the Company and persons acting in concert with them during the Reporting Period**

Applicable Not applicable

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

6. As at 30 June 2018, the following major Shareholders and other persons (other than the Directors, supervisors or chief executives as defined in the SFO) had interests and short positions in the shares and underlying shares of the Company which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Director	Capacity	Number of the Shares interested/subject to the short position	Position	As a percentage to the specific class of issued Shares of the Company	As a percentage to the total issued Shares of the Company
Substantial shareholders					
Baiyeyuan	Interest of controlled corporations	196,549,195 A Shares ⁽¹⁾	Long position	41.55%	29.68%
	Interest of controlled corporations	96,665,487 H Shares ⁽²⁾	Long position	51.07%	14.60%
Ms. Liu Guangxia (劉廣霞)	Spouse interest	196,549,195 A Shares ⁽³⁾	Long position	41.55%	29.68%
		96,665,487 H Shares ⁽³⁾	Long position	51.07%	14.60%
Joincare (健康元)	Beneficial owner	170,289,838 A Shares	Long position		
	Interest of controlled corporations	12,946,796 A Shares ⁽⁴⁾	Long position		
	Person having a security interest in shares	13,312,561 A Shares ⁽⁵⁾	Long position		
		<u>196,549,195 A Shares</u>		41.55%	29.68%
	Interest of controlled corporations	96,665,487 H Shares ⁽²⁾	Long position	51.07%	14.60%
Topsino Industries	Beneficial owner	96,665,487 H Shares ⁽²⁾	Long position	51.07%	14.60%
Others					
UBS Group AG	Person having a security interest in shares	527,000 H Shares ⁽⁶⁾	Long position		
	Interest of controlled corporations	12,866,731 H Shares ⁽⁶⁾	Long position		
		<u>13,393,731 H Shares</u>		7.08%	2.02%
	Interest of controlled corporations	9,974 H Shares ⁽⁷⁾	Short position	0.01%	0.002%

(II). NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS *(continued)***6. As at 30 June 2018, 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, 183,602,399 shares and 12,946,796 shares are held directly by Joincare (健康元) and its wholly-owned subsidiary, Haibin Pharma (海濱製藥).
- (2) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare (健康元).
- (3) As Ms. Liu Guangxia is the spouse of Mr. Zhu Baoguo, Ms. Liu Guangxia is deemed to be interested in Mr. Zhu Baoguo's equities in which he is deemed to be interested.
- (4) These shares are held directly by Haibin Pharma, a wholly-owned subsidiary of Joincare (健康元).
- (5) These shares were directly transferred from, entrusted and pledged by Begol in favor of Joincare (健康元) in accordance with the share transfer, custody and pledge agreement with Joincare (健康元) and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司) dated 2 January 2014, the share transfer and custody agreement and the share pledge agreement with Joincare (健康元).
- (6) These shares include 527,000 shares with security interest and 12,866,731 shares that are interest of controlled corporations. Interest of controlled corporations is held as to 111,866 shares, 8,400 shares, 3,141,768 shares, 209,074 shares, 4,440 shares, 13,300 shares, 9,375,023 shares and 2,860 shares by its wholly-owned UBS AG, UBS Asset Management (Americas) Inc., UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd, UBS Asset Management Trust Company, UBS Asset Management (UK) Limited, UBS Fund Management (Luxembourg) S.A. and UBS Fund Management (Switzerland) AG respectively.
- (7) These short positions are derivatives settled by cash and held by its wholly-owned UBS AG.

Applicable Not applicable

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

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

✓ Applicable □ Not applicable

According to the 2017 profit distribution proposal, the Company completed the issue of 3 A Shares for every 10 A Shares to all A Shareholders by way of conversion of capital reserve on 22 June 2018. Given that the Directors and the senior management of the Company held A Shares of the Company through the Restricted A Shares Incentive Scheme, there was a change in shareholding. Save as disclosed above, there were no changes in shareholdings of Directors, Supervisors and Senior Management of the Company during the Reporting Period. Details of shareholdings of these persons for the Reporting Period are as follows:

Name	Position	Status of			Date of the beginning of the term	Date of the end of the term	Number of shares held at the Beginning of the Period (A Shares)	Additional shareholdings in the Period (A Shares)	Reduction of shareholding in the Period (A Shares)	Other changes (A Shares)	Number of shares held at the End of the Period (A Shares)
		Office	Sex	Age							
Tao Desheng (陶德勝)	Vice Chairman, Executive Director, President	Current	Male	53	July 2009	-	358,787	-	-	107,636	466,423
Yang Daihong (楊代宏)	Vice President	Current	Male	52	May 2006	-	229,502	-	-	68,851	298,353
Xu Guoxiang (徐國祥)	Vice President	Current	Male	56	December 2007	-	358,787	-	-	107,636	466,423
Lu Wenqi (陸文岐)	Vice President	Current	Male	50	October 2006	-	229,502	-	-	68,851	298,353
Si Yanxia (司燕霞)	Vice President	Current	Female	49	June 2014	-	143,481	-	-	43,044	186,525
Zhou Peng (周鵬)	Vice President	Current	Male	54	November 2016	-	82,582	-	-	24,775	107,357
Yang Liang (楊亮)	Secretary to the Board	Current	Male	34	June 2014	-	68,276	-	-	20,483	88,759
Total	-	-	-	-	-	-	1,470,917	-	-	441,276	1,912,193

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

1. As at 30 June 2018, the interests or short positions of the Directors, Supervisors or chief executives of the Company, in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Interest in shares of the Company

Name of Director	Capacity	Number of Shares interested (Long position)	As a percentage to	As a percentage to
			the specific class of issued shares of the Company	the total issued shares of the Company
Mr. Zhu Baoguo (朱保國)	Interest of controlled corporations	196,549,195 A Shares ^{(1) (2)}	41.55%	29.68%
		96,665,487 H Shares ^{(1) (3)}	51.07%	14.60%
Mr. Tao Desheng (陶德勝)	Beneficial owner Spouse interest	466,423 A Shares		
		81,728 A Shares ⁽⁴⁾		
		548,151 A Shares	0.12%	0.08%
Mr. Xu Guoxiang (徐國祥)	Beneficial owner	466,423 A Shares	0.10%	0.07%

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

1. As at 30 June 2018, 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/ number of shares (Long position)	As a percentage to the equity interest of associated corporation	
Mr. Zhu Baoguo (朱保國)	Baiyeyuan Joincare	Beneficial owner	72,000,000 (RMB)	90.00%	
		Beneficial owner	48,277,046 shares		
		Interest of controlled corporations	742,415,520 shares ⁽⁵⁾		
				790,692,566 shares	50.24%
	Livzon Biologics ⁽⁶⁾	Interest of controlled corporations	49,000,000 shares ^{(1) (7)}	49.00%	
	Biologics Limited ⁽⁶⁾	Interest of controlled corporations	1,960 shares ^{(1) (8)}	49.00%	
	Biotechnology Company Limited ⁽⁶⁾	Interest of controlled corporations	122,500,000 (RMB) ^{(1) (9)}	49.00%	
Livzon MAB ⁽⁶⁾	Interest of controlled corporations	261,331,700 (RMB) ^{(1) (9)}	49.00%		

Notes:

- (1) Joincare is 47.20% held by Baiyeyuan which is in turn 90% held by Mr. Zhu Baoguo. Mr. Zhu Baoguo is deemed to be interested in the shares of the Company and the equity interest of its associated corporations in which Joincare is or is deemed to be interested by virtue of the SFO.
- (2) Among these shares, 183,602,399 shares and 12,946,796 shares are held directly by Joincare and its whollyowned subsidiary, Haibin Pharma, respectively
- (3) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare.
- (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) Joincare BVI is indirectly held as to 100% by Joincare. Livzon Biologics is directly held as to 49% by Joincare BVI; Biologics Limited is directly held as to 100% by Livzon Biologics; Zhuhai Livzon Biotechnology Co., Limited (珠海市麗珠生物醫藥科技有限公司) ("Biotechnology Company Limited") and Livzon MAB are directly held as to 100% by Biologics Limited.
- (7) These shares are held by Joincare BVI.
- (8) These shares are held by Livzon Biologics.
- (9) These equity interests are held by Biologics Limited.

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

Name	Occupation	Type	Date	Reason
Lu Wenqi	Vice President	Resigned	17 July 2018	Personal family reasons
Tang Yanggang	Executive Vice President	Appointed	17 July 2018	Appointed as Executive Vice President of the Company after the approval the Board of the Company with effect from 17 July 2018.

(III). CHANGE OF BIOGRAPHICAL DETAILS OF DIRECTORS AND SUPERVISORS

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

Xie Yun has retired from the position as an independent director of Shenzhen Click Technology Co., Ltd. (002782.SZ) with effective from 8 May 2018.

(IV). LISTS OF MEMBERS OF THE BOARD AND THE SUPERVISOR COMMITTEE

The Board of the Company comprises ten Directors which includes three Executive Directors, two Non-executive Directors and five Independent Non-executive Directors.

Executive Directors

Mr. Tao Desheng (陶德勝) (*Vice Chairman and President*)
 Mr. Fu Daotian (傅道田) (*Vice President*)
 Mr. Xu Guoxiang (徐國祥) (*Vice President*)

Non-executive Directors

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

Independent Non-executive Directors

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

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

Mr. Wang Maolin (汪卯林) (*Chief Supervisor*)
 Mr. Huang Huamin (黃華敏)
 Mr. Tang Yin (湯胤)

Applicable Not applicable

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

(I). AUDITORS' REPORT

Whether the interim report has been audited

Yes No

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

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the End of the Period	At the Beginning of the Period
Current assets:			
Cash at bank and on hand	VI.1	6,404,038,913.24	7,415,782,198.83
Held-for-trading financial assets	VI.2	20,776,009.48	18,598,840.91
Derivative financial assets			
Bills receivables and accounts receivables	VI.3	2,676,930,069.45	2,508,356,328.84
Prepayments	VI.4	162,534,827.33	126,471,958.21
Other receivables	VI.5	99,283,601.40	63,640,601.96
Inventories	VI.6	1,154,373,372.75	1,102,620,734.51
Contract assets			
Held-for-sale assets			
Non-current assets due within one year			
Other current assets	VI.7	110,156,167.87	124,263,427.92
Total current assets		10,628,092,961.52	11,359,734,091.18
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	VI.8	112,490,912.71	92,598,045.44
Other equity investments	VI.9	395,574,015.31	183,663,933.68
Other non-current financial assets			
Investment properties			
Fixed assets	VI.10	3,231,463,269.69	3,321,218,058.56
Construction in progress	VI.11	130,838,444.98	70,279,348.98
Productive biological assets			
Oil and gas assets			
Intangible assets	VI.12	289,881,247.43	263,804,161.52
Development costs	VI.13	39,116,103.78	25,328,934.25
Goodwill	VI.14	103,040,497.85	103,040,497.85
Long-term deferred expenses	VI.15	113,321,207.75	116,453,732.68
Deferred tax assets	VI.16	130,658,580.26	127,208,887.08
Other non-current assets	VI.17	289,944,160.47	234,401,026.41
Total non-current assets		4,836,328,440.23	4,537,996,626.45
Total assets		15,464,421,401.75	15,897,730,717.63

CONSOLIDATED BALANCE SHEET

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the End of the Period	At the Beginning of the Period
Current liabilities:			
Short-term loans	VI.18	272,087,290.50	
Held-for-trading financial liabilities	VI.19	19,361,018.79	339,129.90
Derivatives financial liabilities			
Bills payables and accounts payables	VI.20	1,317,865,774.86	1,163,527,427.74
Receipts in advance			
Contract liabilities	VI.21	79,155,861.76	115,288,797.94
Employee benefits payables	VI.22	115,183,710.72	161,565,942.97
Taxes payables	VI.23	180,509,148.39	1,045,751,020.24
Other payables	VI.24	2,357,273,197.40	1,924,158,267.45
Held-for-sale liabilities			
Non-current liabilities due within one year	VI.25	400,000.00	400,000.00
Other current liabilities			
Total current liabilities		4,341,836,002.42	4,411,030,586.24
Non-current liabilities:			
Long-term loans	VI.26	700,000.00	700,000.00
Notes payables			
Of which: preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Accrued liabilities			
Deferred gain	VI.28	222,198,055.16	225,844,273.75
Deferred tax liabilities	VI.16	31,598,681.49	26,532,304.04
Other non-current liabilities			
Total non-current liabilities		254,496,736.65	253,076,577.79
Total liabilities		4,596,332,739.07	4,664,107,164.03
Shareholders' equity:			
Share capital	VI.29	719,050,240.00	553,231,369.00
Other equity instruments			
Of which: Preferred shares			
Perpetual bonds			
Capital reserve	VI.30	1,565,479,007.39	1,715,270,973.93
Less: Treasury shares	VI.31	7,283,234.20	66,786,741.96
Other consolidated earnings	VI.32	-51,279,314.54	-52,898,929.52
Special reserve			
Surplus reserve	VI.33	587,255,162.90	587,255,162.90
General risks provision			
Unallocated earnings	VI.34	7,563,791,089.81	8,036,667,934.28
Total equity attributable to shareholders of the parent company		10,377,012,951.36	10,772,739,768.63
Non-controlling interests		491,075,711.32	460,883,784.97
Total shareholders' equity		10,868,088,662.68	11,233,623,553.60
Total liabilities and shareholders' equity		15,464,421,401.75	15,897,730,717.63

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	For the Period	For the Previous Period
I. Total operating income		4,564,703,491.43	4,274,758,446.48
Including: Operating income	VI.35	4,564,703,491.43	4,274,758,446.48
II. Total operating costs		3,837,088,022.57	3,686,902,282.11
Including: Operating costs	VI.35	1,708,438,807.43	1,503,215,468.12
Business taxes and surcharges	VI.36	63,882,740.21	63,742,481.96
Selling expenses	VI.37	1,679,680,086.00	1,684,605,046.08
Administrative expenses	VI.38	251,140,575.65	228,964,512.82
R&D expenses	VI.39	243,963,723.02	171,552,330.26
Financial expenses	VI.40	-113,838,344.05	259,718.44
Including: Interest expenses		2,390,751.95	3,050,424.10
Interest income		97,677,697.20	14,656,795.70
Asset impairments loss	VI.41	27,823,804.41	34,562,724.43
Credit impairment loss	VI.42	-24,003,370.10	
Add: Other income	VI.43	39,436,755.62	41,572,568.07
Investment income			
("—" represents losses)	VI.44	854,288.83	5,084,363.02
Including: Income from investment in associates and joint ventures		1,238,167.27	585,049.99
Gain net exposure to hedging			
("—" represents losses)			
Gains from changes in fair value			
("—" represents losses)	VI.45	-16,905,949.52	733,944.14
Gains on disposal of assets ("—" represents losses)	VI.46	-121,892.09	-7,017,747.76
III. Operating profit ("—" represents losses)		750,878,671.70	628,229,291.84
Add: Non-operating income	VI.47	76,388,868.05	40,176,727.94
Less: Non-operating expenses	VI.48	9,461,134.24	3,765,792.66
IV. Total profit ("—" represents total losses)		817,806,405.51	664,640,227.12
Less: Income tax expenses	VI.49	142,100,864.18	114,248,543.46
V. Net profit ("—" represents net losses)		675,705,541.33	550,391,683.66
(I) By continuity of operations			
1. Net profit from continuing operations			
("—" represents net losses)		675,705,541.33	550,391,683.66
2. Net profit from discontinued operations			
("—" represents net losses)			
(II) By ownership			
1. Profit or loss from non-controlling interests ("—" represents net losses)		42,351,245.80	46,389,160.88
2. Net profit attributable to the shareholders of the parent company			
("—" represents net losses)		633,354,295.53	504,002,522.78

CONSOLIDATED INCOME STATEMENT

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the Period	For the Previous Period
VI. Other comprehensive net income after taxation	VI.50	1,669,749.34	-18,984,809.91
Other comprehensive net income after taxation attributable to the shareholders of the parent company		1,619,614.98	-18,929,625.04
(I) Other comprehensive income subsequently not to be reclassified into profit or loss		-5,157,895.92	2,126,961.35
1. Changes caused by re-measurement of defined benefit plans			
2. Other comprehensive income not to be reclassified into profit or loss under the equity method			
3. Change in fair value of other equity instrument investments		-5,157,895.92	2,126,961.35
4. Changes in fair value of enterprise's own credit risk			
(II) Other comprehensive income items to be re-classified as profit or loss		6,777,510.90	-21,056,586.39
1. Other comprehensive income to be reclassified into profit or loss under the equity method			
2. Change in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Credit impairment provision for other debt instruments			
5. Reserve for cash flow hedging			
6. Translation differences of financial statements denominated in foreign currency		6,777,510.90	-21,056,586.39
7. Others			
Other comprehensive net income after taxation attributable to non-controlling interests		50,134.36	-55,184.87
VII. Total comprehensive income		677,375,290.67	531,406,873.75
Total comprehensive income attributable to the shareholders of the parent company		634,973,910.51	485,072,897.74
Total comprehensive income attributable to non-controlling interests		42,401,380.16	46,333,976.01
VIII. Earnings per share:			
(I) Basic earnings per share		0.88	0.70
(II) Diluted earnings per share		0.88	0.70

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	For the Period	For the Previous Period
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		4,837,169,373.73	4,155,737,239.39
Refund of taxes		29,121,891.72	18,822,794.00
Cash received relating to other operating activities	VI.51	279,525,632.59	104,355,190.42
Sub-total of cash inflows from operating activities		5,145,816,898.04	4,278,915,223.81
Cash paid for purchasing goods and services		1,266,628,230.31	1,046,325,931.48
Cash paid to and for employees		472,526,501.03	344,900,636.27
Cash paid for all types of taxes		1,421,435,124.51	646,234,979.87
Cash paid relating to other operating activities	VI.51	2,003,395,590.37	1,794,072,822.54
Sub-total of cash outflows from operating activities		5,163,985,446.22	3,831,534,370.16
Net cash flows from operating activities		-18,168,548.18	447,380,853.65
II. Cash flows from investing activities:			
Cash received from disposal of investments		33,100,525.00	404,080,530.00
Cash received from return on investments		705,353.61	4,209,870.84
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		16,115.09	1,893,382.00
Net cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investing activities	VI.51	800,000.00	400,000,000.00
Sub-total of cash inflows from investing activities		34,621,993.70	810,183,782.84
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		253,067,636.05	119,525,288.38
Cash paid for investments		237,750,200.85	103,096,282.74
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities	VI.51	245,000.00	
Sub-total of cash outflows from investing activities		491,062,836.90	222,621,571.12
Net cash flows from investing activities		-456,440,843.20	587,562,211.72
III. Cash flows from financing activities:			
Cash received from investors			15,000,000.00
Including: Cash received from non-controlling shareholders of subsidiaries			15,000,000.00
Cash received from borrowings		300,000,000.00	
Cash received from issue of financing bills			
Cash received relating to other financing activities	VI.51	2,653,082.12	1,753,334.52
Sub-total of cash inflows from financing activities		302,653,082.12	16,753,334.52
Cash repayments of borrowings		27,912,709.50	350,000,000.00
Cash paid for dividends, profit distributions or interest		828,084,355.95	35,669,315.07
Including: Dividends and profits paid to non-controlling shareholders of subsidiaries		98,000,000.00	29,400,000.00
Cash paid relating to other financing activities	VI.51	3,875,932.38	6,050,621.02
Sub-total of cash outflows from financing activities		859,872,997.83	391,719,936.09
Net cash flows from financing activities		-557,219,915.71	-374,966,601.57
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		16,483,346.22	-22,141,605.59
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the Beginning of the Period		7,400,973,935.19	2,061,923,004.89
VI. Cash and cash equivalents at the End of the Period			
		6,385,627,974.32	2,699,757,863.10

Note: Net cash flows from operating activities was negative for the Period, representing a year-on-year significant decrease, which was mainly due to the payment of corporate income tax of RMB789.835 million in the Period for the disposal of the equity interest in Zhuhai Weixing Shiye Co., Ltd. in the previous year.

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

Amount denominated: RMB

Item	For the Period										Total shareholders' equity				
	Attributable to shareholders of the Parent Company					Attributable to shareholders of the Parent Company						Non-controlling interests	Total shareholders' equity		
	Share capital	Other equity	Capital reserve	Treasury shares	Less: Comprehensive income	Other Comprehensive income	Special reserve	Surplus reserve	General risks provision	Retained earnings					
I. Balance at 31 December 2017	552,213,990.00	17,520,929.93	64,786,741.95	-44,243,356.43	-3,252,940.09	4,028,253,201.19	48,682,744.87	14,232,823,553.50	452,731,263.00	1,823,392,921.12	148,201,865.40	602,751.19	3,872,421,016.62	598,610,991.12	7,016,839,930.55
II. Effects of changes in accounting policies															
III. Change in equity for the year	552,213,990.00	17,520,929.93	64,786,741.95	-44,243,356.43	-3,252,940.09	4,028,253,201.19	48,682,744.87	14,232,823,553.50	452,731,263.00	1,823,392,921.12	148,201,865.40	602,751.19	3,872,421,016.62	598,610,991.12	7,016,839,930.55
(I) Total comprehensive income	165,818,970.00	-165,818,970.00	-165,818,970.00	165,818,970.00	165,818,970.00	165,818,970.00	165,818,970.00	165,818,970.00	165,818,970.00	165,818,970.00	165,818,970.00	165,818,970.00	165,818,970.00	165,818,970.00	165,818,970.00
(II) Shareholders' contributions and decrease of capital	-115,799.00		-115,799.00												
1. Ordinary shares issued by shareholders															
2. Capital contributed by holders of other equities															
3. Increase in shareholders' equity resulted from share-based payments															
4. Others	-115,799.00		-115,799.00												
(III) Appropriation of profits															
1. Appropriation of surplus reserve															
2. Appropriation of general risk provision															
3. Distributions to shareholders															
4. Others															
(IV) Transfer of shareholders' equity internally															
1. Capital reserve transferred to capital (or share capital)															
2. Surplus reserve transferred to capital (or share capital)															
3. Surplus reserves transferred to retained earnings for losses incurred															
4. Retained income transferred from the change in the fair value of financial assets															
5. Retained income transferred from the change in other comprehensive income															
6. Others															
(V) Special reserve															
1. Appropriation of special reserve															
2. Release of special reserve															
(VI) Others															
IV. Balance at 31 June 2018	719,050,000.00	156,479,000.39	7,288,254.00	-91,233,745.44	-91,233,745.44	5,925,791,088.81	6,025,711.12	10,888,888,661.88	452,592,000.00	17,415,238.87	75,162,288.20	-143,288,675.86	4,102,632,256.40	631,384,075.13	17,449,838.67

Prepared by: Livzon Pharmaceutical Group Inc

Principal in charge of accounting work: Si Yanxia
 Vice Chairman and President: Tao Desheng
 Chairman of the Board and Legal representatives: Zhu Baoguo
 Name of the accounting firm's principal: Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the End of the Period	At the Beginning of the Period
Current assets:			
Cash at bank and on hand		5,306,721,848.28	6,494,605,142.51
Held-for-trading financial assets		13,253,165.25	9,866,397.84
Derivative financial assets			
Bills receivables and accounts receivables	XVII.1	1,320,823,788.50	1,273,761,414.49
Prepayments		43,508,154.48	23,947,297.19
Other receivables	XVII.2	2,893,444,150.97	2,235,159,294.88
Inventories		512,276,272.00	324,451,425.51
Contract assets			
Held-for-sale assets			
Non-current assets due within one year			
Other current assets			14,802,063.57
Total current assets		10,090,027,379.48	10,376,593,035.99
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	XVII.3	1,552,167,494.98	1,921,512,447.08
Other equity instrument investments		80,503,108.84	75,503,108.84
Other non-current financial assets			
Investment properties			
Fixed assets		67,489,196.13	64,002,756.47
Construction in progress		114,259.61	
Productive biological assets			
Oil and gas assets			
Intangible assets		25,669,279.12	13,384,939.00
Development costs		1,435,561.12	15,227,566.18
Goodwill			
Long-term deferred expenses		1,742,257.33	1,900,875.67
Deferred income tax assets		28,558,354.50	34,887,407.91
Other non-current assets		97,847,592.70	84,665,592.70
Total non-current assets		1,855,527,104.33	2,211,084,693.85
Total assets		11,945,554,483.81	12,587,677,729.84

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	At the End of the Period	At the Beginning of the Period
Current liabilities:			
Short-term loans			
Held-for-trading financial liabilities			
Derivatives financial liabilities			
Bills payables and accounts payables		953,210,221.96	1,471,949,832.42
Receipts in advance			
Contract liabilities		24,624,433.15	39,100,755.02
Employee benefits payables		23,888,967.71	28,957,166.37
Taxes payables		30,307,087.76	739,087,798.63
Other payables		3,612,370,806.48	2,810,769,078.20
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		4,644,401,517.06	5,089,864,630.64
Non-current liabilities:			
Long-term loans			
Notes payables			
Of which: preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Accrued liabilities			
Deferred gain		58,183,338.51	54,183,338.51
Deferred tax liabilities		6,408,548.05	4,857,099.27
Other non-current liabilities			
Total non-current liabilities		64,591,886.56	59,040,437.78
Total liabilities		4,708,993,403.62	5,148,905,068.42
Shareholders' equity:			
Share capital		719,050,240.00	553,231,369.00
Other equity instruments			
of which: preferred shares			
perpetual bonds			
Capital reserve		1,694,255,004.02	1,836,798,282.28
Less: Treasury shares		7,283,234.20	66,786,741.96
Other comprehensive income			
Special reserve			
Surplus reserve		382,292,109.32	382,292,109.32
General risks provision			
Retained earnings		4,448,246,961.05	4,733,237,642.78
Total shareholders' equity		7,236,561,080.19	7,438,772,661.42
Total liabilities and shareholders' equity		11,945,554,483.81	12,587,677,729.84

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	For the Period	For the Previous Period
I. Operating income	XVII.4	2,425,716,387.86	2,519,389,541.44
Less: Operating costs	XVII.4	1,454,491,104.66	1,429,118,380.09
Business taxes and surcharges	XVII.5	12,764,990.81	22,742,308.34
Selling expenses		912,794,916.88	1,041,682,556.02
Administrative expenses		89,511,948.43	80,092,050.76
R&D expenses		71,781,608.81	65,121,401.52
Financial expenses		-103,993,650.52	-25,105,084.54
Including: Interest expenses		16,277,746.11	19,166,386.43
Interest income		120,830,659.34	45,432,701.45
Asset impairments loss		3,027,178.06	13,793,748.43
Credit impairment loss		-16,386,055.77	
Add: Other income		8,446,682.20	13,719,620.90
Investment income ("—" represents losses)	XVII.6	768,736,643.80	1,214,323,982.87
Including: Income from investment in associates and joint ventures		-308,816.56	-730,915.12
Gain net exposure to hedging ("—" represents losses)			
Gains from changes in fair value ("—" represents losses)		3,386,767.41	
Gains on disposal of assets ("—" represents losses)		-17,700.66	40,486.79
II. Operating profit ("—" represents losses)		782,276,739.25	1,120,028,271.38
Add: Non-operating income		53,357,099.07	31,093,677.76
Less: Non-operating expenses		1,257,421.69	10,833,729.85
III. Total profit ("—" represents total losses)		834,376,416.63	1,140,288,219.29
Less: Income tax expenses		13,135,958.36	-13,069,283.58
IV. Net profit ("—" represents net losses)		821,240,458.27	1,153,357,502.87
(I). Net profit from continuing operations ("—" represents net losses)		821,240,458.27	1,153,357,502.87
(II). Net profit from discontinued operations ("—" represents net losses)			
V. Other comprehensive net income after taxation			2,126,961.35
(I). Other comprehensive income items not to be reclassified as profit or loss			2,126,961.35
1. Changes caused by re-measurement of defined benefit plans			
2. Other comprehensive income not to be reclassified into profit or loss under the equity method			
3. Change in fair value of other equity instrument investments			2,126,961.35
4. Changes in fair value of enterprise's own credit risk			
(II). Other comprehensive income items to be reclassified as profit or loss			
1. Other comprehensive income to be reclassified into profit or loss under the equity method			
2. Change in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Credit impairment provision for other debt instruments			
5. Reserve for cash flow hedging			
6. Translation differences of financial statements denominated in foreign currency			
7. Others			
VI. Total comprehensive income		821,240,458.27	1,155,484,464.22

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	For the Period	For the Previous Period
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		2,751,423,120.80	2,707,217,792.96
Refund of taxes			
Cash received relating to other operating activities		167,926,130.87	65,884,063.83
Sub-total of cash inflows from operating activities		2,919,349,251.67	2,773,101,856.79
Cash paid for purchasing goods and services		1,983,352,416.19	1,525,231,196.68
Cash paid to and for employees		113,759,535.73	62,923,733.00
Cash paid for all types of taxes		785,500,501.37	174,555,460.62
Cash paid relating to other operating activities		1,007,238,719.63	1,068,076,998.75
Sub-total of cash outflows from operating activities		3,889,851,172.92	2,830,787,389.05
Net cash flows from operating activities		-970,501,921.25	-57,685,532.26
II. Cash flows from investing activities:			
Cash received from disposal of investments		33,100,525.00	403,125,000.00
Cash received from return on investments		78,131,844.96	1,001,552,233.36
Net cash received from disposal of fixed assets, intangible assets and other long-term assets			86,700.00
Net cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investing activities			400,000,000.00
Sub-total of cash inflows from investing activities		111,232,369.96	1,804,763,933.36
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		23,018,601.92	5,055,396.36
Cash paid for investments		11,332,200.00	30,000,000.00
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities			
Sub-total of cash outflows from investing activities		34,350,801.92	35,055,396.36
Net cash flows from investing activities		76,881,568.04	1,769,708,537.00
III. Cash flows from financing activities:			
Cash received from investors			
Cash received from borrowings			
Cash received from issue of financing bills			
Cash received relating to other financing activities		958,539,902.95	1,753,334.52
Sub-total of cash inflows from financing activities		958,539,902.95	1,753,334.52
Cash repayments of borrowings			350,000,000.00
Cash paid for dividends, profit distributions or interest		727,693,604.00	7,249,315.07
Advances to subsidiaries			132,573,105.44
Cash paid relating to other financing activities		525,059,310.47	385,573,224.01
Sub-total of cash outflows from financing activities		1,252,752,914.47	875,395,644.52
Net cash flows from financing activities		-294,213,011.52	-873,642,310.00
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		-49,929.50	-4,633.78
V. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the Beginning of the Period		6,494,605,142.51	1,606,485,665.85
VI. Cash and cash equivalents at the End of the Period			
		5,306,721,848.28	2,444,861,726.81

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

Amount denominated: RMB

Prepared by: Livzon Pharmaceutical Group Inc.

Item	For the Period										For the Previous Period													
	State capital	Preferred Shares	Other Equities	Capital reserve	Treasury shares	Less: Comprehensive Income	Other	Special reserve	Surplus reserve	General risks provision	Retained earnings	Total shareholders' equity	State capital	Preferred Shares	Other Equities	Capital reserve	Treasury shares	Less: Comprehensive Income	Other	Special reserve	Surplus reserve	General risks provision	Retained earnings	Total shareholders' equity
I. Balance at 31 December 2017	53,231,389.00			1,883,792,282.28	66,786,741.56	8,332,584.09		382,232,109.32		4,724,885,208.09	4,882,772,861.02	452,792,116.00			1,941,636,380.07	140,231,885.50	7,794,048.48		382,232,109.32		93,231,548.46		93,231,548.46	3,520,702,883.34
II. Changes in equity for the year ("+" represents increase)																								
(i) Total comprehensive income																								
(ii) Shareholders' contributions and decrease of capital																								
1. Ordinary shares issued by shareholders																								
2. Capital contributed by holders of other equity																								
3. Increase in shareholders' equity resulted from share-based payments																								
4. Others																								
(iii) Appropriation of profits																								
1. Appropriation of surplus reserve																								
2. Appropriation of general risks provision																								
3. Distributions to shareholders																								
4. Others																								
(iv) Transfer of shareholders' equity internally																								
1. Capital reserve transferred to capital (or share capital)																								
2. Surplus reserve transferred to capital (or share capital)																								
3. Surplus reserves transferred to retained earnings for losses incurred																								
4. Retained income transferred from the change in defined benefit plan																								
5. Retained income transferred from the change in other comprehensive income																								
6. Others																								
(v) Special reserve																								
1. Appropriation of special reserve																								
2. Utilization of special reserve																								
(vi) Others																								
IV. Balance at 30 June 2018	719,050,240.00			1,894,255,004.02	7,282,234.20	25,003,264.48		382,232,109.32		4,448,246,861.05	4,830,531,000.19	452,592,592.00			1,955,898,423.00	75,162,888.20	9,927,710.84		382,232,109.32		1,863,847,556.53		1,863,847,556.53	4,524,529,593.29

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

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

I. COMPANY STATUS

1. History and development

In March 1992, Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司) (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[1993] 001號文) issued by Guangdong Securities Regulatory Commission (廣東省證券監督管理委員會), Shen Ren Yin Fu Zi [1993] No. 239 document (深人銀復字[1993]第239號文) issued by Shenzhen Special Economic Zone branch of the People's Bank of China (中國人民銀行深圳經濟特區分行) and Zheng Jian Fa Shen Zi 1993 No. 19 document (證監發審字[1993] 19 號文) issued by China Securities Regulatory Commission, 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.

On 4 February 2005, Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (hereinafter referred to as the "Joicare") 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 Joicare (健康元). On 3 August 2006, the procedures for the transfer of the 38,917,518 domestic legal person shares to Joicare (健康元) was completed.

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

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.

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.

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

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

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

Pursuant to “the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” considered and approved by the 23th Board Meeting of the 8th Session of the Board (28 March 2016) and 26th Board Meeting of the 8th Session of the Board (16 May 2016), 257,624 shares were repurchased. After the repurchase, the Company’s share capital has changed to RMB396,631,923. This capital reduction was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2016] 40030011 issued by Ruihua issued by Ruihua Certified Public Accountants.

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

Pursuant to the “Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive” passed at the Thirty-second Meeting of the Eighth Session of the Board on 30 November 2016 and the Thirty-sixth Meeting of the Eighth Session of the Board on 28 March 2017, 167,534 shares were repurchased. The Company’s share capital following the repurchase has changed to RMB425,562,592. This capital reduction was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2017]40030001 and [2017]40030007 issued by Ruihua Certified Public Accountants.

Pursuant to the requirements of the Articles of Association considered and amended at 2016 general meeting, 2017 first class meeting of A Shareholders and 2017 first class meeting of H Shareholders, based on the Company’s total share capital of 425,562,592 shares, the Company made a bonus issue of 127,668,777 shares, each RMB1 by way of 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 RMB553,231,369. This capital increase was validated and confirmed by Capital Verification Report Rui Hua Yan Zi [2017]40030010 issued by Ruihua Certified Public Accountants.

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

Pursuant to the “Resolution on Repurchase and Cancellation of Part of the Restricted Shares” and the “Resolution on the Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions” considered and approved at the Sixth Meeting of Ninth Session of the Board on 15 December 2017 and the Twelfth Meeting of Ninth Session of the Board on 29 March 2018, following the repurchase of 115,799 shares, the share capital of the Company changed to RMB553,115,570. The capital reduction was validated and confirmed by the capital verification reports (Rui Hua Yan Zi [2018] No. 40030006, [2018] No. 40030008) from Ruihua Certified Public Accountants.

Pursuant to the resolutions of the 2017 Annual General Meeting, 2018 Second Class Meeting of A Shareholders and 2018 Second Class Meeting of H Shareholders and the amended Articles of Association, it was agreed that the Company issued 165,934,670 bonus shares, with a nominal value of RMB1 per share, to all Shareholders on the basis of 3 shares for every 10 shares by way of capitalizing the capital reserve based on the total share capital of 553,115,570 shares. After the bonus issue, the registered capital of the Company changed to RMB719,050,240.

2. Industry of the Company

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

3. Scope of business

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

4. Change of principal activities

During the Reporting Period, there was no change in the principal activities of the Company.

The financial statements has been approved and published by the Board meeting on 17 August 2018.

Please refer to note. VIII “Equity in other entities” for names of subsidiaries included into the consolidation in 2018. Two more subsidiaries are added during the Period compared with the previous year while no subsidiaries are excluded, please refer to note. VII “Change to consolidation scope”.

II. BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS

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

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

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

The financial statements prepared by the Company comply with the Accounting Standards for Business Enterprises, which truly and completely present the information on the financial conditions of the Company as at 30 June 2018 and the results and cash flow of the Company for January to June of 2018. 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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 are 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.

(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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

For the business 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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

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

In the consolidated financial statements, the equity of the acquirees held before the acquisition date is re-measured at the fair value of the equity on the acquisition date and the differences between the fair value and the carrying amount are recognised in the investment income for the 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.

(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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

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

Where the Company loses its control over the original subsidiary due to the disposal of some equity investment or other reasons, the remaining equity is re-measured at its fair value on the date when the Company loses its control. The different between the sum of the consideration acquired due to the disposal of the equity and the fair value of the remaining equity and the Company's share in the net assets of the original subsidiary calculated on an on-going basis from the acquisition date based on the original shareholding proportion is recognised in the investment income for the current period when the control is lost. Other comprehensive income in relation to the subsidiary are accounted on the same basis as the investee when control cease (i.e. except for changes due to net liabilities or net assets from such investee's re-measured defined benefits plan, the rest are reclassified as investment income during the period). After that, the remaining equity is subject to subsequent measurement in accordance with such rules as the "Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investment" and the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments". Please see note IV 12 (Long-term equity investment) and note IV 8 (Financial Instruments) for details.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

Where the Company disposes of the equity investment in the subsidiary through several transactions until the Company loses control, it shall be determined whether such transactions are a basket of transactions. Where the terms, conditions and economic impacts of various transactions involved in the disposal of the equity investment in the subsidiary satisfy one or several of the following circumstances, such several transactions shall be normally deemed as a basket of transactions in accounting treatment: (1) such transactions are entered into simultaneously or upon the consideration of the mutual impacts; (2) no complete commercial result will be realised without such transactions as a whole; (3) the occurrence of one transaction depends on the occurrence of at least another transaction; (4) one transaction is not economical independently but economical together with other transactions. In case no basket of transactions is constituted, each transaction is subject to the accounting treatment separately based on the applicable principles stipulated in "Partial disposal of the long-term equity investment in subsidiaries without losing control" (note IV 12(2)4) and "Loss of control over original subsidiaries due to the disposal of partial equity investment or other reasons" (above paragraph) as the case may be. Where such transactions constitute a basket of transactions, such transactions are together subject to the accounting treatment as a transaction of disposal subsidiaries and losing control; provided that the difference between the consideration of each disposal and the Company's share in the net assets of the subsidiary corresponding to the investment disposal before the loss of the control is recognised as the other comprehensive income and carried forward to the profit or loss for the current period when the control is lost.

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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

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

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

(3) Translation of financial statements in foreign currency

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments

(1) Amortised cost and effective interest

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability (i.e. excluding amortised cost before the provision for loss). When calculating the effective interest rate, the Group shall estimate future cash flows considering all contractual terms of the financial asset or financial liability but not future credit losses (including transaction fee, premium or discount and all fees paid or received that form an integral part of the effective interest rate).

The effective interest rate after credit adjustment is the rate that exactly discounts estimated future cash flows for acquired or originated credit impairment through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate after credit adjustment, the Group estimates future cash flows considering all contractual terms of the financial asset (such as early prepayment, extension, call options or other similar options) and initial expected credit loss, including transaction fee, premium or discount and expected and fee paid or received which are part of the effective interest rate and future credit losses.

Amortised cost represents the amount of the financial assets or financial liabilities measured at initial recognition after the following adjustments: minus repaid principal amounts, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus provision for loss (applied to financial assets only).

When the Company adjusts future cash flows estimates, the adjustment of the carrying amounts of financial assets or financial liabilities is subject to new future cash flows estimates and discounted original effective interest rate and the changes are charged to profit or loss.

(2) Initial recognition and measurement on financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments. Regular way purchases or sales of financial assets are recognised on a trade date basis. Transaction dates are the dates on which the Company undertakes to purchase or sell the financial assets.

Financial assets and financial liabilities are initially measured at fair value.

Fair value at initial recognition generally represents the transaction cost of the relevant financial asset or financial liability. The difference between the fair value of a financial asset or a financial liability and its transaction cost is accounted for based on different conditions: for fair value determined based on the quoted price of identical assets or liabilities in the active market or valuation technology that uses only observable market data, the difference is recognized as gains or losses; for fair value determined based on other methods, the difference is accounted for on a deferred basis and, subsequent to initial recognition, recognized as gains or losses for the corresponding accounting period based on the change of such factors to be considered when pricing the financial instrument, such as time, during that period.

For financial assets and financial liabilities at fair value through current profit or loss, the relevant transaction cost is directly recognized in profit or loss. For other financial assets and financial liabilities, the relevant transaction cost is included in initial recognition amount.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments *(continued)*

(3) Fair value determination for financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For financial instruments in an active market, the Company adopts the quoted price in the active market as the fair value. The quoted price in the active market is the price that can be obtained readily on a regular basis from exchanges, brokers, industrial associations, pricing institutions and other similar organizations and represents the actual price of the market transaction in a fair transaction. If there is no active market for a financial instrument, the Company adopts valuation techniques to establish the fair value. Such valuation techniques include making reference to the price adopted by the parties trading knowingly and voluntarily in the latest market transaction, making reference to the current fair value of other financial instruments that are substantially the same, the discounted cash flow method and the option pricing model. In the course of valuation, the Company adopts the valuation technique that is applicable under the prevailing situation and supported by enough available data and other information. It selects input values with the same features considered by market players for transactions of relevant assets or liabilities, and maximizes the use of relevant observable input values. Where it is unable or impracticable to obtain observable input value, unobservable input values are used.

With limited exceptions, the Company determines whether the cost represents the fair value based on all information in relation to the results and operations of the investees available since the date of initial recognition. Where the cost may represents the best estimate of fair value of relevant financial assets within the band, it shall represents the appropriate estimate of fair value within the band. Where the cost may not represents the fair value of the relevant financial assets, the fair value shall be determined with valuation techniques.

For investment in equity instrument or contracts with publicly available quoted price, the Company does not consider the cost as the best estimate of fair value.

(4) Classification and subsequent measurement of financial assets

Financial assets are classified into the following categories upon initial recognition: financial assets at amortized costs; financial assets at fair value through other comprehensive income; financial assets at fair value through current profit or loss.

The classification of financial assets depends on the business model under which the Company manages the financial assets and the cash flow characteristics of the financial assets.

Business model: the business model under which the Company manages the financial assets is determined based on the specific business objective of financial asset management as determined by key management personnel, with reference to objective facts. The business model reflects how the Company manages the financial assets in order to generate cash flow, i.e., whether the Company's objective is solely to collect contractual cash flow or is to collect both the contractual cash flow and cash flow arising from the sales of the financial assets. Where neither of these is applicable (e.g., financial assets held for trading), the group of financial assets is classified as part of the "other" business model and measured at fair value through profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments *(continued)*

(4) Classification and subsequent measurement of financial assets *(continued)*

Characteristics of the contractual cash flows of the financial asset:

Where the objective of the business model is to collect contractual cash flow, or to collect contractual cash flow and cash flow arising from the sales of the financial assets, the Company assesses whether the cash flow of the financial assets comprises only payments of principal and interest.

The contractual cash flow characteristics of the financial assets refer to the characteristics of the cash flow agreed under the financial instrument contracts, which reflect the economic characteristics of the financial assets, i.e., its contractual cash flow characteristics are consistent with the basic lending arrangement and the contractual cash flow generated on a given date comprises solely the payments of the principal and the interest on outstanding principal. The interest considers the time value of money (the portion of interest incurred solely due to passage of time), credit risk related to outstanding principal at a given time, other basic exposure of borrowings, costs and profit.

Hybrid instruments with embedded derivatives (financial assets within the scope of Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments) are analysed collectively in determining whether the contractual cash flows comprise solely payments of principal and interest.

The Company reclassifies a financial asset when there are changes of the business model under which it is managed.

Financial assets held by the Company include investment in debt instruments, investment in equity investments and hybrid instruments.

1 *Investment in debt instruments*

Investment in debt instruments refer to financial assets with contractual cash flow characteristics that are consistent with basic lending arrangements (i.e., the contractual cash flow generated as at a given date comprises solely the payments of the principal and the interest on outstanding principal), including loans, government bonds and corporate bonds and trade receivables attributable to purchase from other parties under non-recourse factoring arrangement.

2 *Investment in equity instruments*

Equity instruments are contracts that evidence the residual interest of the holders thereof in the assets of an entity after deducting all liabilities (please refer to note IV. 8 (13)). Equity instruments do not include financial instruments that are entitled to the net assets and residual interest of the issuer and with contractual obligations to pay other parties, such as ordinary shares.

Investments in equity instrument held by the Company are measured at fair value through current profit or loss (except for equity instruments for non-trading purpose irrevocably designated as measured at fair value through other comprehensive income at initial recognition). For financial assets which are equity instruments for non-trading purpose designated as measured at fair value through other comprehensive income, the subsequent change in fair value can only be recognised in other comprehensive income and may not be reclassified to profit or loss even at disposal. The Company recognizes dividend income in current profit or loss when the entitlement to dividends is established, it is probable the economic benefits related to the dividend will flow to the Company and the amount can be measured reliably.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments (continued)

(4) Classification and subsequent measurement of financial assets (continued)

3 Other financial assets

Other financial assets exclude investments in debt instruments and investments in equity instruments, and include other financial assets such as hybrid instruments (please refer to note IV. 8(10) Derivatives and Embedded Derivatives), financial guarantee contracts (please refer to note IV. 8(11)), special financial instruments that meet the definition of financial liabilities under the relevant requirements of the Accounting Standards for Business Enterprises No. 37–Presentation of Financial Instruments (analysed from the perspective of the issuer) but should be classified as equity instruments, financial assets arising from business combination involving entities not under common control or the consideration. However, the designation option for equity instruments held for non-trading purposes under the Accounting Standards for Business Enterprises No. 22–Recognition and Measurement of Financial Instruments do not apply to the latter two types of financial assets.

(5) Measurement of expected credit loss and impairment of financial assets

Where the occurrence of one or more events having adverse effects on the future cash flows of a financial asset is expected, the credit impairment is incurred. Evidences of credit impairment incurred for a financial asset include observable data on the followings: significant financial difficulties of the debtor; a breach of contract, such as a default on or delinquency in interest or principal payments; the creditor, for economic or contractual reasons relating to the borrower's financial difficulties, granting to the borrower a concession that it would not otherwise consider; it becomes probable that the borrower will enter into insolvency or other financial reorganization; the disappearance of an active market for that financial asset due to financial difficulties of the issuer of the borrower; the purchase or origination of a financial assets at a significant discount that reflects the incurred credit losses. The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

For the following financial assets, the Company provides for impairment and recognizes provision for losses based on the expected credit losses at each of the balance sheet date:

- 1 Financial assets classified as measured at amortised costs and measured at fair value through other comprehensive income, including debt investment and other debt investment, such as general corporate bonds;
- 2 Accounts receivable (and commercial acceptance bills receivable) ("trade receivables") and contract assets recognised for sales of goods or rendering of services in accordance with the Accounting Standards for Business Enterprises No. 14–Revenue (2017 Revision) ("New Revenue Standards");
- 3 Other receivables;
- 4 Rental receivables;
- 5 loan commitments and financial guarantee contracts other than financial liabilities at fair value through current profit or loss issued by the Company.

Expected credit losses are weighted average of credit losses on financial instruments weighted at the risk of default.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments *(continued)*

(5) Measurement of expected credit loss and impairment of financial assets *(continued)*

Credit loss is the difference between all contractual cash flow receivable under the contracts and all cash flow expected to be received discounted at the original effective interest rate, i.e., the present value of all cash shortfalls. In particular, the purchase or origination of credit-impaired financial assets is discounted at the credit-adjusted effective interest rate.

The measurement of expected credit losses reflects the following factors: the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supported information that is available without undue cost or effort at the balance sheet date about past events, current conditions and forecasts of future economic conditions.

For investments in financial assets that are debt instruments measured at amortised costs and measured at fair value through other comprehensive income, as well as financial guarantee contracts (please refer to note IV. 8 (11)), the Company combines forward-looking information for the assessment of expected credit losses.

For trade receivables and contract assets that do not comprise significant financing components as defined under the New Revenue Standards or financing components under the contract with a maturity less than one year not to be considered in accordance with the New Revenue Standards, and trade receivables and contract assets that comprise significant financing components as defined under the New Revenue Standards with the choice of accounting policy, the Company consistently adopts a simple approach to measure the provision for impairment based on the expected credit loss of the financial assets for the entire expected lives since initial recognition.

(6) 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 substantially 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 substantially all of the risks and rewards of ownership of the financial assets.

Where the enterprise has neither transferred nor reserved substantially all of the risks and rewards of ownership of the financial assets and has 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 exposure to the change in the value of the financial assets.

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments *(continued)*

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

Where the partial transfer of the financial assets satisfies the conditions of de-recognition, the carrying value of the transferred financial assets is allocated between the de-recognised portion and the not yet de-recognised portion in accordance with 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 previously recognised other comprehensive income allocated to the de-recognised portion (financial assets transferred are classified as financial assets at fair value through other comprehensive income under Rule 18 of "Accounting Standards for Business Enterprises No. 22—Recognition and Measurement of Financial Instruments" (2017 Revision)) and the above mentioned allocated carrying value are recognised in the profit or loss for the period.

Where the Company transfers and discounts the financial assets sold with the right of recourse or the financial assets held by it by way of endorsement, it shall determine whether substantially all the risks and rewards of ownership of the financial assets have been transferred. Where substantially all the risks and rewards of ownership of the financial assets have been transferred to the transferee, the financial assets are derecognised; where substantially all the risks and rewards of ownership of the financial assets have been reserved, the financial assets are not de-recognised; and where substantially 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.

(7) Written off of financial assets

Where it is reasonably expected that the contractual cash flow of the financial assets is no longer recoverable in full or in part, it is directly written down to its carrying value. This constitutes the derecognition or partial derecognition of the financial asset.

(8) Classification, recognition and measurement of financial liabilities

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

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

Including financial liabilities that are classified as held for trading (including derivatives comprising financial liabilities) and financial liabilities designated as measured at fair value through current profit or loss upon initial recognition.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments *(continued)*

(8) Classification, recognition and measurement of financial liabilities *(continued)*

1 *Financial liabilities at fair value through current profit or loss (continued)*

Upon initial recognition, financial liabilities that meet one of the following conditions are designated as financial liabilities measured at fair value through current profit or loss: A. such designation may eliminate or significantly reduce accounting mismatch (in line with the conditions for designation of financial assets as measured at fair value through current profit or loss); B. the official written documents of the Company has specified the risk management and investment strategies of the financial liabilities, the management and performance evaluation of the group of financial liabilities or the group of financial assets and financial liabilities are on a fair value basis, and the Company reports to key management personnel on this basis. This designation is irrevocable.

Financial liabilities at fair value through current profit or loss are subsequently measured at fair value. The gains or losses on change in fair value and the dividend and interest expenses of the financial liabilities are included in the profit or loss for the current period.

2 *Other financial liabilities*

Other financial liabilities of the Company are subsequently measured at amortised costs using the effective interest rate method. The gains or losses on derecognition or amortization is included in the profit or loss for the current period. Other financial liabilities mainly include accounts payable, borrowings, bonds payable and financial guarantee contracts, where accounts payable comprise trade payables and other payables.

(9) Derecognition of financial liabilities

The Company derecognizes a financial liability (or part of a financial liability) when its underlying present obligation or the corresponding part of the obligation is discharged. Where the Company (debtor) makes substantial amendments to the contractual terms of the original financial liability (or part of it), the original financial liability is derecognised and a new financial liability is recognised based on the revised terms.

For derecognised financial liabilities (or part of it), the difference between the carrying value and the consideration paid (including the non-cash assets transferred or the liabilities assumed) is included in the current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments (continued)

(10) Derivative and embedded derivatives

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

Hybrid instruments with embedded derivatives

- 1 For financial assets comprising a master contract within the scope of the Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments (2017 Revision), the hybrid instruments are classified as a whole at initial recognition based on the relevant requirements of the standard in relation to classification of financial assets.
- 2 For financial assets comprising a master contract out of the scope of the Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments (2017 Revision), the embedded derivative is striped from the hybrid contract and accounted for as an separate derivative when the following conditions are met: the economic characteristics and risk of the embedded derivative are not closely related to those of the master contract; independent instruments that share the same terms with the embedded derivative meet the definition of derivatives; the hybrid contract is not measured at fair value through current profit or loss. In case it is unavailable or the embedded derivative is individually measured at subsequent balance sheet date, the hybrid instrument as a whole is designated as a financial asset or financial liability measured at fair value through current profit or loss.

(11) Financial guarantee contracts

Financial guarantee contract not designated as measured at fair value through current profit or loss is initially recognized at fair value and, after initial recognition, is subsequently measured at the higher of the amount determined based on the expected credit loss model and the initial amount net of the accumulated amortization determined based on the principle of the New Revenue Standard.

(12) Offset between financial assets and financial liabilities

Where the Company has the legal right to offset recognised financial assets and financial liabilities and the right is currently enforceable, and the Company plans to settle on a net basis or realise the financial assets and repay the financial liabilities simultaneously, the remaining amount upon offsetting 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Financial Instruments (continued)

(13) Equity instruments

Equity instruments refer to the contracts evidencing the ownership of the remaining interest in the assets after deducting all liabilities. The issue (including refinancing), repurchase, sales and cancellation of equity instruments are accounted for as the change in equity. The Company does not recognize fair value change of equity instruments. The transaction costs related to equity transaction are charged to equity.

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

9. Receivables

Receivables include trade receivables, other receivables and bills receivable.

(1) Recognition criteria of bad debt provision

The Company measures the expected credit loss and determines the bad debt provision of relevant receivables at each balance sheet date based on the expected credit loss. The Company adopts a simple approach to measure the expected credit loss of trade receivables for the recognition of relevant bad debt provision.

(2) Method of provision for bad debt

The Company assesses the credit risk of individually significant receivables on an individual basis at the balance sheet date and makes bad debt provision based on the expected credit loss. Receivables with similar credit risk characteristics are measured for expected credit risk on a group basis for provision of bad debts.

1 *Recognition criteria and method of provision for bad debts of receivables that are individually significant for which the provision for bad debt is made individually*

**Basis for determination
or standard for
individual significance**

Over 10% of the receivable balance

Method of provision for receivables that are individually significant for which provision for bad debt is made individually

The Company assesses the credit risk of individually significant receivables on an individual basis and measures the expected credit risk over on the entire lifetime for the recognition of bad debts provision. Receivables that do not show signs of impairment in the individual test are tested for impairment on group basis by credit risk.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

9. Receivables (continued)

(2) Method of provision for bad debt (continued)

2 Recognition criteria and method of provision for bad debts of receivables for which the provision for bad debt is made on group basis by credit risks

A. Recognition criteria for groups of credit risk characteristics

The Company puts receivables that are not individually significant and those that are individually significant but have not incurred credit impairment in the individual assessment into group based on the similarity and relevance of credit risk characteristics. Such credit risks generally reflect the debtors' ability to repay all amounts due in accordance with the contractual terms of the assets and are relevant to the estimation of future cash flow of the assets concerned.

Basis for determinant of different groups:

Item	Basis for grouping
Group by aging	Receivables with same aging and similar credit risk characteristics
Group by nature	Intercompany funding within the consolidation scope of the Company with similar credit risk characteristics

B. Method of provision for bad debts recognised based on group by credit risk characteristics

In performing credit risk assessment on a group basis, the Company takes into account the structure and similar credit risk characteristics of the groups of receivables (debtors' ability to repay borrowings in accordance with the contractual terms), historical loss due to default, current economic environment and forward-looking information to measure the expected credit loss based on the expected lifetime for the recognition of bad debt provision for relevant receivables.

Method of provision for bad debt for different groups:

Item	Basis for provision
Group by aging	Expected lifetime
Group by nature	No impairment risk based on the risk characteristics, not bad debt provision is made

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***9. Receivables** *(continued)***(2) Method of provision for bad debt** *(continued)*

2 *Recognition criteria and method of provision for bad debts of receivables for which the provision for bad debt is made on group basis by credit risks* *(continued)*

B. Method of provision for bad debts recognised based on group by credit risk characteristics *(continued)*

In the portfolio, the percentage of provision for aggregate bad debts in the aging portfolio are as follows:

Aging	Percentage of provision for accounts receivables	Percentage of provision for other receivables
Within 3 months (including 3 months)	1%	1%
4-6 months (including 6 months)	5%	5%
7-12 months (including 12 months)	10%	10%
1-2 years (including 2 years)	20%	20%
2-3 years (including 3 years)	70%	70%
Over 3 years	100%	100%

3 *Receivables that are not individually significant but for which the credit risk is assessed individually and the provision for bad debt is made individually*

Basis for determination or standard for individual insignificance Individually insignificant and is due for over three years

Method of provision for receivables that are not individually significant for which the provision of bad debt is made individually The Company performs individual credit risk assessment of receivables that are not individually significant and measures the expected credit loss based on the entire life time for recognition of bad debt provision.

For receivables transferred to financial instauration without the right of recourse, the difference between transaction cost net of carrying amount of receivables transferred and relevant taxes is included in current profit or loss.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

10. Inventories

(1) Classification of inventories

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

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

(3) Method of measurement

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

11. Assets and disposal groups held for sale

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Long-term equity investment

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

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

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

(1) Determination of investment cost

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

12. Long-term equity investment (continued)

(2) Subsequent measurement and recognition of profit or loss

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

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

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

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

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 profits 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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

3 Acquisition of non-controlling interests

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

4 Disposal of long-term equity investment

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

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

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

(4) Impairment test and provision for impairment

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

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

13. Investment Properties

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

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

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

14. Fixed Assets

(1) Recognition of fixed assets

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

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

(2) Classification of fixed assets

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

(3) Measurement of fixed assets

Fixed assets are initially measured at cost.

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

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***14. Fixed Assets** *(continued)***(4) Method for depreciation of fixed assets**

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

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

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

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

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

15. Construction in progress**(1) Classification of construction in progress**

Construction in progress is classified into individual projects.

(2) Conversion of construction in progress to fixed assets

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

(3) Impairment of construction in progress

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

16. Borrowing Costs

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

17. Biological Assets

(1) Determination and classification of biological assets

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

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

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

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

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

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

18. Intangible Assets

(1) Intangible assets

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets *(continued)*

(1) Intangible assets *(continued)*

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.

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets (continued)

(2) Research and development expenditures

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

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

18. Intangible Assets *(continued)*

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

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

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

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

19. Long-term deferred expenses

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

20. Impairment of Non-fixed Non-financial Assets

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

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

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

21. Employee compensation

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

22. Provisions

(1) Principles for the recognition of provisions

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

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

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

(2) Determination for the best estimate of provisions

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

23. Share-based payments

(1) Accounting treatment for share-based payments

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

1 *Equity-settled share-based payments*

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

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

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

2 *Cash-settled share-based payments*

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

23. Share-based payments *(continued)*

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

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

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

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

24. Repurchase of shares of the Company

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

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

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

25. Income

Revenue is recognized when the customer obtains control of the goods, subject to the fulfilment of the following conditions under the contract entered into the Company and customers: the parties has approved the contract and undertaken to fulfil their respective obligations; the contract clearly states the parties to the contract and their rights and obligations relating to the transferred goods and rendered services; the contract clearly stated the payment terms relating to the transferred goods; the contract has commercial substance that the fulfilment of the contract will result in changes in the risk, time frame or amount of the future cash flow risk of the Company; the collection of the consideration that the Company is entitled to for transferring the goods is probable.

On the effective date of the contract, the Company identifies each performance obligation under such contracts and allocate the transaction price to each performance obligation based on the percentage of respective unit price of a good guaranteed by each performance obligation. The determination of the transaction price has taken into account the impact of factors, such as variable consideration, the significant financing component exist in the contract, non-cash consideration, consideration payable to the customers.

For each of the performance obligations under the Contract, if one of the following conditions is fulfilled, the Company shall recognised the transaction price which was allocated to each of the performance obligations as income based on the progress of performance within a certain period: the Client has received and consumed simultaneously all of the economics benefits; When the customer simultaneously receives and consumes the benefits provided by the Company when the Company performs its obligations under the contract; When the customer is able to control the commodity in progress in the course of performance by the Company under the contract; The product produced by the Company under the contract is irreplaceable and the Company has the right to payment for performance completed to date. The stage of fulfilment are determined based on the nature of the transferred goods with the adoption of input method or output-based method. When the progress of performance cannot be reasonably determined, if the costs incurred by the Group are expected to be recoverable, the revenue will be recognised to the extent of the costs incurred until the progress of performance can be reasonably determined.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

25. Income *(continued)*

If one of the above conditions is not fulfilled, the Company shall recognised the transaction price which was allocated to each of the performance obligations as income when the customer is able to control the commodity. When determining whether the customer has obtained control of the goods, the Group will consider the following indications: the enterprise has the current right to receive payment for the goods, which is when the customers has the current payment obligations for the goods; the enterprise has transferred the legal title of the goods to the client, which is when the client possesses the legal title of the goods; the Group has transferred the physical possession of goods to the customer, which is when the customer obtain physical possession of the goods; the Group has transferred all of the substantial risks and rewards of ownership of the goods to the customer, which is when the client obtain all of the substantial risks and rewards of ownership of the goods to the customer; when the customer has accepted the goods, which is when other information indicates that the customer has obtained control of the goods.

26. Government Grant

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

(1) Principles of recognition and classification standards

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

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

(2) Measurement

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

26. Government Grant *(continued)*

(3) Accounting treatment

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

Government grant relating to daily activities is recognised in other income based on the nature of business; government grant not relating to daily activities is recognised in non-operating income and expenses.

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

27. Recognitions of deferred tax assets/deferred tax liabilities

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

28. Accounting Treatment for Income tax

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

(1) Recognition of deferred tax assets

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

(2) Recognition of deferred tax liabilities

All deferred tax liabilities 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

28. Accounting Treatment for Income tax *(continued)*

(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.

29. Other Comprehensive Income

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

- (1) The other comprehensive income items not eligible to be re-classified as profit or loss in the subsequent accounting periods mainly include the changes caused by re-measurement and redefinition 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, changes in fair value of other equity investment, the amount re-classified into other comprehensive revenue from financial assets, such a portion of the gains or losses arising from cash flow hedges instrument as may be attributable to hedging activities and difference in translation of financial statements in foreign currency.

30. Leases

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

(1) The Company books operating leases as a lessee

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

30. Leases *(continued)*

(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.

(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)

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

(1) Changes of Accounting Policies

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

- 1 On 31 March 2017, the Ministry of Finance of the PRC issued "Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instrument" (Revised in 2017) (Cai Kuai [2017] No. 7), "Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets" (Revised in 2017) (Cai Kuai [2017] No. 8), "Accounting Standard for Business Enterprises No. 24 – Hedge Accounting" (Revised in 2017) (Cai Kuai [2017] No. 9), and on 2 May 2017, issued "Accounting Standard for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument" (Revised in 2017) (Cai Kuai [2017] No. 14) (the above standards are collectively as "New Financial Instrument Standards"); and on 5 July 2017, issued the "The Revision and Issuance of 'Accounting Standards for Business Enterprises No. 14 – Revenue'" (Revised in 2017) (Cai Kuai [2017] No. 22). As required by it, enterprises listed in both domestic and overseas stock markets or enterprises listed overseas and applying IFRS or the Accounting Standards for Business Enterprises to prepare financial reports shall apply the above-mentioned Standard from 1 January 2018. As resolved in the 12th meeting of the ninth session of the Board of the Company on 29 March 2018, the Company commenced the five accounting standards above at the time as required by the MOF.

On 1 January 2018, the Company adopted the New Financial Instrument Standards in classification and measurement of financial instruments. No adjustment has been made to the figures in the comparative financial statements for prior periods. The difference between the original carrying value of financial instruments and the new carrying value as at 1 January 2018 is to be included in the retained earnings at the beginning of 2018. The major effects of changes of accounting policies on the financial statements this period as a results of the adoption of the above standards are as follows:

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***31. Change of significant accounting policies, accounting estimates and correction to accounting errors** *(continued)***(1) Changes of Accounting Policies** *(continued)**Change of accounting policies due to adoption of new Accounting Standards for Business Enterprises*
*(continued)*1 *(continued)*

A. Consolidated Statement

Item	Opening Balance Before Adoption	Adoption of 4 Accounting Standards such as Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, and Accounting Standards for Enterprises No. 14 – Revenues	
			Opening Balance After Adoption
Financial assets held for trading	8,732,443.07	9,866,397.84	18,598,840.91
Available-for-sale financial assets	193,530,331.52	-193,530,331.52	–
Investment of other right instruments	–	183,663,933.68	183,663,933.68
Receipts in advance	115,288,797.94	-115,288,797.94	–
Contract liability	–	115,288,797.94	115,288,797.94
Other comprehensive income	-44,546,365.43	-8,352,564.09	-52,898,929.52
Retained earnings	8,028,315,370.19	8,352,564.09	8,036,667,934.28

B. Statement of Parent Company

Item	Opening Balance Before Adoption	Adoption of 4 Accounting Standards such as Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, and Accounting Standards for Enterprises No. 14 – Revenues	
			Opening Balance After Adoption
Financial assets held for trading	–	9,866,397.84	9,866,397.84
Available-for-sale financial assets	85,369,506.68	-85,369,506.68	–
Investment of other right instruments	–	75,503,108.84	75,503,108.84
Receipts in advance	39,100,755.02	-39,100,755.02	–
Contract liability	–	39,100,755.02	39,100,755.02
Other comprehensive income	8,352,564.09	-8,352,564.09	–
Retained earnings	4,724,885,078.69	8,352,564.09	4,733,237,642.78

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***31. Change of significant accounting policies, accounting estimates and correction to accounting errors** *(continued)***(1) Changes of Accounting Policies** *(continued)**Change of accounting policies due to adoption of new Accounting Standards for Business Enterprises (continued)*

- 2 In accordance with requirements of the "Notice on the Revision of the Format for Issuing 2018 General Enterprise Financial Statements" (《關於修訂印發2018年度一般財務報表格式的通知》) (Cai Kuai [2018] No.15) issued by the Ministry of finance, the primary effects on the current financial statements are as follows:

A. Consolidated statement

Item	Opening Balance Before Adoption/ Figures of Previous Period	Adoption of the Format of Financial Statements of General Enterprises (Applicable to Companies that have Implemented the New Financial Standards or the New Income Standards)	Opening Balance After Adoption/ Figures of Previous Period
Balance sheet items:			
Bills receivables	1,151,583,176.39	-1,151,583,176.39	—
Accounts receivables	1,356,773,152.45	-1,356,773,152.45	—
Bills receivables and accounts receivables	—	2,508,356,328.84	2,508,356,328.84
Interest receivables	5,945,063.41	-5,945,063.41	—
Other receivables	57,695,538.55	5,945,063.41	63,640,601.96
Bills payables	661,858,884.48	-661,858,884.48	—
Accounts payables	501,668,543.26	-501,668,543.26	—
Bills payables and account payables	—	1,163,527,427.74	1,163,527,427.74
Dividends payables	170,936,288.17	-170,936,288.17	—
Other payables	1,753,221,979.28	170,936,288.17	1,924,158,267.45
Income statement items:			
Administrative expenses	400,516,843.08	-171,552,330.26	228,964,512.82
R&D expenses	—	171,552,330.26	171,552,330.26

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(continued)*31. Change of significant accounting policies, accounting estimates and correction to accounting errors *(continued)*(1) Changes of Accounting Policies *(continued)**Change of accounting policies due to adoption of new Accounting Standards for Business Enterprises (continued)*2 *(continued)*

B. Statement of Parent Company

Item	Opening Balance Before Adoption/ Figures of Previous Period	Adoption of the Format of Financial Statements of General Enterprises (Applicable to Companies that have Implemented the New Financial Standards or the New Income Standards)		Opening Balance After Adoption/ Figures of Previous Period
Balance sheet items:				
Bills receivables	636,582,349.82		-636,582,349.82	—
Accounts receivables	637,179,064.67		-637,179,064.67	—
Bills receivables and accounts receivables	—		1,273,761,414.49	1,273,761,414.49
Interest receivables	5,945,063.41		-5,945,063.41	—
Dividends receivables	566,928,924.56		-566,928,924.56	—
Other receivables	1,662,285,306.91		572,873,987.97	2,235,159,294.88
Bills payables	586,471,643.46		-586,471,643.46	—
Accounts payables	885,478,188.96		-885,478,188.96	—
Bills payables and account payables	—		1,471,949,832.42	1,471,949,832.42
Dividends payables	20,174.46		-20,174.46	—
Other payables	2,810,748,903.74		20,174.46	2,810,769,078.20
Income statement items:				
Administrative expenses	145,213,452.28		-65,121,401.52	80,092,050.76
R&D expenses	—		65,121,401.52	65,121,401.52

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***31. Change of significant accounting policies, accounting estimates and correction to accounting errors** *(continued)***(2) Changes in accounting estimates**

As resolved in the 12th meeting of the ninth session of the Board of the Company on 29 March 2018, changes will be made to the percentage of provision for bad debts of accounts receivables and other receivables. The changes in accounting estimates will be implemented from 1 April 2018 onwards and the detailed conditions before and after the changes are as follows:

Ageing	Before the changes		Ageing	After the changes	
	Percentage of provision for account receivables	Percentage of provision for other receivables		Percentage of provision for account receivables	Percentage of provision for other receivables
			within 3 months (including 3 months)		1%
within 1 year (including 1 year)	5%	5%	4-6 months (including 6 months)		5%
			7-12 months (including 12 months)		10%
1 year – 2 years (including 2 years)	6%	6%	1 year – 2 years (including 2 years)		20%
2 years – 3 years (including 3 years)	20%	20%	2 years – 3 years (including 3 years)		70%
3 years – 4 years (including 4 years)	70%	70%	3 years – 4 years (including 4 years)		100%
4 years – 5 years (including 5 years)	90%	90%	4 years – 5 years (including 5 years)		100%
over 5 years	100%	100%	over 5 years		100%

The company adopts prospective application in the calculation of the changes in accounting estimates. The effects of such changes in accounting estimates to the operating results for the current period and the statement components are shown as follows:

Item	Sum Affected (increased "+", decreased "-")
Balance sheet items:	
Bills receivables and accounts receivables	46,376,786.90
Other receivables	983,672.50
Deferred tax assets	-7,104,068.92
Retained earnings	40,256,390.48
Income statement items:	
Credit impairment loss	-47,360,459.40
Income tax expenses	7,104,068.92
Net profit	40,256,390.48

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

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

(3) Accounting error correction

None.

V. TAXATION

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

Types of tax	Basis of taxation	Tax rate
Value added tax	Income from sales of products and raw materials	Value added tax rate for sales of biological preparation: 3%, value added tax rate for other sales: 16% (Note 1).
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 2
Enterprise income tax	Taxable income	Note 3

Note 1. According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (Caishui [2018] No. 32), from 1 May 2018 onwards, the applicable tax rate is adjusted to 16%.

Note 2. 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 3. The enterprise income tax rate applicable to the Company and its subsidiaries are set out as follows:

Name	Actual tax rate	Remarks
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技股份有限公司), Lian (Hong Kong) Co., Ltd. (麗安香港有限公司), Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	16.5%	Policies regarding Hong Kong Profits Tax are applicable
Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	0-12%	Tax rate is 12% where the taxable income is Macau dollar 600,000 or more; for those with taxable income less than Macau dollar 600,000, they are exempted from income taxes.

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

V. TAXATION (continued)**1. The main taxes and tax rates applicable to the Company are set out as follows:**
(continued)

Note 3. The enterprise income tax rate applicable to the Company and its subsidiaries are set out as follows:
(continued)

Name	Actual tax rate	Remarks
The Company, Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Pharmaceutical Factory (製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司), Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司)	15%	Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團新北江製藥有限公司) and Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) were recognized as high and new technology enterprises in 2016 for a valid period of three years; the Company and 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), Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司) were recognized as high and new technology enterprises in 2017 for a valid period of three years; Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司) has reapplied for the high and new technology enterprises recognition this year and is now in the declaration process.
Livzon Group Ningxia Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏製藥有限公司)	15%	Livzon Group Ningxia Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏製藥有限公司) was approved to enjoy the tax preference of the Encouraged Industries in Western China during the period
Livzon MABPharm (US) Inc. (單抗生物技術(美國)有限公司), Livzon San-Med Diagnostics Inc.	35%	
Livzon International Limited, Livzon Biologics Limited	0%	A company incorporated in Cayman Islands which is not required to pay enterprise income tax
Other subsidiaries	25%	

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

V. TAXATION *(continued)*

2. Tax Preference and Approvals

Preferential value added tax:

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

Preferential enterprise income tax:

The Company and its subsidiaries, 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), Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司) are entitled to preferential taxation policies applicable to high and new technology enterprises since 2017 for a valid period of three years; Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團新北江製藥有限公司) and Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) have enjoyed preferential taxation policies applicable to high and new technology enterprises since 2016 for a valid period of three years; Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司) has reapplied for the high and new technology enterprises recognition this year and is now in the declaration process; Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司) was approved to enjoy the tax preference of the Encouraged Industries in Western China during the year. Such subsidiaries were subject to an enterprise income tax rate of 15% for the Period.

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

In accordance with the Revenue Bill 2008 passed by the Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, the subsidiaries of the Company, Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技股份有限公司), Li An (Hong Kong) Co. Ltd. (麗安香港有限公司), Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司) paid enterprise income tax rate at 16.5% during the Year.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

Item	Balance at the End of the Period	Balance at the beginning of the year
Cash in hand	180,094.61	189,288.49
Bank deposits	6,384,712,954.08	7,400,750,287.84
Other cash at bank and in hand	19,145,864.55	14,842,622.50
Total	6,404,038,913.24	7,415,782,198.83
In which: total overseas deposit	381,347,110.37	592,055,577.73

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

	Balance at the End of the Period	Balance at the beginning of the year
Guarantee	18,410,938.92	14,808,263.64
Total	18,410,938.92	14,808,263.64

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

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

2. Financial assets held for trading

(1) Classification

Item	Balance at the end of the Period	Balance at the beginning of the year
Classified as financial assets measured at fair value through profit or loss	20,776,009.48	18,598,840.91
In which: Shares	19,896,793.25	17,514,974.34
Funds	862,446.23	866,066.57
Derivative financial assets	16,770.00	217,800.00

- The Company's shares and fund products measured at fair value, with the change in fair value included in the profit or loss for the period were listed for trading on Shenzhen Stock Exchange and Hong Kong Stock Exchange. The fair value was determined based on the closing price on the last trading date in the Reporting Period.
- Derivative financial assets represents foreign currency forward contracts, gain from unexpired contracts measured at fair value was recognised as financial assets at balance sheet date.

(2) No restrictive financial asset measured at fair value through profit or loss was realised in the ending balance.

(3) No hedges instruments in the ending balance and no hedges transactions during the Current Period.

3. Bills receivables and accounts receivables

Category	Balance at the end of the Period	Balance at the beginning of the year
Bills receivables	901,676,580.07	1,151,583,176.39
Accounts receivables	1,775,253,489.38	1,356,773,152.45
Total	2,676,930,069.45	2,508,356,328.84

(1) Bills receivables conditions

1 Bills receivables

Type	Balance at the End of the Period	Balance at the beginning of the year
Bank acceptance bills	901,324,220.07	1,151,583,176.39
Short-term commercial papers	352,360.00	0.00
Total	901,676,580.07	1,151,583,176.39

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***3. Bills receivables and accounts receivables** *(continued)***(1) Bills receivables conditions** *(continued)*2 *Pledged bills receivables were at the End of the Period*

Type	Pledged amount at the end of the period
Bank acceptance bills	59,583,079.78
Total	59,583,079.78

3 *Endorsed or discounted receivable bills not yet mature by the date of balance sheet*

Item	Recognised amount by the End of the Period	Unrecognised amount by the End of the Period
Bank acceptance bills not yet mature but already endorsed	108,857,930.14	0.00
Bank acceptance bills not yet mature but already discounted	0.00	0.00

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

5 As of 30 June 2018, bills with carrying amount of RMB59,583,079.78 (31 December 2017: RMB0) were pledged and bank acceptance bills of RMB8,819,997.14 was issued.

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

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

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

3. Bills receivables and accounts receivables *(continued)*

(2) Accounts receivables

1 Accounts receivables disclosed by types

Type	Balance at the End of the Period				
	Gross amount		Provision for bad debts		Carrying Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	
Accounts receivables assessed for impairment collectively	1,828,883,076.88	99.62	53,629,587.50	2.93	1,775,253,489.38
Accounts receivables that are individually insignificant but impairment provided on an individual basis	6,944,105.95	0.38	6,944,105.95	100.00	0.00
Total	1,835,827,182.83	100.00	60,573,693.45	3.30	1,775,253,489.38

Type	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	
Accounts receivables assessed for impairment collectively	1,437,927,063.76	99.71	81,153,911.31	5.64	1,356,773,152.45
Accounts receivables that are individually insignificant but impairment provided on an individual basis	4,209,793.24	0.29	4,209,793.24	100.00	0.00
Total	1,442,136,857.00	100.00	85,363,704.55	5.92	1,356,773,152.45

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

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

3. Bills receivables and accounts receivables *(continued)*

(2) Accounts receivables *(continued)*

1 Accounts receivables disclosed by types *(continued)*

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

Ageing	Balance at the End of the Period		
	Account receivables	Provision for bad debts	Percentage (%)
Within 3 months (including 3 months)	1,487,205,164.06	14,872,051.62	1.00
4-6 months (including 6 months)	217,278,733.23	10,863,936.66	5.00
7-12 months (including 12 months)	80,349,861.70	8,034,986.17	10.00
1-2 years (including 2 years)	27,061,029.13	5,412,205.83	20.00
2-3 years (including 3 years)	8,472,938.49	5,931,056.95	70.00
Over 3 years	8,515,350.27	8,515,350.27	100.00
Total	1,828,883,076.88	53,629,587.50	

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

Accounts receivables description	Gross amount	Provision for bad debts	Percentage (%)	Reason for provision made
Loans	6,944,105.95	6,944,105.95	100.00	not expected to be recoverable

According to the credit policies of the Company, the Company usually grants a credit period ranging from 30 to 90 days to its customers.

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

Item	Balance at the End of the Period		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 3 months (including 3 months)	1,487,205,164.06	81.01	1,206,167,251.38	83.64
4-6 months (including 6 months)	217,278,733.23	11.83	139,624,695.33	9.68
7-12 months (including 12 months)	80,349,861.70	4.38	51,616,531.58	3.58
1-2 years (including 2 years)	27,117,557.13	1.48	24,882,590.19	1.73
2-3 years (including 3 years)	10,006,329.13	0.54	7,836,274.00	0.54
Over 3 years	13,869,537.58	0.76	12,009,514.52	0.83
Total	1,835,827,182.83	100.00	1,442,136,857.00	100.00

As at 30 June 2018 and 31 December 2017, the Company had no accounts receivables that are past due but not impaired.

- 3 Provisions for bad debts made for the period were RMB-24,400,101.09; no provision for bad debts was recovered or reversed.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***3. Bills receivables and accounts receivables** *(continued)***(2) Accounts receivables** *(continued)*4 *Actual write-off of accounts receivables for the Current Period*

Item	Amount written-off
Receivables actually written off	390,727.90

5 The total of account receivables with five largest amount by creditors was RMB224,213,211.48, or 12.21% of the total account receivables by the period end, total provision for bad debts by the period end was RMB5,671,794.32.

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.

4. Prepayments**(1) Ageing analysis of prepayments was as follows**

Ageing	Balance at the End of the Period		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	157,684,887.27	97.02	118,988,396.64	94.08
1 to 2 years	4,214,646.06	2.59	3,750,068.63	2.97
2 to 3 years	277,655.72	0.17	2,570,481.33	2.03
Over 3 years	357,638.28	0.22	1,163,011.61	0.92
Total	162,534,827.33	100.00	126,471,958.21	100.00

(2) The total of prepayments with five largest amount by receiver of prepayments was RMB45,454,168.00, or 27.97% of the prepayments by the period end.

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

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

5. Other receivables

Item	Balance at the End of the Period	Balance at the beginning of the year
Other receivables	96,606,101.40	57,695,538.55
Interest receivables	0.00	5,945,063.41
Dividends receivables	2,677,500.00	0.00
Total	99,283,601.40	63,640,601.96

(1) Other receivables

1 Other receivables presented by types

Type	Balance at the End of the Period				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	107,575,867.20	98.23	10,969,765.80	10.20	96,606,101.40
Other receivables that are individually insignificant but impairment provided on an individual basis	1,941,690.39	1.77	1,941,690.39	100.00	0.00
Total	109,517,557.59	100.00	12,911,456.19	11.79	96,606,101.40

Type	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	67,775,228.56	96.54	10,079,690.01	14.87	57,695,538.55
Other receivables that are individually insignificant but impairment provided on an individual basis	2,429,365.99	3.46	2,429,365.99	100.00	0.00
Total	70,204,594.55	100.00	12,509,056.00	17.82	57,695,538.55

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. Other receivables** (continued)**(1) Other receivables** (continued)

1 Other receivables presented by types (continued)

- A. Other receivables in the portfolio with provision for bad debts made using the ageing analysis method

Ageing	Balance at the End of the Period		
	Other receivables	Provision for bad debts	Percentage (%)
Within 3 months (including 3 months)	77,331,195.29	773,311.94	1.00
4-6 months (including 6 months)	7,391,644.62	369,582.25	5.00
7-12 months (including 12 months)	8,397,317.88	839,731.79	10.00
1-2 years (including 2 years)	6,498,885.36	1,299,777.07	20.00
2-3 years (including 3 years)	898,204.32	628,743.02	70.00
Over 3 years	7,058,619.73	7,058,619.73	100.00
Total	107,575,867.20	10,969,765.80	

- B. As at the End of the Period, ageing analysis of other receivables that are individually insignificant but impairment provided on an individual basis

Other receivables description	Gross amount	Provision for bad debts	Percentage of provision (%)	Reason for provision made
Current account	1,941,690.39	1,941,690.39	100.00	Not expected to be recoverable

- 2 Provisions for bad debts made for the Current Period was RMB396,730.99; no provision for bad debts was recovered or reversed.

3 Other receivables written off during the Current Period

Nil.

4 Other receivables by the nature of receivables

Nature of receivables	Balance at the End of the Period	Balance at the beginning of the year
Deposits under guarantee	1,061,225.13	2,500,492.65
Related party balances	16,573,972.11	11,000,505.42
Related party balances	724,202.20	976,511.66
Borrowing due from external entities	5,000,000.00	5,000,000.00
Tax refunds on exports	15,167,162.88	15,421,773.75
Lease expenses and deposits	2,492,712.95	1,505,736.32
Staff advances	28,984,165.77	22,994,136.84
Others	39,514,116.55	10,805,437.91
Total	109,517,557.59	70,204,594.55

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. Other receivables** (continued)**(1) Other receivables** (continued)

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

Name of unit	Nature of receivables	Balance at the End of the Period	Ageing	Proportion to receivables at the End of the Period (%)	Provision for bad debts at the End of the Period
Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	Share transfer	33,100,525.00	Within 3 months	30.22	331,005.25
Tax refunds on exports	Tax refunds on exports	15,167,162.88	Within 3 months RMB14,879,122.03, 4-6 months RMB288,040.85	13.85	163,193.26
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	4.57	5,000,000.00
Pioneer Time Investment Limited	Deposit	970,025.36	1-2 years	0.89	194,005.07
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Energy and power	723,962.20	Within 3 months	0.66	7,239.62
Total	—	54,961,675.44	—	50.19	5,695,443.20

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.

(2) Interest receivables conditions

Items	Balance at the End of the Period	Balance at the beginning of the year
Fixed deposit	0.00	5,945,063.41
Total	0.00	5,945,063.41

(3) Dividends receivables conditions

Items	Balance at the End of the Period	Balance at the beginning of the year
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	2,677,500.00	0.00
Total	2,677,500.00	0.00

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

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

6. Inventories

(1) Classification of inventories

Item	Balance at the End of the Period		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	366,804,432.64	2,233,726.35	364,570,706.29
Packaging materials	21,141,308.21	545,502.98	20,595,805.23
Goods in process	235,312,929.65	9,359,815.26	225,953,114.39
Finished goods	511,062,095.89	16,688,709.54	494,373,386.35
Sub-contracting materials	1,055,201.05	0.00	1,055,201.05
Low-value consumables	9,213,493.43	0.00	9,213,493.43
Goods in transit	6,460,241.90	0.00	6,460,241.90
Consumable biological assets	9,247,166.13	0.00	9,247,166.13
Proprietary semi-finished goods	22,904,257.98	0.00	22,904,257.98
Total	1,183,201,126.88	28,827,754.13	1,154,373,372.75

Item	Balance at the beginning of the year		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	268,950,389.63	2,671,662.29	266,278,727.34
Packaging materials	19,782,530.05	1,048,859.25	18,733,670.80
Goods in process	269,395,810.49	4,359,815.26	265,035,995.23
Finished goods	537,664,477.74	21,906,846.25	515,757,631.49
Sub-contracting materials	930,038.48	487,179.50	442,858.98
Low-value consumables	4,885,477.21	1,326.55	4,884,150.66
Goods in transit	5,567,475.26	0.00	5,567,475.26
Consumable biological assets	8,601,115.78	0.00	8,601,115.78
Proprietary semi-finished goods	17,319,108.97	0.00	17,319,108.97
Total	1,133,096,423.61	30,475,689.10	1,102,620,734.51

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 amount are denominated in RMB.)

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

6. Inventories (continued)

(2) Provision for diminution in value of inventories

Item	Balance at the beginning of the year	Increase during the Current Period		Decrease during the Current Period		Balance at the End of the Period
		Provision	Other	Reversed	Written off	
Raw materials	2,671,662.29	82,363.69	0.00	339,434.87	180,864.76	2,233,726.35
Packaging materials	1,048,859.25	0.00	0.00	393,825.70	109,530.57	545,502.98
Work in progress	4,359,815.26	5,000,000.00	0.00	0.00	0.00	9,359,815.26
Finished goods	21,906,846.25	10,375,704.95	0.00	508,619.99	15,085,221.67	16,688,709.54
Sub-contracting materials	487,179.50	0.00	0.00	0.00	487,179.50	0.00
Low-value consumables	1,326.55	0.00	0.00	0.00	1,326.55	0.00
Tota	30,475,689.10	15,458,068.64	0.00	1,241,880.56	15,864,123.05	28,827,754.13

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

Item	Basis for provision for diminution in value of inventories	Reason for reversal provision for diminution in value of inventories during the Current Period	Reason for write off provision for diminution in value of inventories during the Current Period
Raw materials, packaging materials	Net realisable value is less than carrying amount	Increase in value	Sale of finished goods and discard
Finished goods	Net realisable value is less than carrying amount		Sale and discard
Other inventories	Net realisable value is less than carrying amount		Sale of finished goods

7. Other current assets

Item	Balance at the End of the Period	Balance at the beginning of the year
Input VAT pending deduction/attestation	3,220,019.15	21,115,469.80
Remaining VAT credit	21,043,364.61	18,766,340.33
Cash management	85,892,784.11	84,381,617.79
Total	110,156,167.87	124,263,427.92

NOTES TO THE 2018 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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

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

8. Long-term equity investments

Investee	Balance at the beginning of the year	Change during the Period					Other equity changes
		Investment acquired	Investment disposed of	Investment profit and loss on the equity method	Adjustment in other comprehensive income		
Associates							
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠集團麗珠醫用電子設備有限公司)	1,200,000.00	0.00	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)	52,700,984.57	0.00	0.00	2,880,176.90	0.00	0.00	0.00
Minitech Medical (Jiangsu) Ltd. (江蘇尼科醫療器械有限公司)	21,429,927.63	0.00	0.00	-944,360.29	0.00	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd. (深圳市有寶科技有限公司)	1,051,931.61	0.00	0.00	-4,495.58	0.00	0.00	0.00
AbCyte Therapeutics Inc.	17,415,201.63	0.00	0.00	-682,960.31	0.00	0.00	0.00
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	0.00	15,000,000.00	0.00	-10,193.45	0.00	0.00	0.00
DOSERNA INC	0.00	6,332,200.00	0.00	0.00	0.00	0.00	0.00
Total	93,798,045.44	21,332,200.00	0.00	1,238,167.27	0.00	0.00	0.00

Investee	Change during the Period			Balance at the End of the Period	Balance of provision for impairment at the End of the Period
	Cash dividend or profit distribution declared	Impairment provision	Others		
Associates					
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠集團麗珠醫用電子設備有限公司)	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)	2,677,500.00	0.00	0.00	52,903,661.47	0.00
Minitech Medical (Jiangsu) Ltd (江蘇尼科醫療器械有限公司)	0.00	0.00	0.00	20,485,567.34	0.00
Yobbo (深圳市有寶科技有限公司)	0.00	0.00	0.00	1,047,436.03	0.00
AbCyte Therapeutics Inc.	0.00	0.00	0.00	16,732,241.32	0.00
L&L Biopharma, Co. Ltd. (上海健信生物醫藥科技有限公司)	0.00	0.00	0.00	14,989,806.55	0.00
DOSERNA INC	0.00	0.00	0.00	6,332,200.00	0.00
Total	2,677,500.00	0.00	0.00	113,690,912.71	1,200,000.00

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

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

9. Other equity instrument investments

(1) Non-trading equity instrument designated as at fair value through other comprehensive income

Item	Balance at the end of the year	Balance at the beginning of the year	Accrued interest recognized in other comprehensive income and the lost amount which is transferred to retained earnings for the Current Period	Reason for the designation
CYNVENIO BIOSYSTEMS, INC (promissory note)	3,032,103.17	3,006,245.24	0.00	Non-trading
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	177,348.84	177,348.84	0.00	Non-trading
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	75,325,760.00	75,325,760.00	0.00	Non-trading
Shanghai Haixin Pharmaceutical Co., Ltd. (上海海欣醫藥有限公司)	500,000.00	500,000.00	0.00	Non-trading
SEEKERS FUND	99,130,845.06	104,654,579.60	0.00	Non-trading
GLOBAL HEALTH SCIENCE	198,512,110.50	0.00	0.00	Non-trading
享融(上海)生物科技有限公司	5,000,000.00	0.00	0.00	Non-trading
SCC VENTURE VI 2018-B,L.P.	13,895,847.74	0.00	0.00	Non-trading
Total	395,574,015.31	183,663,933.68	0.00	

(2) Non-trading equity instrument designated as at fair value through other comprehensive income and derecognized during the Period

Nil.

10. Fixed assets

Items	Balance at the End of the Period	Balance at the beginning of the year
Fixed assets	3,231,463,269.69	3,321,218,058.56
Total	3,231,463,269.69	3,321,218,058.56

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

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

10. Fixed assets *(continued)*

(1) Status of fixed assets

Items	Plant & buildings	Machinery & equipment	Motor vehicles	Electronic devices and others	Total
1. Cost at book					
1. Balance at the beginning of the year	2,747,876,752.38	2,300,545,998.81	70,906,981.19	309,306,468.69	5,428,636,201.07
2. Additions for the Period	37,288,808.03	42,724,637.20	3,927,649.70	20,643,119.08	104,584,214.01
(1) Acquisition	11,582,089.47	35,469,607.19	3,927,649.70	16,331,840.65	67,311,187.01
(2) Construction in progress transferred	25,706,718.56	7,255,030.01	0.00	4,311,278.43	37,273,027.00
3. Decrease for the Period	3,186,234.63	63,029,318.16	964,163.00	3,527,833.69	70,707,549.48
(1) Disposal or written-off	3,186,234.63	63,029,318.16	964,163.00	3,527,833.69	70,707,549.48
(2) Transferring to a disposal group classified as held for sale	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	2,781,979,325.78	2,280,241,317.85	73,870,467.89	326,421,754.08	5,462,512,865.60
II. Accumulated depreciation					
1. Balance at the beginning of year	683,143,434.34	1,100,081,168.65	43,715,981.38	189,334,631.99	2,016,275,216.36
2. Additions for the Period	67,084,868.84	83,519,070.59	4,048,627.96	17,976,026.66	172,628,594.05
(1) Provision	67,084,868.84	83,519,070.59	4,048,627.96	17,976,026.66	172,628,594.05
(2) Other additions	0.00	0.00	0.00	0.00	0.00
3. Decrease for the Period	421,900.71	42,778,194.92	808,937.79	3,266,122.15	47,275,155.57
(1) Disposal or written-off	421,900.71	42,778,194.92	808,937.79	3,266,122.15	47,275,155.57
(2) Transferring to a disposal group classified as held for sale	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	749,806,402.47	1,140,822,044.32	46,955,671.55	204,044,536.50	2,141,628,654.84
III. Impairment provision					
1. Balance at the beginning of the year	21,010,653.11	69,244,533.75	72,835.46	814,903.83	91,142,926.15
2. Additions for the Period	10,278,045.72	2,208,991.07	0.00	1,120,579.54	13,607,616.33
(1) Provision	10,278,045.72	2,208,991.07	0.00	1,120,579.54	13,607,616.33
3. Decrease for the Period	778,599.69	14,515,331.10	0.00	35,670.62	15,329,601.41
(1) Disposal or written-off	778,599.69	14,515,331.10	0.00	35,670.62	15,329,601.41
(2) Transferring to a disposal group classified as held for sale	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	30,510,099.14	56,938,193.72	72,835.46	1,899,812.75	89,420,941.07
IV. Carrying amounts					
1. Carrying amount at the End of the Period	2,001,662,824.17	1,082,481,079.81	26,841,960.88	120,477,404.83	3,231,463,269.69
2. Carrying amount at the beginning of the year	2,043,722,664.93	1,131,220,296.41	27,118,164.35	119,156,932.87	3,321,218,058.56

During the Period, the amount of depreciation was RMB172,628,594.05 (RMB161,607,640.81 in the previous Period). During the Period, construction in progress transferred to cost of fixed assets was RMB37,273,027.00 (RMB69,555,610.17 the previous Period).

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***10. Fixed assets** *(continued)***(2) As at the End of the Period, temporarily idled fixed assets**

Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amount	Note
Plant & buildings	19,955,763.60	9,694,268.55	5,055.54	10,256,439.51	
Machinery & equipment	48,029,181.54	17,806,929.58	26,023,435.37	4,198,816.59	
Electronic devices and others	3,618,799.84	3,162,737.88	277,441.11	178,620.85	
Total	71,603,744.98	30,663,936.01	26,305,932.02	14,633,876.95	

(3) The Company has no fixed assets leased in under finance leases.**(4) Fixed assets leased out under operating leases**

Item	Carrying amount at the End of the Period
Plant and building	1,219,914.34
Machinery & equipment	720,364.20
Electronic devices and others	26,056,087.82
Total	27,996,366.36

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

Item	Carrying amount	Reason for pending certificates for ownership
Plant & buildings	548,043,476.31	Being in progress

NOTES TO THE 2018 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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

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

11. Construction in progress

(1) Status of construction in progress

Item	Balance at the End of the Period			Balance at the beginning of the year		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Guangda New Factory Project (光大新廠項目)	5,819,684.62	0.00	5,819,684.62	5,819,684.62	0.00	5,819,684.62
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	2,342,621.25	0.00	2,342,621.25	2,744,696.94	0.00	2,744,696.94
Project of Shijiao New Factory (石角新廠項目)	6,778,283.44	0.00	6,778,283.44	6,430,121.05	0.00	6,430,121.05
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	21,347,202.88	0.00	21,347,202.88	24,917,332.06	0.00	24,917,332.06
Technological transformation project of bag infusion workshop in relation to Livzon Group Livzon Pharmaceutical Factory	39,864,637.80	0.00	39,864,637.80	6,932,975.92	0.00	6,932,975.92
Construction of research & development platform of sustained release microsphere technologies	3,049,149.61	0.00	3,049,149.61	1,310,796.47	0.00	1,310,796.47
Others	51,636,865.38	0.00	51,636,865.38	22,123,741.92	0.00	22,123,741.92
Construction supplies	0.00	0.00	0.00	0.00	0.00	0.00
Total	130,838,444.98	0.00	130,838,444.98	70,279,348.98	0.00	70,279,348.98

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

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

11. Construction in progress *(continued)*

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

Categories of project	Budgeted amount	Balance at the beginning of the year	Additions for the Period	Transferred to fixed asset for the Period	Other deduction	Balance at the End of the Period
Guangda New Factory Project (光大新廠項目)	365,816,500.00	5,819,684.62	0.00	0.00	0.00	5,819,684.62
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	36,186,707.50	2,744,696.94	1,784,171.71	347,350.42	1,838,896.98	2,342,621.25
Project of Shijiao New Factory (石角新廠項目)	46,664,000.00	6,430,121.05	348,162.39	0.00	0.00	6,778,283.44
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	139,778,700.00	24,917,332.06	27,986,797.36	31,556,926.54	0.00	21,347,202.88
Technological transformation project of bag infusion workshop in relation to Livzon Group Livzon Pharmaceutical Factory	63,117,300.00	6,932,975.92	32,931,661.88	0.00	0.00	39,864,637.80
Construction of research & development platform of sustained release microsphere technologies	163,933,300.00	1,310,796.47	1,738,353.14	0.00	0.00	3,049,149.61
Others	0.00	22,123,741.92	35,051,349.15	5,368,750.04	169,475.65	51,636,865.38
Total	815,496,507.50	70,279,348.98	99,840,495.63	37,273,027.00	2,008,372.63	130,838,444.98

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

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

11. Construction in progress *(continued)*

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

Categories of project	Accumulated amount of the interest capitalised as at the year end	Interest capitalised for the Period	Interest capitalised rate for the Period (%)	Percentage of cost incurred over budgeted amount (%)	Construction progress	Sources of funds
Guangda New Factory Project (光大新廠項目)	0.00	0.00	0.00	1.59	Designing process	Self-funding
Improvement Project of Workshop of Hecheng Co. (合成公司車間改造項目)	0.00	0.00	0.00	71.93	Completion of some projects	Self-funding
Project of Shijiao New Factory (石角新廠項目)	0.00	0.00	0.00	74.65	Under construction	Self-funding
Transformation Project of Pharmaceutical Factory Workshop (藥廠車間改造項目)	0.00	0.00	0.00	51.11	Completion of some projects	Self-funding
Microsphere workshop construction project for Livzon Group Livzon Pharmaceutical	0.00	0.00	0.00	63.16	Under construction	Funds raised and self-funding
Construction of research & development platform of sustained release microsphere technologies	0.00	0.00	0.00	1.86	Under construction	Funds raised
Others	34,340.46	0.00	0.00			Self-funding
Total	34,340.46	0.00				

Other deduction mainly refers to transfer of long-term deferred expenses.

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

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

12. Intangible assets

(1) Status of intangible assets

Items	Land use rights	Patent and technical know-how	Software	Trademark rights	Others	Total
I. Cost at book						
1. Balance at the beginning of the year	259,891,035.84	224,995,091.01	33,420,150.95	24,000.00	10,985,294.53	529,315,572.33
2. Additions for the Current Period	2,605,133.91	34,219,385.05	1,134,839.78	0.00	0.00	37,959,358.74
(1) Acquisition	2,605,133.91	18,991,818.87	1,134,839.78	0.00	0.00	22,731,792.56
(2) Transfer from research and development expenses	0.00	15,227,566.18	0.00	0.00	0.00	15,227,566.18
3. Decrease for the Current Period	0.00	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	262,496,169.75	259,214,476.06	34,554,990.73	24,000.00	10,985,294.53	567,274,931.07
II. Accumulated depreciation						
1. Balance at the beginning of year	67,017,930.61	156,948,428.10	29,139,984.80	24,000.00	1,190,073.57	254,320,417.08
2. Additions for the Period	2,452,709.54	7,497,355.45	1,382,943.11	0.00	549,264.73	11,882,272.83
(1) Provision	2,452,709.54	7,497,355.45	1,382,943.11	0.00	549,264.73	11,882,272.83
3. Decrease for the Period	0.00	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	69,470,640.15	164,445,783.55	30,522,927.91	24,000.00	1,739,338.30	266,202,689.91
III. Impairment provision						
1. Balance at the beginning of the year	981,826.94	10,209,166.79	0.00	0.00	0.00	11,190,993.73
2. Additions for the Period	0.00	0.00	0.00	0.00	0.00	0.00
(1) Provision	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease for the Period	0.00	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00	0.00
4. Balance at the End of the Period	981,826.94	10,209,166.79	0.00	0.00	0.00	11,190,993.73
IV. Carrying amounts						
1. Carrying amount at the End of the Period	192,043,702.66	84,559,525.72	4,032,062.82	0.00	9,245,956.23	289,881,247.43
2. Carrying amount at the beginning of the year	191,891,278.29	57,837,496.12	4,280,166.15	0.00	9,795,220.96	263,804,161.52

Amortisation for the Current Period is RMB11,882,272.83 (RMB13,216,072.42 in the Previous Period).

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

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

12. Intangible assets *(continued)*

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

Item	Carrying amount	Reason for pending certificates for ownership
Land use rights	26,710,021.77	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.

13. Development costs

Item	Balance at the beginning of the year	Additions for the Current Period	Decrease for the Current Period		Balance at the end of the Period
			Recognised in profit or loss	Recognised as intangible assets	
Expensing costs:	0.00	243,963,723.02	243,963,723.02	0.00	0.00
Capitalised expenses:	25,328,934.25	29,014,735.71	0.00	15,227,566.18	39,116,103.78
In which: western drug preparation	15,227,566.18	1,435,561.12	0.00	15,227,566.18	1,435,561.12
In which: biopharmaceutical drug	10,101,368.07	27,579,174.59	0.00	0.00	37,680,542.66
Total	25,328,934.25	272,978,458.73	243,963,723.02	15,227,566.18	39,116,103.78

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***14. Goodwill****(1) Total goodwill value at book**

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Additions for the Current Period	Decrease for the Current Period	Balance at the end of the Period
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	1,183,737.85	6,087,569.18
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	121,511,804.88	0.00	1,183,737.85	120,328,067.03

(2) Provision for impairment of goodwill

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Additions for the period	Decrease for the period	Balance at the end of the period
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	11,200,000.00	0.00	0.00	11,200,000.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	1,183,737.85	6,087,569.18
Total	18,471,307.03	0.00	1,183,737.85	17,287,569.18

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

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

14. Goodwill *(continued)*

(3) Impairment test and provision for impairment on goodwill

Goodwill of the Company arose from its business combination involving enterprises under common control in previous years.

On the balance sheet date, the Company conducted impairment test on goodwill and adopted the asset groups related to goodwill to estimate the present value of the future cash flow when estimating the recoverable amount of the investment cost. The present value of future cash flow is calculated according to the five-year financial plan made by the management and a discount rate of 12%. The cash flows in the years beyond the years in the five-year plan are deemed stable.

Key assumptions of discounted future cash flow for goodwill impairment test are as follows:

For future cash flow of Pharmaceutical Factory (製藥廠), key assumptions are a gross margin of 64.9%-69.4% and a business revenue growth rate of 0~28.1%. The management took into account historical conditions and predictions for future market development in making above assumptions.

For future cash flow of Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), key assumptions are a gross margin of 66.1%-67.5% and a business revenue growth rate of 0~20.8%. The management took into account historical conditions and predictions for future market development in making above assumptions.

For future cash flow of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), key assumptions are a gross margin of 53%-55% and a business revenue growth rate of -23%~9.5%. The management took into account historical conditions and predictions for future market development in making above assumptions.

As tested, the management of the Company believes that no impairment provision is needed during the Reporting Period.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***15. Long-term deferred expenses**

Item	Balance at the beginning of the year	Additions for the Current Period	Amortisation for the Current Period	Other decrease	Balance at the end of the Period	Reason for other decrease
Overhaul costs of fixed assets	3,494,118.89	1,792,497.56	1,101,082.64	0.00	4,185,533.81	
Renovation costs of offices	19,964,395.36	217,039.98	926,812.75	0.00	19,254,622.59	
Renovation costs of plants	80,864,295.03	1,093,027.56	3,247,002.42	0.00	78,710,320.17	
Share of costs for public utilities	630,138.98	0.00	124,583.46	0.00	505,555.52	
Resin and filler	9,639,630.17	1,645,601.26	2,458,606.84	0.00	8,826,624.59	
Others	1,861,154.25	371,542.43	394,145.61	0.00	1,838,551.07	
Total	116,453,732.68	5,119,708.79	8,252,233.72	0.00	113,321,207.75	

16. Deferred income tax assets/Deferred income tax liabilities**(1) Breakdown of deferred income tax assets**

Item	Balance at the End of the Period		Balance at the beginning of the year	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Deductible temporary difference arising from provision for impairment	212,282,447.17	32,342,653.51	244,616,318.10	37,523,774.91
Deductible temporary difference arising from accrued expenses	183,376,756.65	28,163,058.60	203,403,098.95	30,489,354.50
Deductible temporary difference arising from tax losses carried forward	34,207,535.93	5,131,130.39	34,207,535.93	5,131,130.39
Deductible temporary difference arising from deferred income	171,260,239.64	25,689,035.95	175,727,981.47	26,359,197.22
Deductible temporary difference arising from gains from unrealized intracompany transactions	241,790,947.99	36,268,642.20	153,545,941.58	23,031,891.24
Deductible temporary difference arising from share incentive cost	3,166,732.09	475,009.81	23,909,083.45	4,673,538.82
Deductible temporary difference arising from change in fair value	17,260,332.00	2,589,049.80	0.00	0.00
Total	863,344,991.47	130,658,580.26	835,409,959.48	127,208,887.08

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

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

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

(2) Breakdown of deferred income tax liabilities

Item	Balance at the End of the Period		Balance at the beginning of the year	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Taxable temporary difference arising from financial assets held for trading	13,925,759.62	2,088,863.94	933,866.57	161,859.99
Taxable temporary difference arising from other equity instrument investments	681,004.19	112,365.69	16,684,671.04	2,605,572.53
Taxable temporary difference arising from long-term equity investments under equity method	26,324,455.78	3,948,668.37	27,070,634.69	4,060,595.21
Taxable temporary difference arising from accelerated depreciation of fixed assets	169,004,728.56	25,448,783.49	130,708,014.01	19,704,276.31
Total	209,935,948.15	31,598,681.49	175,397,186.31	26,532,304.04

(3) Breakdown of deferred income tax assets not recognised

Item	Balance at the End of the Period	Balance at the beginning of the year
Deductible temporary difference	168,275,386.22	185,120,577.37
Deductible loss	570,971,129.22	444,367,873.41
Total	739,246,515.44	629,488,450.78

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

Year	Balance at the End of the Period	Balance at the beginning of the year	Remarks
2018	27,827,822.05	27,827,822.05	
2019	57,516,237.66	57,516,237.66	
2020	82,774,661.90	83,820,693.24	
2021	107,780,474.63	108,055,857.34	
2022	159,484,870.14	159,484,870.14	
2023	123,425,448.81	0.00	
2032	1,245,859.22	1,245,859.22	
2033	2,444,788.49	0.00	
Indefinite	8,470,966.32	6,416,533.76	
Total	570,971,129.22	444,367,873.41	

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***17. Other non-current assets**

Item	Balance at the End of the Period	Balance at the beginning of the year
Input VAT pending deduction/attestation	0.00	85,312.14
Remaining VAT credit	54,390,121.94	46,700,907.82
Prepayment for acquisition of project and equipment	139,440,957.70	125,645,846.27
Prepayment for acquisition of technical know-how	96,113,080.83	61,968,960.18
Total	289,944,160.47	234,401,026.41

18. Short-term loans**(1) Classification of short-term loans**

Items	Balance at the End of the Period	Balance at the beginning of the year
Loans on credit	272,087,290.50	0.00
Total	272,087,290.50	0.00

(2) Status of outstanding overdue short-term loans

Nil.

19. Financial liabilities held for trading

Item	Balance at the End of the Period	Balance at the beginning of the year
Financial liabilities held for trading	19,361,018.79	339,129.90
In which: Derivatives financial liabilities	19,361,018.79	339,129.90

Derivative financial liabilities represents foreign currency forward contracts, loss from unexpired contracts measured at fair value was recognised as financial liabilities at balance sheet date.

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

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

20. Bills payables & Accounts payables

Type	Balance at the End of the Period	Balance at the beginning of the year
Bills payables	773,200,094.89	661,858,884.48
Accounts payables	544,665,679.97	501,668,543.26
Total	1,317,865,774.86	1,163,527,427.74

(1) Status of bills payables

Type	Balance at the end of the Period	Balance at the beginning of the year
Bank acceptance bills	773,200,094.89	661,858,884.48

The amount of RMB773,200,094.89 will be due for the next accounting period.

(2) Status of bills payables

- 1 *Breakdown of accounts payables (an ageing analysis is based on dates of recognition of account payables)*

Item	Balance at the End of the Period	Balance at the beginning of the year
Within 3 months (including 3 months)	457,911,971.41	405,860,860.51
4 to 6 months (including 6 months)	34,458,614.75	29,269,772.96
7 to 12 months (including 12 months)	20,181,223.72	26,915,684.21
1 to 2 years (including 2 years)	5,752,528.34	13,217,832.56
Over 2 years	26,361,341.75	26,404,393.02
Total	544,665,679.97	501,668,543.26

- 2 *Important payables ageing over 1 year*

Item	Balance at the End of the Period	Reason for non-payment or non-transfer
ABC Building Systems (China) Co., Ltd (美建建築系統(中國)有限公司)	3,215,942.76	Holdback
Guangdong Jian'an Changsheng Engineering Co., Ltd. (廣東建安昌盛工程有限公司)	2,226,324.65	Holdback
Total	5,442,267.41	

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***21. Contract liabilities****(1) Status of contract liabilities**

Item	Balance at the end of the Period	Balance at the beginning of the year
Within 1 year	67,589,904.20	85,837,055.50
Over 1 year	11,565,957.56	29,451,742.44
Total	79,155,861.76	115,288,797.94

(2) Contract liabilities ageing over 1 year

Item	Balance at the end of the Period	Reason for non-payment or non-transfer
Wenshan Merlot Junyuan Thirty-seven Planting Base Limited (文山美羅君元三七種植基地有限公司)	1,000,000.00	The other party has not requested delivery
Total	1,000,000.00	

(3) The amount of income recognized in the current period which is included in the carrying amount of the contract liabilities at the beginning of the year is RMB61,601,650.07.

22. Employee benefits payables**(1) Presentation of salary payables**

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
I. Short-term salary	159,973,257.50	396,063,204.89	442,654,866.00	113,381,596.39
II. Post-resignation benefits— designated provision	184,685.47	27,037,963.24	26,828,534.38	394,114.33
III. Dismiss benefits	1,408,000.00	1,268,370.00	1,268,370.00	1,408,000.00
IV. Other benefits due within 1 year	0.00	779,064.18	779,064.18	0.00
Total	161,565,942.97	425,148,602.31	471,530,834.56	115,183,710.72

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

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

22. Employee benefits payables *(continued)*

(2) Presentation of short-term salary

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
1. Salaries, bonuses, allowances and subsidies	158,349,932.31	354,916,182.20	402,163,579.37	111,102,535.14
2. Employee welfare	918,358.80	15,596,760.85	14,934,037.11	1,581,082.54
3. Social insurance	74,771.29	12,807,791.90	12,670,558.67	212,004.52
Of which: Medical insurances	64,436.27	10,996,396.66	10,891,237.83	169,595.10
Work-related injury insurances	5,209.51	1,043,365.54	1,018,278.56	30,296.49
Maternity insurances	5,125.51	768,029.70	761,042.28	12,112.93
4. Housing funds	577,404.00	12,154,275.98	12,294,699.98	436,980.00
5. Labour union fees and employee education fees	52,791.10	588,193.96	591,990.87	48,994.19
6. Short-term compensated absence	0.00	0.00	0.00	0.00
7. Short-term profit distribution plan – Performance-linked bonuses of subsidiaries	0.00	0.00	0.00	0.00
Total	159,973,257.50	396,063,204.89	442,654,866.00	113,381,596.39

(3) Presentation of designated provision

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
1. Basic pension insurance	171,819.22	25,874,305.36	25,664,108.99	382,015.59
2. Unemployment insurance	12,866.25	1,163,657.88	1,164,425.39	12,098.74
Total	184,685.47	27,037,963.24	26,828,534.38	394,114.33

23. Taxes payables

Item	Balance at the end of the Period	Balance at the beginning of the year
Value added tax	56,250,629.64	67,164,312.63
Urban maintenance and construction tax	4,605,353.15	3,374,878.22
Enterprise income tax	98,596,222.03	952,634,566.51
Property tax	8,594,828.05	8,713,726.12
Land use tax	2,288,134.75	2,466,854.37
Individual income tax	4,621,751.75	5,680,421.06
Stamp duty	1,489,295.31	1,761,327.56
Education surcharges	4,001,816.07	3,672,792.21
Flood prevention fee	20,300.76	20,300.76
Others	40,816.88	261,840.80
Total	180,509,148.39	1,045,751,020.24

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

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

24. Other payables

(1) Other payables by nature

Item	Balance at the end of the Period	Balance at the beginning of the year
Other payables	1,815,184,848.18	1,753,221,979.28
In which: Office expenses	41,316,826.51	63,450,319.76
Deposits under guarantees	33,454,948.75	30,217,935.64
Business promotion expenses	775,153,688.33	689,655,614.57
Obligations of repurchasing restricted shares	7,283,234.20	66,786,741.96
Technology transfer funds	10,646,892.77	12,089,410.31
Related party balances	16,425,895.42	6,386,047.07
Accrued expenses	905,162,395.73	840,584,530.57
Others	25,740,966.47	44,051,379.40
Dividend payables	542,088,349.22	170,936,288.17
Total	2,357,273,197.40	1,924,158,267.45

The repurchase of the restricted shares obligation of the Directors, the senior management and their spouses amounted to RMB0.00 by the End of the Period.

The breakdown of accruals included in balances was as follows:

Item	Balance at the end of the Period	Balance at the beginning of the year	Reason for outstanding
Utilities expenses	9,311,675.83	7,612,905.00	Not yet paid
Research expenses	53,716,786.65	46,866,877.63	Not yet paid
Business promotion expenses	778,697,030.15	710,442,395.63	Not yet paid
Advertising expenses	878,781.75	738,681.75	Not yet paid
Business meeting expenses	20,243,078.02	29,026,606.91	Not yet paid
Auditing and information disclosure expenses	3,281,919.32	5,686,083.60	Not yet paid
Others	39,033,124.01	40,210,980.05	Not yet paid
Total	905,162,395.73	840,584,530.57	

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

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

24. Other payables *(continued)*

(2) Dividends payables

Item	Balance at the end of the period	Balance at the beginning of the year	Reason for outstanding over 1 year
Dividends on ordinary shares	390,772,235.51	20,174.46	Not yet paid
Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	1,200,710.00	1,200,710.00	Not yet paid
Other legal persons and individual shares of subsidiaries	1,051,300.00	1,051,300.00	Not yet paid
Staff shares of subsidiaries	259,800.00	259,800.00	Not yet paid
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	148,804,303.71	168,404,303.71	Not yet paid
Total	542,088,349.22	170,936,288.17	

25. Non-current liabilities due within one year

Item	Balance at the end of the Period	Balance at the beginning of the year
Long-term loans due within 1 year (Note VI.26)	400,000.00	400,000.00
Total	400,000.00	400,000.00

26. Long-term loans

(1) Classification of long-term loans

Item	Balance at the end of the Period	Balance at the beginning of the year
Loans on credit	1,100,000.00	1,100,000.00
Less: Long-term loans due within one year (Note VI.25)	400,000.00	400,000.00
Total	700,000.00	700,000.00

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

(2) Long-term loans with five largest amount

Name of lender	Starting date of loans	Termination date of loans	Currency	Interest rate (%)	Balance at the End of the Period		Balance at the beginning of the year	
					Foreign amount	Local currency amount	Foreign amount	Local currency amount
Fuzhou Bureau of Finance	Indefinite	Indefinite	RMB	Interest-free	–	700,000.00	–	700,000.00
Total						700,000.00		700,000.00

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

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

27. Government grants

(1) Basic information of government grants recognised at the beginning of period

Items	Amount	Related to assets		Related to income			Written down of costs	Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income		
Guangdong Province Strategic Industry Core Technology Breakthrough Research (2011) for MAB for Class I Treatment of Necrosis Factor in Human Tumour from Human Source (廣東省戰略新興產業核心技術攻關(2011) I 類治療用人源化抗人腫瘤壞死因子 α 單克隆抗體新藥的研製)	8,000,000.00	8,000,000.00	0.00	0.00	0.00	0.00	0.00	Yes
National and Provincial Science and Technology Awards Enterprise Technology Project (國家及省科技獎企業科技項目)	500,000.00	500,000.00	0.00	0.00	0.00	0.00	0.00	Yes
National Industrial Transformation and Upgrading Project (Shenqi FDA) (國家工業轉型升級專項(參芪FDA))	4,000,000.00	4,000,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Construction of Drug Conformity Evaluation Research Center Platform (藥物一致性評價研究中心平臺建設)	1,600,000.00	1,600,000.00	0.00	0.00	0.00	0.00	0.00	Yes
Export credit insurance subsidy (出口信保補貼)	891,380.00	0.00	0.00	0.00	891,380.00	0.00	0.00	Yes
R&D Subsidy (研究開發費補助)	8,719,016.99	0.00	0.00	0.00	8,719,016.99	0.00	0.00	Yes

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

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

27. Government grants (continued)

(1) Basic information of government grants recognised at the beginning of period (continued)

Items	Amount	Related to assets		Related to income			Written down of costs	Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income		
Government Subsidy for Long-acting Microspheres Major New Drug Creation (長效微球重大新藥創制政府補助)	5,164,175.00	0.00	0.00	0.00	5,164,175.00	0.00	0.00	Yes
Fiscal Subsidy (including Operating Subsidy) (財政補貼(含經營運營補貼))	65,600.00	0.00	0.00	0.00	65,600.00	0.00	0.00	Yes
Relevant Funds for Promoting Imports (進口配套資金)	512,595.16	0.00	0.00	0.00	512,595.16	0.00	0.00	Yes
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)	152,474.40	0.00	0.00	0.00	152,474.40	0.00	0.00	Yes
10KV Pharmaceutical Factory Line Relocation and Improvement Project at Tieta Road in Qingyuan City (清遠市鐵塔路10KV藥廠線路遷改項目)	4,022.18	0.00	0.00	0.00	4,022.18	0.00	0.00	Yes
Research on Shenqi International Clinical Trial and Registration (參芪國際臨床試驗與註冊研究)	5,000,000.00	0.00	0.00	0.00	5,000,000.00	0.00	0.00	Yes
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	2,465,698.78	0.00	0.00	0.00	2,465,698.78	0.00	0.00	Yes

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

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

27. Government grants *(continued)*

(1) Basic information of government grants recognised at the beginning of period *(continued)*

Items	Amount	Related to assets		Related to income			Written down of costs	Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income		
Provincial development funds for the service and trade industry (省級服務貿易發展資金)	100,000.00	0.00	0.00	0.00	100,000.00	0.00	0.00	Yes
Subsidy for Dangshen Standardized Planting Base (黨參標準化種植基地補貼)	129,400.00	0.00	0.00	0.00	129,400.00	0.00	0.00	Yes
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	968,800.00	0.00	0.00	0.00	968,800.00	0.00	0.00	Yes
Subsidy for Social Security (社保補貼)	379,507.50	0.00	0.00	0.00	379,507.50	0.00	0.00	Yes
Employment Assurance and Re-employment and Attraction to Graduates of Tertiary Academic Institutions Subsidy (企業穩崗及再就業和吸納高校畢業生補貼款)	648,867.02	0.00	0.00	0.00	648,867.02	0.00	0.00	Yes
Special Funds for Industry and Information (工業和信息化專項資金)	489,000.00	0.00	0.00	0.00	489,000.00	0.00	0.00	Yes
Supporting Funds for Headquarter Enterprises (總部企業扶持資金)	11,813,630.07	0.00	0.00	0.00	0.00	11,813,630.07	0.00	Yes
Financial Support Funds (財政扶持資金)	63,075,469.00	0.00	0.00	0.00	0.00	63,075,469.00	0.00	Yes
Others	190,000.00	0.00	0.00	0.00	0.00	190,000.00	0.00	Yes
Total	—	14,100,000.00	0.00	0.00	25,690,537.03	75,079,099.07	0.00	—

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

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

27. Government grants (continued)

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

Item	Assets/Income	Recognised in other incomes	Recognised in non-operating income	Written down of costs
Export credit insurance subsidy (出口信保補貼)	Related to income	891,380.00	0.00	0.00
R&D Subsidy (研究開發費補助)	Related to income	8,719,016.99	0.00	0.00
Guangdong Province Strategic Industry Core Technology Breakthrough Research (2011) for MAB for Class I Treatment of Necrosis Factor in Human Tumour from Human Source (廣東省戰略新興產業核心技術攻關(2011) I類治療用人源化抗人腫瘤壞死因子α單克隆抗體新藥的研製)	Related to assets	4,484,685.64	0.00	0.00
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	Related to assets	1,809,500.03	0.00	0.00
Government grant for R&D and Commercialisation of Statins (降血脂他汀類藥物的研發與產業化政府補助)	Related to assets	14,999.94	0.00	0.00
Government Subsidy for Long-acting Microspheres Major New Drug Creation (長效微球重大新藥創制政府補助)	Related to income	5,164,175.00	0.00	0.00
Fund for Innovative drug of Ilaprazole phase IV clinical research (co-investment project with the State) granted by the Finance Office of Hongqi Town, Jinwan District (金灣區紅旗鎮財政所撥來創新藥物艾普拉唑IV期臨床研究(國家跟投項目)款項)	Related to income	374,064.90	0.00	0.00
Fiscal Subsidy (including Operating Subsidy) (財政補貼(含經營運營補貼))	Related to income	65,600.00	0.00	0.00
R&D and Commercialisation of Mouse Nerve Growth Factor for Injection (注射用鼠神經生長因子研發及產業化)	Related to assets	1,459,835.00	0.00	0.00
Project subsidy from Ministry of Industry and Information Technology (工業和信息化部項目補助款)	Related to assets	115,500.00	0.00	0.00
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	Related to income	366,666.67	0.00	0.00
Relevant Funds for Promoting Imports (進口配套資金)	Related to income	512,595.16	0.00	0.00

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

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

27. Government grants *(continued)*

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

Item	Assets/Income	Recognised in other incomes	Recognised in non-operating income	Written down of costs
Promoting Imports of Foreign Trade Development and Port Construction Special Fund (外經貿發展與口岸建設專項資金)	Related to income	152,474.40	0.00	0.00
Subsidy for Rental and Property of the Investment and Promotion Center (投促中心租金及物業費補貼)	Related to income	140,259.60	0.00	0.00
10KV Pharmaceutical Factory Line Relocation and Improvement Project at Tieta Road in Qingyuan City (清遠市鐵塔路10KV藥廠線路遷改項目)	Related to income	4,022.18	0.00	0.00
Subsidy for the Tender of Technology Upgrade Project for PVC Soft Bag Supported by Provincial Finance Departments (省財政支持技改招標項目補助金PVC軟袋)	Related to assets	111,182.88	0.00	0.00
Technical transformation project of Shengqi Fuzheng Injection with flexible bag (軟袋參芪扶正注射液技改項目)	Related to assets	941,176.48	0.00	0.00
Research on Shenqi International Clinical Trial and Registration (參芪國際臨床試驗與註冊研究)	Related to income	5,000,000.00	0.00	0.00
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	Related to assets	551,000.04	0.00	0.00
Special Funds for Cooperative Innovation and Platform Environmental Construction (協同創新與平臺環境建設專項資金)	Related to assets	366,666.66	0.00	0.00
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	Related to income	2,465,698.78	0.00	0.00
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	Related to assets	768,353.10	0.00	0.00
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	Related to income	327,272.72	0.00	0.00
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	Related to assets	55,462.80	0.00	0.00

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

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

27. Government grants (continued)

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

Item	Assets/Income	Recognised in other incomes	Recognised in non-operating income	Written down of costs
Provincial development funds for the service and trade industry (省級服務貿易發展資金)	Related to income	100,000.00	0.00	0.00
Subsidy for Dangshen Standardized Planting Base (黨參標準化種植基地補貼)	Related to income	129,400.00	0.00	0.00
Patent (Intellectual Property) Support Fund (專利(知識產權)資助資金)	Related to income	968,800.00	0.00	0.00
Policy fund for leading industrial enterprises loan Interests (工業龍頭企業貸款貼息政策資金)	Related to assets	100,000.02	0.00	0.00
Government grant for industrial transformation (工業轉型政府扶持資金)	Related to assets	124,999.98	0.00	0.00
New Industrialization Development Funds (新型工業化發展資金)	Related to assets	150,000.00	0.00	0.00
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	Related to assets	579,000.00	0.00	0.00
Five Goods and One New Supporting Funds (五優一新扶持資金)	Related to assets	49,999.98	0.00	0.00
Subsidy for Social Security (社保補貼)	Related to income	379,507.50	0.00	0.00
Employment Assurance and Re-employment and Attraction to Graduates of Tertiary Academic Institutions Subsidy (企業穩崗及再就業和吸納高校畢業生補貼款)	Related to income	648,867.02	0.00	0.00
New Scientific Research Institution Subsidy (新型科研機構補助資金)	Related to assets	213,575.72	0.00	0.00
New Scientific Research Institution Subsidy (新型科研機構補助資金)	Related to income	18,292.10	0.00	0.00
Enterprise Technology Center Innovation Capacity Development (Antibody Laboratory) (企業技術中心創新能力建設(抗體藥物試驗室))	Related to assets	557,766.09	0.00	0.00
Enterprise Technology Center Innovation Capacity Development (Antibody Laboratory) (企業技術中心創新能力建設(抗體藥物試驗室))	Related to income	43,458.24	0.00	0.00
Special Funds for Industry and Information (工業和信息化專項資金)	Related to income	489,000.00	0.00	0.00
Subsidy for Online Monitoring Equipment for Coal-fired Boilers (燃煤鍋爐在線監控設備裝置補助)	Related to assets	22,500.00	0.00	0.00

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

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

27. Government grants (continued)

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

Item	Assets/Income	Recognised in other incomes	Recognised in non-operating income	Written down of costs
Supporting Funds for Headquarter Enterprises (總部企業扶持資金)	Related to income	0.00	11,813,630.07	0.00
Financial Support Funds (財政扶持資金)	Related to income	0.00	63,075,469.00	0.00
Others	Related to income	0.00	190,000.00	0.00
Total	—	39,436,755.62	75,079,099.07	0.00

(3) Return of the government grant for the Period

Nil.

28. Deferred income

Item	Balance at the beginning of the year	Increase during the Period	Decrease during the Period	Balance at the end of the Period	Reason
Government grant	225,844,273.75	14,100,000.00	17,746,218.59	222,198,055.16	

Items related to government grant:

Item	Balance at the beginning of the Period	Increase during the Period	Decrease during the Period			Other decrease	Balance at the end of the Period	Assets/Income
			Recognised in other incomes	Recognised in non-operating income	Written down of costs			
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)	19,886,458.11	0.00	1,809,500.03	0.00	0.00	0.00	18,076,958.08	Related to assets
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	4,413,014.08	0.00	374,064.90	0.00	0.00	0.00	4,038,949.18	Related to income

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

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

28. Deferred income (continued)

Item	Balance at the beginning of the Period	Increase during the Period	Recognised in other incomes	Decrease during the Period			Balance at the end of the Period	Assets/Income
				Recognised in non-operating income	Written down of costs	Other decrease		
Technology Breakthrough Research (2011) for MAB for Class I Treatment of Necrosis Factor in Human Tumour from Human Source (廣東省戰略新興產業核心技術攻關(2011)類治療用人源化抗腫瘤壞死因子 α 單克隆抗體新藥的研製)	0.00	8,000,000.00	4,484,685.64	0.00	0.00	0.00	3,515,314.36	Related to assets
Strategic Emerging Industries in 2014 (Sustained Release Microspheres) (2014年戰略性新興產業(緩釋微球))	18,700,000.00	0.00	0.00	0.00	0.00	0.00	18,700,000.00	Related to assets
Pilot-scale Enlargement and Industrialization of Long-acting Injection Microsphere Products (長效注射微球產品的中試放大和產業化)	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Special Funds for Innovation-driven Projects in 2015 (2015年度創新驅動項目專項資金)	93,000.00	0.00	0.00	0.00	0.00	0.00	93,000.00	Related to assets
Project subsidy from Ministry of Industry and Information Technology (工業和信息化部項目補助款)	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Project subsidy from Ministry of Industry and Information Technology (工業和信息化部項目補助款)	2,290,750.00	0.00	115,500.00	0.00	0.00	0.00	2,175,250.00	Related to assets
Growth Factor for Injection (注射用鼠神經生長因子研發及產業化)	26,745,060.72	0.00	1,459,835.00	0.00	0.00	0.00	25,285,225.72	Related to assets

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

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

28. Deferred income *(continued)*

Item	Balance at the beginning of the Period	Increase during the Period	Recognised in other incomes	Decrease during the Period			Balance at the end of the Period	Assets/Income
				Recognised in non-operating income	Written down of costs	Other decrease		
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	6,863,499.75	0.00	551,000.04	0.00	0.00	0.00	6,312,499.71	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)	2,321,947.60	0.00	111,182.88	0.00	0.00	0.00	2,210,764.72	Related to assets
Technical transformation project of Shengqi Fuzheng Injection with flexible bag (軟袋參芪扶正注射液技改項目)	30,000,000.00	0.00	941,176.48	0.00	0.00	4,000,000.00	25,058,823.52	Related to assets
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	9,977,809.16	0.00	564,781.68	0.00	0.00	0.00	9,413,027.48	Related to assets
Provision for Technology Transformation Funds and subsequent grants (技術改造資金撥款及事後補獎)	2,975,000.00	0.00	150,000.00	0.00	0.00	0.00	2,825,000.00	Related to assets
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	700,000.00	0.00	0.00	0.00	0.00	0.00	700,000.00	Related to assets
Traditional Chinese Medicine Standardization Project of State Administration of Traditional Chinese Medicine (國家中醫藥管理局中藥標準化項目)	700,000.00	0.00	0.00	0.00	0.00	0.00	700,000.00	Related to income
Shenqi Fuzheng Injection (參芪扶正注射液)	1,029,987.68	0.00	0.00	0.00	0.00	0.00	1,029,987.68	Related to assets

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

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

28. Deferred income (continued)

Item	Balance at the beginning of the Period	Increase during the Period	Recognised in other incomes	Decrease during the Period			Balance at the end of the Period	Assets/Income
				Recognised in non-operating income	Written down of costs	Other decrease		
Shenqi Fuzheng Injection (參芪扶正注射液)	960,523.19	0.00	0.00	0.00	0.00	0.00	960,523.19	Related to income
Construction of production facilities for the GAP commercialisation of astragalus at Hunyuan in Shanxi (山西渾源黃芪GAP產業化生產基地建設)	4,641,357.94	0.00	0.00	0.00	0.00	0.00	4,641,357.94	Related to assets
R&D and Production Transformation of Gemifloxacin Tablets (吉米沙星片的研發及生產轉化)	212,527.55	0.00	0.00	0.00	0.00	0.00	212,527.55	Related to assets
National and Provincial Science and Technology Awards Enterprise Technology Project (國家及省科技獎企業科技項目)	0.00	500,000.00	0.00	0.00	0.00	0.00	500,000.00	Related to assets
Research of Technologies for the Inspection of Toxic Substances from High-Throughput Aquatic Products in Guangdong Province (廣東省水產品中有毒物質高通量檢測技術研究)	80,000.00	0.00	0.00	0.00	0.00	0.00	80,000.00	Related to income
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))	4,299,935.92	0.00	557,766.09	0.00	0.00	0.00	3,742,169.83	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))	502,519.08	0.00	43,458.24	0.00	0.00	0.00	459,060.84	Related to income

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

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

28. Deferred income *(continued)*

Item	Balance at the beginning of the Period	Increase during the Period	Recognised in other incomes	Decrease during the Period		Other decrease	Balance at the end of the Period	Assets/Income
				Recognised in non-operating income	Written down of costs			
Technology Transfer of Blood Screening (BCI) Nucleic Acid Detection Testing (血液篩查(BCI)核酸檢測試劑成果轉化)	6,000,000.00	0.00	0.00	0.00	0.00	0.00	6,000,000.00	Related to assets
Commercialisation of Liquid Biopsy Testing Enriching, Extracting and Separating Equipment (液態活檢樣本提取富集分離設備產業化)	30,000,000.00	0.00	0.00	0.00	0.00	0.00	30,000,000.00	Related to assets
Subsidy for Rental and Property of the Investment and Promotion Center (投促中心租金及物業費補貼)	327,272.40	0.00	140,259.60	0.00	0.00	0.00	187,012.80	Related to income
Technological Upgrading and Transformation Projects of Workshop for Acarbose (Bulk Medicine of Glucosidase Inhibitor) (α -葡萄糖苷酶抑制劑類原料藥阿卡糖生產車間工藝升級技術改造項目)	892,857.16	0.00	53,571.42	0.00	0.00	0.00	839,285.74	Related to assets
R&D and Commercialisation of Statins (降血脂他汀類藥物的研發與產業化)	150,000.00	0.00	14,999.94	0.00	0.00	0.00	135,000.06	Related to assets
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	472,268.60	0.00	55,462.80	0.00	0.00	0.00	416,805.80	Related to assets
Scientific Technology Incentive and Subsidy for Technological Innovative Project (科學技術獎及科技創新項目資助)	1,636,363.64	0.00	327,272.72	0.00	0.00	0.00	1,309,090.92	Related to income

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

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

28. Deferred income (continued)

Item	Balance at the beginning of the Period	Increase during the Period	Recognised in other incomes	Decrease during the Period			Balance at the end of the Period	Assets/Income
				Recognised in non-operating income	Written down of costs	Other decrease		
Commissioner workstation (特派員工作站)	300,000.00	0.00	0.00	0.00	0.00	0.00	300,000.00	Related to assets
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	7,077,500.01	0.00	579,000.00	0.00	0.00	0.00	6,498,500.01	Related to assets
Innovative drug of Ilaprazole phase IV clinical research (創新藥物艾普拉唑IV期臨床研究)	3,270,800.00	0.00	0.00	0.00	0.00	0.00	3,270,800.00	Related to assets
Government grant for industrial transformation (工業轉型政府扶持資金)	1,108,333.38	0.00	124,999.98	0.00	0.00	0.00	983,333.40	Related to assets
New Industrialization Development Grant (新型工業化發展獎金)	2,354,166.67	0.00	150,000.00	0.00	0.00	0.00	2,204,166.67	Related to assets
Policy fund for leading industrial enterprises loan Interests (工業龍頭企業貸款貼息政策資金)	1,166,666.65	0.00	100,000.02	0.00	0.00	0.00	1,066,666.63	Related to assets
Five Goods and One New Supporting Funds (五優一新扶持資金)	700,000.04	0.00	49,999.98	0.00	0.00	0.00	650,000.06	Related to assets
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	100,000.00	0.00	0.00	0.00	0.00	0.00	100,000.00	Related to assets
Set-up and Research Fund for Post-doc Station (博士後建站和科研補貼)	5,142.15	0.00	0.00	0.00	0.00	0.00	5,142.15	Related to income
New R&D Institution Subsidy (新型研發機構補助)	2,213,575.72	0.00	213,575.72	0.00	0.00	0.00	2,000,000.00	Related to assets
New R&D Institution Subsidy (新型研發機構補助)	18,292.10	0.00	18,292.10	0.00	0.00	0.00	0.00	Related to income
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	366,666.67	0.00	366,666.67	0.00	0.00	0.00	0.00	Related to income

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

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

28. Deferred income (continued)

Item	Balance at the beginning of the Period	Increase during the Period	Recognised in other incomes	Decrease during the Period		Other decrease	Balance at the end of the Period	Assets/Income
				Recognised in non-operating income	Written down of costs			
Capital projects of Innovation and Entrepreneurship Team Funding Program (創新創業團隊資助計劃資金項目)	8,500,000.00	0.00	0.00	0.00	0.00	0.00	8,500,000.00	Related to assets
Special Funds for Cooperative Innovation and Platform Environmental Construction (協同創新與平臺環境建設專項資金)	427,777.78	0.00	366,666.66	0.00	0.00	0.00	61,111.12	Related to assets
R&D of Innovative Traditional Chinese Medicine Qihuo Sugar (芪蘆糖) Capsule for Kidney for cure for diabetes and kidney disease (治療糖尿病腎病創新中藥“芪蘆糖膠囊”的研究開發)	1,000,000.00	0.00	0.00	0.00	0.00	0.00	1,000,000.00	Related to assets
Zhuhai Strategic Emerging Industries Special Funds (珠海市戰略性新興產業專項資金)	3,270,000.00	0.00	0.00	0.00	0.00	0.00	3,270,000.00	Related to assets
Funds for R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化項目資金)	5,600,000.00	0.00	0.00	0.00	0.00	0.00	5,600,000.00	Related to assets
National Industrial Transformation and Upgrading Project (Shenqi FDA) (國家工業轉型升級專項(參芪FDA))	0.00	4,000,000.00	0.00	0.00	0.00	0.00	4,000,000.00	Related to assets

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

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

28. Deferred income (continued)

Item	Balance at the beginning of the Period	Increase during the Period	Recognised in other incomes	Decrease during the Period			Balance at the end of the Period	Assets/Income
				Recognised in non-operating income	Written down of costs	Other decrease		
Innovative drug of Ilaprazole for Injection (創新藥注射用艾普拉唑鈉針劑)	2,400,000.00	0.00	0.00	0.00	0.00	0.00	2,400,000.00	Related to assets
Technological Transformation Projects of New Cefuroxime (新型頭孢粉針劑技術改造項目)	1,533,100.00	0.00	0.00	0.00	0.00	0.00	1,533,100.00	Related to assets
Construction of Drug Conformity Evaluation Research Center Platform (藥物一致性評價研究中心平臺建設)	0.00	1,600,000.00	0.00	0.00	0.00	0.00	1,600,000.00	Related to assets
Subsidy for Online Monitoring Equipment for Coal-fired Boilers (燃煤鍋爐在線監控設備裝置補助資金)	345,000.00	0.00	22,500.00	0.00	0.00	0.00	322,500.00	Related to assets
Funds for Joint R&D and Commercialisation of Integrated Platform for molecular diagnostics (集成一體化分子診斷平臺的合作研發及產業化資金)	2,415,100.00	0.00	0.00	0.00	0.00	0.00	2,415,100.00	Related to assets
Total	225,844,273.75	14,100,000.00	13,746,218.59	0.00	0.00	4,000,000.00	222,198,055.16	

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

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

29. Share capital

January to June 2018

Item	Balance at the beginning of the year		Changes for the Current Period (+ -)					Balance at the End of the Period	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalized	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	10,240,432	1.85	0.00	0.00	3,072,129	0.00	3,072,129	13,312,561	1.85
3. Other domestic shares	5,263,323	0.95	0.00	0.00	135,217	-3,378,458	-3,243,241	2,020,082	0.28
<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>	5,263,323	0.95	0.00	0.00	135,217	-3,378,458	-3,243,241	2,020,082	0.28
<i>Funds and wealth management products</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Of which: Domestic legal person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Overseas natural person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Shares subject to selling restrictions in aggregate</i>	15,503,755	2.80	0.00	0.00	3,207,346	-3,378,458	-171,112	15,332,643	2.13
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	348,458,846	62.99	0.00	0.00	105,946,694	3,262,659	109,209,353	457,668,199	63.65
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)	189,268,768	34.21	0.00	0.00	56,780,630	0.00	56,780,630	246,049,398	34.22
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Shares not subject to selling restrictions in aggregate</i>	537,727,614	97.20	0.00	0.00	162,727,324	3,262,659	165,989,983	703,717,597	97.87
III. Total number of shares	553,231,369	100.00	0.00	0.00	165,934,670	-115,799	165,818,871	719,050,240	100.00

On 29 March 2018, the “Resolution on first grant of Shares to be Unlocked during the Third Unlocking Period under the Restricted Shares Incentive Scheme of the Company” was passed at the Twelfth Meeting of the Ninth Session of the Board, accordingly, 4,038,407 Restricted Shares first grant were unlocked during the Third Unlocking Period. According to the authority granted to the Board at the 2015 First Extraordinary General Meeting of the Company, the Company had completed the unlock procedure and related matters for the above shares, with the listing date of such shares being 13 April 2018, resulting in a change in the number of shares. According to the Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Companies Listed on the Main Board, upon completion of this unlock procedure, there are 1,434,142 locked shares held by the senior management.

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

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

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

29. Share capital (continued)

January to June 2017

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

On 28 March 2017, the "Resolution on Granting Shares to be Unlocked during the First Unlocking Period under the Restricted Shares Incentive Scheme of the Company" was passed at the Thirty-sixth Meeting of the Eighth Session of the Board of the Company. Total 3,177,213 shares were unlocked during the First Unlocking Period. According to the authority granted to the Board at the 2015 First Extraordinary General Meeting of the Company, the Company had completed the unlock procedure and related matters for the above shares, with the listing date of such shares being 7 April 2017, resulting in a change in the number of shares. According to the Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Companies Listed on the Main Board, upon completion of this unlock procedure, there are 331,266 locked shares held by the senior management, resulting in an actual increase of 2,845,947 non-restricted shares of the Company.

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

30. Capital reserve

January to June 2018

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
Capital premiums	1,670,409,484.28	46,216,839.78	174,795,231.52	1,541,831,092.54
Other capital reserve	44,861,489.65	0.00	21,213,574.80	23,647,914.85
Total	1,715,270,973.93	46,216,839.78	196,008,806.32	1,565,479,007.39

The increase in the share premium in the Period includes: (1) releasing conditions of 4,038,407 Restricted Shares from the first grant and Reserved Grant have been fulfilled, and the corresponding withdrawal of share incentive expenses RMB21,213,574.80 is transferred from other capital reserve to the share premium reserve; (2) upon unlocking of Restricted Shares, the difference between expenses deductible for tax purpose and the accrued expenses reduced income tax payable by RMB25,003,264.98 according to taxation requirements and capital premiums is increased accordingly. The decrease of share premium in the Period was attributable to (1) the decrease of share premium in the sum of RMB1,611,873.24 by the repurchase and cancellation of 115,799 shares Restricted Shares granted to incentive participants no longer satisfying the conditions of incentive; (2) the decrease of share premium in the sum of RMB165,934,670.00 by the conversion of capital; (3) disposal of certain equity of a subsidiary without losing control, the price of disposal corresponds to disposal of long-term equity investment, with entitlement to the difference of RMB10,503.81 between the subsidiary's net assets shares continuously calculated from the date of merger, and the tax of RMB7,259,192.09 incurred in the transaction, the capital premium is reduced by totally RMB7,248,688.28.

January to June 2017

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

The increase in the share premium in the Period includes: (1) releasing conditions of 3,177,213 Restricted Shares from the first grant have been fulfilled, and the corresponding withdrawal of share incentive expenses RMB20,365,935.33 is transferred from other capital reserve to the share premium reserve; (2) upon unlocking of Restricted Shares, the difference between expenses deductible for tax purpose and the accrued expenses reduced income tax payable by RMB8,859,658.45 according to taxation requirements and capital premiums is increased accordingly. The decrease of share premium in the Period was attributable to the decrease of share premium in the sum of RMB3,287,576.14 by the repurchase and cancellation of 167,534 shares Restricted Shares granted to incentive participants no longer satisfying the conditions of incentive.

The increase in other capital reserve during the period was attributable to the provision of share incentive expenses.

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

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

31. Treasury shares

January to June 2018

Item	Balance at the beginning of the year	Increase for the Current Period	Decrease for the Current Period	Balance at the end of the Period
Repurchase arising from the Share Incentive Scheme	66,786,741.96	0.00	59,503,507.76	7,283,234.20
Total	66,786,741.96	0.00	59,503,507.76	7,283,234.20

The decrease in our repurchase obligation during the Period represents: (1) the releasing conditions of 4,038,407 Restricted Shares from the First Grant have been fulfilled, resulting in a corresponding decrease in our repurchase obligation of RMB56,860,770.56; (2) the decrease of treasury shares of RMB915,064.96 was due to cash dividends distributed to the holders of Restricted Shares during the Period; (3) the repurchase and cancellation of 115,799 shares Restricted Shares granted to the Incentive Participants who no longer satisfying the incentive conditions, resulting in a repurchase payment of RMB1,727,672.24, among which the decrease of share capital of RMB115,799 and capital reserve of RMB1,611,873.24 were attributable to the cancellation of treasury shares.

January to June 2017

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

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

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

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

32. Other comprehensive income

January to June 2018

Item	For the Current Period						
	Balance at the beginning of the year	Amount incurred before income tax for the Current Period	Less: amount recognised in other comprehensive income in Previous Period transferred to profit or loss for the Current Period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	Balance at the end of the Period
I. Other comprehensive income items not to be re-classified as profit or loss	5,726,534.42	-6,177,120.87	0.00	-1,019,224.95	-5,157,895.92	0.00	568,638.50
Of which: Change in fair value in of other investments in equity instruments	5,726,534.42	-6,177,120.87	0.00	-1,019,224.95	-5,157,895.92	0.00	568,638.50
II. Other comprehensive income items to be re-classified as profit or loss	-58,625,463.94	6,827,645.26	0.00	0.00	6,777,510.90	50,134.36	-51,847,953.04
Of which: Translation differences of financial statements denominated in foreign currency	-58,625,463.94	6,827,645.26	0.00	0.00	6,777,510.90	50,134.36	-51,847,953.04
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total of other comprehensive income	-52,898,929.52	650,524.39	0.00	-1,019,224.95	1,619,614.98	50,134.36	-51,279,314.54

January to June 2017

Item	For the Current Period						
	Balance at the beginning of the year	Amount incurred before income tax for the Current Period	Less: amount recognised in other comprehensive income in Previous Period transferred to profit or loss for the Current Period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	Balance at the end of the Period
I. Other comprehensive income items not to be re-classified as profit or loss	5,574,984.49	2,502,307.47	0.00	375,346.12	2,126,961.35	0.00	7,701,945.84
Of which: Change in fair value in of other investments in equity instruments	5,574,984.49	2,502,307.47	0.00	375,346.12	2,126,961.35	0.00	7,701,945.84
II. Other comprehensive income items to be re-classified as profit or loss	-4,972,217.30	-21,111,771.26	0.00	0.00	-21,056,586.39	-55,184.87	-26,028,803.69
Of which: Translation differences of financial statements denominated in foreign currency	-7,191,482.30	-21,111,771.26	0.00	0.00	-21,056,586.39	-55,184.87	-28,248,068.69
Others	2,219,265.00	0.00	0.00	0.00	0.00	0.00	2,219,265.00
Total of other comprehensive income	602,767.19	-18,609,463.79	0.00	375,346.12	-18,929,625.04	-55,184.87	-18,326,857.85

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

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

33. Surplus reserve

January to June 2018

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

January to June 2017

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

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

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

34. Retained earnings

(1) Movement in retained earnings

Item	For the period	For the previous period	Allocation or appropriation proportion
Retained earnings for the previous year before adjustment	8,028,315,370.19	3,812,412,101.62	
Add: Adjusted retained earnings at the beginning of the year	8,352,564.09	0.00	
Retained earnings at the beginning of the year after adjustment	8,036,667,934.28	3,812,412,101.62	
Add: Net earnings attributable to the shareholders of the parent company for the period	633,354,295.53	504,002,522.78	
Less: Appropriation to statutory surplus reserve	0.00	0.00	10%
Appropriation to discretionary surplus reserve	0.00	0.00	
Dividends payable to ordinary shares	1,106,231,140.00	212,781,296.00	
Dividends of ordinary shares capitalised	0.00	0.00	
Retained earnings at the period end	7,563,791,089.81	4,103,633,328.40	

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 RMB8,352,564.09.
- 2 The effect of changes in accounting policies on the retained earnings as at the Beginning of the Period amounted to RMB0.00.
- 3 The effect of corrections of significant accounting errors on the retained earnings as at the Beginning of the Period amounted to RMB0.00.
- 4 The effect of the change of the scope of combination under common control on the retained earnings as at the Beginning of the Period amounted to RMB0.00.
- 5 The effect of other adjustments on the retained earnings as at the Beginning of the Period amounted to RMB0.00.

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

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

34. Retained earnings (continued)

(2) Notes to appropriation of profits

Item	Unit: RMB'000	
	For the period	For the previous period
Dividends:		
Final dividends in respect of the year 2017 paid during the year ^(Note 1)	727,693.60	—
Dividends proposed after the balance sheet date:		
Final dividends proposed for the year 2017 ^(Note 1)	1,106,231.14	—
Final dividends proposed for the year 2016 ^(Note 2)	—	212,781.30

Note 1: On 23 March 2018, the Company held the Eleventh Meeting of the Ninth Session of the Board to consider and approve 2017 annual profit distribution, based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2017 annual profit distribution plan, a cash dividend of RMB2 per share (tax inclusive) would be distributed to all the shareholders of the Company. At the same time, 3 shares would be issued for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve. Such profit contribution plan was approved on 21 May 2018 and RMB727,693,600 was paid in June 2018.

Note 2: On 24 March 2017, the Company held the 35th Meeting of the 8th Board, which passed the resolution of 2016 annual profit distribution plan to distribute a cash dividend (RMB0.5 per share (tax inclusive)) to all shareholders. Based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2016 annual profit distribution plan, a cash dividend of RMB0.5 per share (tax inclusive) would be distributed to all the shareholders of the Company. At the same time, 3 shares would be issued for every 10 shares held to all shareholders of the Company by way of capitalizing our capital reserve. Such profit contribution plan was approved at the general meeting on 23 June 2017.

35. Operating income and operating cost

Item	For the Current Period		For the Previous Period	
	Income	Cost	Income	Cost
Principal activities	4,543,740,467.83	1,699,813,414.69	4,255,422,366.73	1,491,987,844.75
Other activities	20,963,023.60	8,625,392.74	19,336,079.75	11,227,623.37
Total	4,564,703,491.43	1,708,438,807.43	4,274,758,446.48	1,503,215,468.12

The Company operates in a single operating segment in the PRC, i.e. the manufacture of pharmaceuticals. Accordingly, no operating segment for geographical information of the Company is presented.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***36. Business taxes and surcharges**

Item	For the Current Period	For the Previous Period
Urban maintenance and construction tax	26,422,169.15	25,428,894.46
Education surcharges	22,082,044.13	20,698,880.20
Flood prevention fee	263,740.74	258,635.33
Land use tax	3,192,490.69	3,292,201.27
Property tax	8,712,024.28	10,409,620.00
Stamp duty	3,021,572.36	3,411,944.66
Vehicle and vessel usage tax	31,149.92	24,619.53
Others	157,548.94	217,686.51
Total	63,882,740.21	63,742,481.96

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

37. Selling expenses

Item	For the Current Period	For the Previous Period
Marketing and promotional expenses	1,522,146,121.94	1,557,350,097.28
Staff salaries	88,831,927.45	57,579,535.14
Transportation costs	25,763,268.70	27,526,885.54
Travelling expenses and entertainment	15,148,942.16	14,800,309.03
Business meeting expenses	11,612,351.55	10,990,092.45
Others	16,177,474.20	16,358,126.64
Total	1,679,680,086.00	1,684,605,046.08

38. Administrative expenses

Item	For the Current Period	For the Previous Period
Staff salaries	85,094,577.21	58,422,752.10
Share incentive expenses	0.00	8,559,980.22
Depreciation and amortisation	30,612,701.60	29,052,016.46
Loss on suspension of operations	24,036,915.69	30,133,491.13
Auditor Remuneration	1,128,427.13	1,231,417.10
Others	110,267,954.02	101,564,855.81
Total	251,140,575.65	228,964,512.82

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

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

39. R&D expenses

Item	For the Current Period	For the Previous Period
Material costs	58,652,741.70	42,168,620.24
Staff salaries	90,838,234.99	43,664,387.16
Testing fees	46,802,724.37	52,203,687.83
Depreciation and amortisation	22,588,023.59	17,531,564.75
Others	25,081,998.37	15,984,070.28
Total	243,963,723.02	171,552,330.26

40. Financial expenses

Item	For the Current Period	For the Previous Period
Interest expenses	2,390,751.95	3,050,424.10
Less: Interest income	97,677,697.20	14,656,795.70
Exchange (gains)/losses	-20,181,635.48	10,006,744.30
Bank charges	1,630,236.68	1,859,345.74
Total	-113,838,344.05	259,718.44

41. Impairment loss

Item	For the Current Period	For the Previous Period
Provision for bad debts	0.00	15,273,494.23
Provision for diminution in value of inventories	14,216,188.08	19,275,952.12
Provision for impairment of fixed assets	13,607,616.33	13,278.08
Total	27,823,804.41	34,562,724.43

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***42. Credit impairment loss**

Item	For the Period	For the Previous Period
Bad debt loss of accounts receivable	-24,400,101.09	0.00
Other Bad debt loss of accounts receivable	396,730.99	0.00
Total	-24,003,370.10	0.00

43. Other income

Item	For the Period	For the Previous Period	Amount charged to non-recurring gains or losses during the Year
Government subsidy	39,436,755.62	41,572,568.07	39,436,755.62
Total	39,436,755.62	41,572,568.07	39,436,755.62

44. Investment income

Item	For the Current Period	For the Previous Period
Long-term equity investments income under equity method	1,238,167.27	585,049.99
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	131,844.96	188,814.93
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss	-515,723.40	0.00
Interest income from debt investments	0.00	0.00
Interest income from other debt investments	0.00	0.00
Gain on disposal of debt investments	0.00	0.00
Gain on disposal of other debt investments	0.00	0.00
Income generated from revaluation of remaining equity measured at fair value upon loss of control	0.00	0.00
Return from cash management	0.00	4,310,498.10
Total	854,288.83	5,084,363.02

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

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

45. Gains from changes in fair value

Sources of gains from changes in fair value	For the Current Period	For the Previous Period
(1) Reclassified as financial assets at fair value through profit or loss	2,115,939.37	733,944.14
Of which: Shares	2,320,589.71	722,600.40
Funds	-3,620.34	11,343.74
Foreign exchange forward contracts	-201,030.00	0.00
(2) Held-for-trading financial assets	-19,021,888.89	0.00
Of which: foreign exchange forward contracts	-19,021,888.89	0.00
Total	-16,905,949.52	733,944.14

46. Gains on disposal of assets

Items	For the Current Period	For the Previous Period	Recognised in non-recurring profit or loss for the year
Disposal of non-current assets	-121,892.09	-7,017,747.76	-121,892.09
Total	-121,892.09	-7,017,747.76	-121,892.09

47. Non-operating income

Item	For the Current Period	For the Previous Period	Recognised as extraordinary gains or losses for the Current Period
Profit from destroyed and damaged non-current assets	0.00	0.00	0.00
Income from scraps	337,408.69	349,681.78	337,408.69
Government grants	75,079,099.07	38,822,535.55	75,079,099.07
Compensation income	8,240.00	458,669.44	8,240.00
Waiver of payables	457,837.64	191,411.51	457,837.64
Others	506,282.65	354,429.66	506,282.65
Total	76,388,868.05	40,176,727.94	76,388,868.05

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***48. Non-operating expenses**

Item	For the Current Period	For the Previous Period	Recognised as extraordinary gains or losses for the Current Period
Loss from destroyed and damaged non-current assets	6,707,882.00	0.00	6,707,882.00
Charitable donation expenses	570,000.00	492,569.88	570,000.00
Others	2,183,252.24	3,273,222.78	2,183,252.24
Total	text-align: right;"> 9,461,134.24	text-align: right;">3,765,792.66	text-align: right;">9,461,134.24

49. Income tax expenses**(1) Breakdown of income tax expenses**

Item	For the Current Period	For the Previous Period
Current income tax calculated according to tax laws and relevant rules	139,464,954.97	101,466,457.96
Include: Income tax on domestic enterprises	139,464,954.97	101,466,457.96
Income tax on Hong Kong and Macau enterprises	0.00	0.00
Adjustment of deferred income tax	2,635,909.21	12,782,085.50
Total	text-align: right;"> 142,100,864.18	text-align: right;">114,248,543.46

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

Item	For the Current Period	For the Previous Period
Profit before tax	817,806,405.51	664,640,227.12
Income tax calculated at statutory tax rates	204,451,601.38	166,160,056.78
Tax effect of different rates applicable to subsidiaries	599,291.82	-1,044,687.16
Effect of tax deduction	-101,689,170.81	-83,947,079.01
Effect of non-deductible expenses	7,886,958.07	1,333,878.86
Credit (charge) on temporary differences on which deferred tax assets are not recognised for the year	1,484,056.54	619,822.35
Deductible losses of deferred tax assets that are not recognised for the year	31,187,922.15	23,666,015.46
Use of deductible losses of deferred tax assets that are not recognised in the previous year	-475,355.87	-897,877.83
Others	-1,344,439.10	8,358,414.01
Total	text-align: right;"> 142,100,864.18	text-align: right;">114,248,543.46

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***50. Other comprehensive income details**

Please refer to note VI. 32 for details.

51. Notes to cash flow statement item**(1) Cash received relating to other operating activities**

Item	For the Current Period	For the Previous Period
Government grants	114,869,636.10	69,489,367.17
Interest income	97,677,697.20	14,656,795.70
Damages and compensation income	8,240.00	463,564.44
Income from scraps	337,408.69	349,681.78
Deposits under guarantees for letter of credit/bank acceptance bills	24,233,920.34	0.00
Movements of capital and others	42,398,730.26	19,395,781.33
Total	279,525,632.59	104,355,190.42

(2) Cash paid relating to other operating activities

Item	For the Current Period	For the Previous Period
Office expenses	15,490,509.32	28,827,893.74
Travelling expenses	19,119,363.83	17,028,213.41
Entertainment expenses	16,799,348.38	21,007,397.58
Transportation fees	33,204,949.86	38,204,483.19
Advertising expenses	295,157.59	608,301.81
Business meeting expenses	15,550,970.84	40,595,363.51
Auditing and information disclosure fees	1,574,311.42	3,463,443.01
Consultancy fees	9,449,834.71	9,793,889.73
Research and development costs	132,738,355.07	61,300,002.31
Bank charges	1,630,236.68	1,859,345.74
Business promotion expenses	1,669,186,858.38	1,520,337,575.70
Deposits under guarantees for letter of credit and bank acceptance bills	28,391,595.62	2,230,000.00
Other expenses paid and current account	59,964,098.67	48,816,912.81
Total	2,003,395,590.37	1,794,072,822.54

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***51. Notes to cash flow statement item** *(continued)***(3) Cash received relating to other investing activities**

Item	For the Current Period	For the Previous Period
Deposits under guarantees	800,000.00	400,000,000.00
Total	800,000.00	400,000,000.00

(4) Cash paid relating to other investing activities

Item	For the Current Period	For the Previous Period
Deposits under guarantee	245,000.00	0.00
Total	245,000.00	0.00

(5) Cash received relating to other financing activities

Item	For the Current Period	For the Previous Period
Collection and advance payment of individual income tax	2,653,082.12	1,753,334.52
Total	2,653,082.12	1,753,334.52

(6) Cash paid relating to other financing activities

Item	For the Current Period	For the Previous Period
Repurchase of shares	1,727,672.24	3,455,110.14
Collection and advance payment of individual income tax	2,148,260.14	2,595,510.88
Total	3,875,932.38	6,050,621.02

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

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

52. Supplemental information to cash flow statement

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

Item	For the Current Period	For the Previous Period
1 Reconciliation of net profit to cash flow from operating activities:		
Net profit	675,705,541.33	550,391,683.66
Add: Provision for impairment of assets	3,820,434.31	34,562,724.43
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets	172,628,594.05	161,607,640.81
Amortisation of intangible assets	11,882,272.83	13,216,072.42
Amortisation of long-term deferred expenses	8,252,233.72	7,336,476.78
Losses on disposal of fixed assets, intangible assets and other long-term assets ("–" represents gains)	121,892.09	7,017,747.76
Losses on retirement of fixed assets ("–" represents gains)	6,707,882.00	0.00
Losses from changes in fair value ("–" represents gains/income)	16,905,949.52	–733,944.14
Financial expenses ("–" represents gains/income)	–7,882,494.30	26,686,560.04
Investments losses ("–" represents gains)	–854,288.83	–5,084,363.02
Decrease in deferred tax assets ("–" represents increase)	–3,449,693.18	8,344,771.46
Increase in deferred tax liabilities ("–" represents decrease)	6,085,602.39	4,437,314.04
Decrease in inventories ("–" represents increase)	–65,968,826.32	–8,080,535.41
Decrease in trade receivables ("–" represents increase)	–205,669,653.51	–679,885,768.21
Increase in trade payables ("–" represents decrease)	–636,453,994.28	319,004,492.81
Others	0.00	8,559,980.22
Net cash flows from operating activities	–18,168,548.18	447,380,853.65
2 Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into capital	0.00	0.00
Convertible bonds due within one year	0.00	0.00
Fixed assets acquired under finance leases	0.00	0.00
3 Net movement in cash and cash equivalents:		
Cash at the End of the Period	6,385,627,974.32	2,699,757,863.10
Less: Cash at the beginning of the year	7,400,973,935.19	2,061,923,004.89
Add: Cash equivalents at the End of the Period	0.00	0.00
Less: Cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	–1,015,345,960.87	637,834,858.21

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***52. Supplemental information to cash flow statement** *(continued)***(2) Net Cash Payment for Acquisition of Subsidiaries during the Current Period**

Nil.

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

Nil.

(4) Composition of cash and cash equivalents

Item	For the Current Period	For the Previous Period
1 Cash	6,385,627,974.32	2,699,757,863.10
Of which: Cash on hand	180,094.61	170,285.08
Bank deposits that are readily available for payment	6,384,165,021.82	2,611,508,910.72
Other cash at bank and on hand that are readily available for payment	1,282,857.89	88,078,667.30
2 Cash equivalents	0.00	0.00
Of which: Bond investments due within three months	0.00	0.00
3 Cash and cash equivalents at the End of the Period	6,385,627,974.32	2,699,757,863.10

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

53. Assets with restricted ownership or right of use

Item	Carrying amount at the End of the Period	Reasons
Cash in foreign currency	547,932.26	Deposits under guarantee
– Bank deposits		
Cash in foreign currency	17,863,006.66	Deposits under guarantees for
– Other cash at bank and on hand		letter of credit, bank acceptance
		bills and forward exchange
		contracts
Bills receivable	59,583,079.78	Bank notes pool, pledged bills
		receivable
Total	77,994,018.70	

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***54. Monetary items in foreign currency**

Item	Amount in foreign currency by the End of the Period	Exchange rate	Amount translated into RMB by the End of the Period
Cash in foreign currency :			
In which: HKD	446,607,942.75	0.84310	376,535,156.53
Euro	28,013.43	7.6515	214,344.76
USD	77,743,115.94	6.6166	514,395,100.93
MOP	2,377,112.97	0.8212	1,952,085.17
JPY	24,017,575.00	0.059914	1,438,988.99
Total cash in foreign currency			894,535,676.38
Trade receivables :			
In which: USD	42,681,045.40	6.6166	282,403,404.99
JPY	6,097,299.96	0.059914	365,313.63
MOP	1,363,168.45	0.8212	1,119,433.93
Total trade receivables			283,888,152.55
Other receivables :			
In which: HKD	1,480,265.89	0.84310	1,248,012.17
MOP	984,000.00	0.8212	808,060.80
Total other receivables			2,056,072.97
Other current assets			
In which: HKD	101,877,338.53	0.84310	85,892,784.11
Total other current assets			85,892,784.11
Payables :			
In which: Euro	5,865.00	7.6515	44,876.05
USD	20,556.95	6.6166	136,017.12
Total other receivables			180,893.17
Other payables:			
In which: HKD	413,120,753.90	0.84310	348,302,107.61
USD	752,757.10	6.6166	4,980,692.63
Total other payables			353,282,800.24

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

VII. CHANGE TO CONSOLIDATION SCOPE

On 30 March 2018, Gongshan Livzon Pharmaceutical Technology Limited (貢山麗珠藥源科技有限公司) was established with 100% registered capital by Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司).

On 8 May 2018, Livzon San-Med Diagnostics Inc. was established with 100% registered capital by Zhuhai Livzon Cynvenio Diagnostics Ltd. (珠海麗珠聖美醫療診斷技術有限公司).

VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

(1) Group Structure

Name of the subsidiary	Subsidiary Type	Type of legal entity	Principal place of business	Place of registration	Nature of business	Registered capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
Ando Development Limited (安滔發展有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD500,000	100%	100%	Set-up
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD61,000,000	100%	100%	Set-up
Li An (Hong Kong) Co., Ltd. (麗安香港有限公司)	Wholly-owned	Limited company	Hong Kong	Hong Kong	Investment	HKD1,000,000	100%	100%	Set-up
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	Wholly-owned	Limited company	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	RMB88,232,900	51%	51%	Set-up
Zhuhai Livzon Shengmei Medical Diagnosis Technology Co. Ltd. (珠海麗珠聖美醫療診斷技術有限公司)	Subsidiary of Holding Subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB133,333,300	35.19%	35.19%	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. (隴西麗珠參源藥材有限公司)	Subsidiary of Wholly-owned subsidiary	Limited company	Longxi County	Longxi County	Crop farming	RMB4,000,000	100%	100%	Set-up
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限公司)	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. (麗珠集團麗珠一拜阿蒙生物材料有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB12,000,000	82%	82%	Set-up
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
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

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

VIII.EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

(1) Group Structure (continued)

Name of the subsidiary	Subsidiary Type	Type of legal entity	Principal place of business	Place of registration	Nature of business	Registered capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
Livzon Group Ningxia Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	Holding	Limited company	Pingluo County	Pingluo County	Manufacture of medicine	RMB200,000,000	98.18%	98.18%	Set-up
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	Subsidiary of Holding Subsidiary	Limited company	Macau	Macau	Sales of goods	MOP100,000	51%	51%	Set-up
Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	Wholly-owned	Limited company	Macau	Macau	Provision of services	MOP100,000	100%	100%	Set-up
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司)	Subsidiary of Holding Subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB10,000,000	38.25%	38.25%	Set-up
Zhuhai Lihe Medical Diagnostic Product Company Limited (珠海麗禾醫療診斷產品有限公司)	Subsidiary of Holding Subsidiary	Limited company	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000	51%	51%	Set-up
Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司)	Subsidiary of Holding Subsidiary	Limited company	Shanghai	Shanghai	Provision of services	RMB1,000,000	51%	51%	Set-up
Zhuhai Livzon Gene Detection Technology Co., Ltd (珠海市麗珠基因檢測科技有限公司)	Holding	Limited company	Zhuhai	Zhuhai	Provision of services	RMB100,000,000	60%	60%	Set-up
Livzon MABPharm (USA) Limited (麗珠單抗生物技術(美國)有限公司)	Subsidiary of Holding Subsidiary	Limited company	Boston	Boston	Technology development	USD1,000,000	51%	51%	Set-up
Zhuhai Livzon Weiqiu Technology Co., Ltd.* (珠海市麗珠微球科技有限公司)	Wholly-owned	Limited company	Zhuha	Zhuha	Technology development	RMB500,000	100%	100%	Set-up
Livzon International Limited	Wholly-owned	Limited company	Cayman	Cayman	Investment	USD50,000	100%	100%	Set-up
Livzon Biologics Limited	Holding	Limited company	Cayman	Cayman	Investment	USD50,000	51%	51%	Consolidated from common control
Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	Subsidiary of Holding Subsidiary	Limited company	Hong Kong	Hong Kong	Investment	HKD400	51%	51%	Set-up
Zhuhai Livzon Biotechnology Co., Limited (珠海市麗珠生物醫藥科技有限公司)	Subsidiary of Holding Subsidiary	Limited company	Zhuhai	Zhuhai	Technology development	RMB250,000,000	51%	51%	Set-up
Gongshan Livzon Pharmaceutical Technology Limited (貢山麗珠藥源科技有限公司)	Subsidiary of Wholly-owned Subsidiary	Limited company	Gongshan	Gongshan	Crop farming	RMB1,000,000	100%	100%	Set-up
Livzon San-Med Diagnostics Inc.	Subsidiary of Holding Subsidiary	Limited company	State of Delaware	State of Delaware	Technology development	USD5,000,000	35.19%	35.19%	Set-up
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Wholly-owned	Limited company	Pengzhou	Pengzhou	Manufacture of medicine	RMB149,000,000	100%	100%	Consolidated from noncommon control
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Holding	Limited company	Qingyuan	Qingyuan	Manufacture of medicine	RMB134,930,000	77.14%	77.14%	Consolidated from noncommon control
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Wholly-owned	Limited company	Shaoguan	Shaoguan	Manufacture of medicine	RMB61,560,000	100%	100%	Consolidated from noncommon control
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Wholly-owned	Limited company	Fuzhou	Fuzhou	Manufacture of medicine	USD41,700,000	100%	100%	Consolidated from noncommon control
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Wholly-owned	Limited company	Gutian County	Gutian County	Manufacture of medicine	RMB26,700,000	100%	100%	Consolidated from noncommon control

In May 2018, Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司) absorbed and merged Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司), and changed its name to Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司).

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

VIII. EQUITY IN OTHER ENTITIES (continued)**1. Equity in subsidiaries** (continued)**(2) Important non-wholly owned subsidiaries**

Name of Subsidiaries	Percentage of shareholdings of non-controlling shareholders	Profit and loss attributable to non-controlling shareholders for the Current Period	Dividend paid to non-controlling shareholders for the Current Period	Equity balance for non-controlling shareholders by the End of the Period
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司))	49%	66,267,307.22	78,400,000.00	183,065,181.26
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司), Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術有限公司) and Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司))	49%	12,394,391.10	0.00	96,555,773.55
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	49%	-38,407,010.23	0.00	94,896,764.16
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	16.15%	-70,306.07	0.00	-1,241,739.74
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	22.86%	4,074,779.19	0.00	107,365,396.26

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

Name of subsidiaries	Financial Position by the End of the Period		Financial Position by the beginning of the year	
	Total assets	Net assets	Total assets	Net assets
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司))	591,398,195.34	353,363,343.29	581,669,543.74	386,348,783.76
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司), Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術有限公司) and Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司))	774,325,504.60	150,232,814.13	823,364,603.30	112,179,898.64
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	560,404,519.90	193,666,865.60	339,202,402.35	271,996,678.88
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	14,962,529.91	-7,688,790.95	16,774,546.60	-7,253,459.25
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	672,026,367.75	523,853,054.20	608,823,598.96	472,011,079.79

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

VIII. EQUITY IN OTHER ENTITIES *(continued)***1. Equity in subsidiaries** *(continued)***(3) Major accounting information on important non-wholly owned subsidiaries** *(continued)*

Name of subsidiaries	Operating results for the Current Period			Operating results for the Previous Period		
	Revenue	Net profit	Total comprehensive income	Revenue	Net profit	Total comprehensive income
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (合併上海麗珠生物科技股份有限公司))	479,057,857.57	127,014,559.53	127,014,559.53	390,130,599.39	81,987,796.72	81,987,796.72
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (合併澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd. (珠海麗禾醫療診斷產品有限公司), Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術有限公司) and Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技股份有限公司))	343,526,792.66	38,009,013.21	38,052,915.49	295,028,145.53	41,448,927.95	41,391,490.64
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	57,069.58	-78,381,653.54	-78,329,813.28	0.00	-41,335,242.86	-41,335,242.86
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	7,218.58	-435,331.70	-435,331.70	0.00	-277,156.83	-277,156.83
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	273,801,139.49	51,841,974.41	51,841,974.41	273,163,303.62	45,327,775.99	45,327,775.99

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

VIII.EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

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

Name of subsidiaries	Cash flow for the Current Period					Cash flow for the Previous Period				
	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and	Cash and	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and	Cash and
				cash equivalents by the beginning of the year	cash equivalents by the End of the Period				cash equivalents by the beginning of the year	cash equivalents by the End of the Period
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (合併上海麗珠生物科技有限公司))	91,236,721.37	-7,859,054.16	-94,643,826.58	12,036,826.13	277,064.07	64,184,218.40	-9,796,698.44	-46,848,323.95	5,219,176.50	12,732,070.93
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Zhuhai Lihe Medical Diagnostic Product Co. Ltd (珠海麗禾醫療診斷產品有限公司) and Zhuhai Livzon Shengmei Medical Diagnosis Technology Co., Ltd. (珠海麗珠聖美醫療診斷技術 有限公司) and Shanghai Lihang Biotechnology Co., Limited (上海麗航生物科技有限公司))	-7,732,725.37	-25,786,201.93	490,533.29	70,659,208.88	37,685,486.47	-1,625,149.94	-14,790,414.12	-12,841,917.92	44,824,799.54	15,631,237.44
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	-93,133,675.05	-55,451,415.95	285,943,740.83	5,546,748.22	142,959,163.13	-47,107,960.72	-10,631,490.54	66,804,687.87	294,507.64	9,359,744.25
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	-1,394,495.28	1,399,155.21	10,455.00	25,632.42	40,747.35	22,827.51	-45,255.63	-19,168.87	42,208.18	611.19
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥 股份有限公司)	95,088,542.18	-8,467,876.73	55,934,357.92	50,314,716.68	199,582,351.11	-14,190,203.84	-4,038,051.36	50,026,121.65	81,655,605.61	111,518,668.56

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

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

On 23 April 2018, the "Proposal on Transfer of 15% Shares of Qingyuan New Beijing Pharmaceutical Co., Ltd. (清遠新北江製藥股份有限公司) of Livzon Group by the Company" was passed at the Thirteenth Meeting of the Ninth Session of the Board, by which it was agreed that 15% shares (totally 20,238,780 shares) of New Beijing Pharmaceutical Co., Ltd. (新北江製藥股份有限公司) of Livzon Group held by the Company would be transferred to Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥)) at the consideration of RMB66,201,050.00. On 4 May 2018, the parties entered into the "Agreement between Livzon Pharmaceutical Group Inc. and Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) on Transfer of Shares of New Beijing Pharmaceutical Co., Ltd. of Livzon Group". As of 30 June 2018, the Company has received totally RMB33,100,525.00 as the first installment for this share transfer. After the transfer of shares, the Company was holding 77.14% shares of New Beijing Pharmaceutical Co., Ltd. of Livzon Group, and could exercise control over this company.

(2) Effect of transfer on non-controlling shareholder's equity interests and equity interest attributable to the owners of the Company for the period

Item	New Beijing Pharmaceutical Co., Ltd. of Livzon Group
Cost of purchase/consideration for disposal	
– Cash	66,201,050.00
– Fair value of non-cash assets	0.00
Total cost of purchase/consideration for disposal	66,201,050.00
Less: net asset shares of the subsidiary calculated based on the percentage of shares acquired/disposed of	66,190,546.19
Difference	10,503.81
In which: adjusted capital reserve	10,503.81

3. Equity in associates or joint ventures**(1) Summarized Accounting information for non-important associates or joint ventures**

Item	Balance at the End of the Period/ For the Current Period	Balance for the Previous Period/ For the Previous Period
Associates :		
Total nominal value of investment	112,490,912.71	91,694,784.78
Total amount calculated by percentage of shareholding		
– net profit	1,238,167.27	585,049.99
– other comprehensive income	0.00	0.00
– total comprehensive income	1,238,167.27	585,049.99

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

Nil.

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS**(I) Management objectives and policies of risks**

The operation activities of the Company are subject to various financial risks: market risks (mainly including foreign exchange risks and interest rate risks), credit risks and liquidity risks. The Company formulates an overall risk management plan with respect to the unforeseeability of the financial market in order to minimise the potential adverse impacts on the financial performance of the Company.

1. Foreign exchange risks

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Company still has certain imports and exports businesses regarding bulk medicines and diagnostic reagents that are settled in U.S. dollar and Japanese Yen. The Company's businesses outside China (mainly in Hong Kong) are settled in Hong Kong dollars. In addition, the Company will have foreign currency loans according to the operating needs. In respect of the above, the Company still exposes to certain foreign exchange risks. Taking into account the foreign exchange risks acceptable by the Company, the Company adopted non-hedging foreign currency forward contracts to control foreign exchange risk. However, as to the foreign exchange risk in loans, the Company shall closely monitor the trend on the exchange rate of Renminbi, and timely adjust the extent of borrowings, so as to reduce its risks to the minimum.

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

(1) 30 June 2018

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	376,535.16	514,395.10	214.34	1,438.99	1,952.09
Held-for-trading financial assets	6,643.63	0.00	0.00	0.00	0.00
Receivables	0.00	282,403.40	0.00	365.31	1,119.43
Prepayments	0.00	3,561.03	741.99	0.00	0.00
Other receivables	1,248.01	0.00	0.00	0.00	808.06
Other current assets	85,892.78	0.00	0.00	0.00	0.00
Other equity instruments investment	314,570.91	0.00	0.00	0.00	0.00
Subtotal:	784,890.49	800,359.53	956.33	1,804.30	3,879.58
Financial liabilities in foreign currency –					
Payables	0.00	136.02	44.88	0.00	0.00
Contract liabilities	0.00	2,460.36	0.00	0.00	11.29
Other payables	348,302.11	4,980.69	0.00	0.00	0.00
Subtotal:	348,302.11	7,577.07	44.88	0.00	11.29

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

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

(I) Management objectives and policies of risks *(continued)*

1. Foreign exchange risks *(continued)*

(2) 30 June 2017

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY item	MOP item
Financial assets in foreign currency –					
Cash	638,719.90	283,544.69	1,968.33	3,377.03	2,440.28
Held-for-trading financial assets	5,745.63	0.00	0.00	0.00	0.00
Receivables	0.00	277,659.26	0.00	0.00	869.39
Prepayments	0.00	39.80	6,889.39	0.00	0.00
Other receivables	1,343.79	0.00	0.00	0.00	353.21
Other non-current assets	101,541.43	0.00	0.00	0.00	0.00
Subtotal:	747,350.75	561,243.75	8,857.72	3,377.03	3,662.88
Financial liabilities in foreign currency –					
Payables	0.00	2,067.59	688.94	0.00	0.00
Contract liabilities	0.00	1,516.72	0.00	0.00	0.00
Other payables	1,226.46	2,636.18	0.00	0.00	0.00
Subtotal:	1,226.46	6,220.49	688.94	0.00	0.00

As at 30 June 2018, in respect of Group's financial assets and liabilities denominated in Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, should the value of RMB appreciate or depreciate by 5% against Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, and other factors remain unchanged, the Group would be subject to an increase or decrease in profit of approximately RMB61,797,740 (30 June 2017: approximately RMB65,817,810).

2. Interest rate risk

The Company's exposures to interest rate risk are mainly arising from interest-bearing liabilities such as bank borrowings and bonds payables. The interest rates are affected by the macro monetary policies of China, hence the Company will face the risks arising from fluctuation of interest rates in the future.

The finance department of the head office of the Company continues to monitor the level of interest rate. The rise in the interest rate will increase the cost of additional interest bearing liabilities and the interest expenses of the Company's outstanding interest-bearing liabilities of which the interests are calculated at floating rates, and impose material adverse impact on the financial results of the Company. The management will timely make adjustment based on the updated market conditions. The directors of the Company consider that the future changes in the interest rate will have no material adverse impact on the operating results of the Company.

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***(I) Management objectives and policies of risks** *(continued)***3. Credit risk**

Credit risk is primarily attributable to cash and cash equivalents, restricted cash at bank, accounts receivables and other receivables. In respect of cash at banks, they were placed at several banks with good reputations, for which the credit risk was limited. In respect of accounts receivables, the Company shall assess the credit limit granted to customers for credit purpose. Moreover, as the customer base is large, the credit risk on accounts receivables is not concentrated. In respect of the settlement of bills receivables, since more quality bills such as bank acceptance bills are used, it's expected that there should be no significant credit risks as for whether the Company determines to hold for redemption upon maturity or endorse for payment to external parties based on capital requirements. In addition, the provision made on accounts receivables and other receivables are adequate to manage the credit risk.

4. Liquidity risk

The Company adopts prudent liquidity risk management for the sufficient supply of monetary funds and liquidity. It secures readily available credit loans from banks mainly by maintaining adequate monetary funds and banking facilities. Apart from indirect financing from banks, a number of financing channels were opened, such as direct financing by inter-bank market including short-term financing bills and medium term financing bills, corporate bonds etc. These instruments can effectively reduce the effects of scale of financing and the macromonetary policies of China on indirect bank financing, which shall secure adequate funds in a flexible manner. As at the date of the balance sheet, cash flows of the financial assets and financial liabilities contracts are presented below by term of maturity:

As at the date of the balance sheet, cash flows of the financial assets and financial liabilities contracts are presented below by term of maturity:

(1) 30 June 2018

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets –					
Cash	6,404,038,913.24	0.00	0.00	0.00	6,404,038,913.24
Held-for-trading financial assets	20,776,009.48	0.00	0.00	0.00	20,776,009.48
Bills receivables and					
accounts receivables	2,676,930,069.45	0.00	0.00	0.00	2,676,930,069.45
Prepayments	162,534,827.33	0.00	0.00	0.00	162,534,827.33
Other receivables	99,283,601.40	0.00	0.00	0.00	99,283,601.40
Other current assets	85,892,784.11	0.00	0.00	0.00	85,892,784.11
Subtotal:	9,449,456,205.01	0.00	0.00	0.00	9,449,456,205.01
Financial liabilities –					
Short-term loans	272,087,290.50	0.00	0.00	0.00	272,087,290.50
Held-for-trading financial liabilities	19,361,018.79	0.00	0.00	0.00	19,361,018.79
Bills payables and					
accounts payables	1,317,865,774.86	0.00	0.00	0.00	1,317,865,774.86
Contract liabilities	79,155,861.76	0.00	0.00	0.00	79,155,861.76
Other payables	2,357,273,197.40	0.00	0.00	0.00	2,357,273,197.40
Non-current liabilities due					
within one year	400,000.00	0.00	0.00	0.00	400,000.00
Long-term loans	0.00	0.00	0.00	700,000.00	700,000.00
Subtotal:	4,046,143,143.31	0.00		700,000.00	4,046,843,143.31

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***(I) Management objectives and policies of risks** *(continued)***4. Liquidity risk** *(continued)**(2) 30 June 2017*

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets –					
Cash	6,803,987,863.10	0.00	0.00	0.00	6,803,987,863.10
Held-for-trading financial assets	6,587,883.16	0.00	0.00	0.00	6,587,883.16
Bills receivables and account receivables	2,599,200,416.52	0.00	0.00	0.00	2,599,200,416.52
Prepayments	119,227,647.65	0.00	0.00	0.00	119,227,647.65
Other receivables	70,205,098.06	0.00	0.00	0.00	70,205,098.06
Other current assets	250,000,000.00	0.00	0.00	0.00	250,000,000.00
Subtotal:	9,849,208,908.49	0.00	0.00	0.00	9,849,208,908.49
Financial liabilities –					
Bills payables and accounts payables	1,193,814,517.67	0.00	0.00	0.00	1,193,814,517.67
Contract liabilities	4,567,499,660.83	0.00	0.00	0.00	4,567,499,660.83
Other payables	1,922,943,468.66	0.00	0.00	0.00	1,922,943,468.66
Non-current liabilities due within one year	400,000.00	0.00	0.00	0.00	400,000.00
Long-term loans	0.00	0.00	0.00	700,000.00	700,000.00
Subtotal:	7,684,657,647.16	0.00		700,000.00	7,685,357,647.16

(II) Transfer of financial assets**1. Transferred financial assets that are not derecognized in their entirety**

None.

2. Financial assets transferred and ceased to be recognised but with involvement of the transferor.

On 30 June 2018, the Company's carrying amounts of bank acceptance bills undue and endorsed to suppliers for settling account payables is RMB108,857,930.14 (31 December 2017: RMB43,384,352.00), the commercial acceptance bills undue and endorsed to suppliers for settling account payables (31 December 2017: RMB0). On 30 June 2018, the due date is 1 to 11 months. In accordance with the Law of Negotiable Instruments, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Company, the Company has transferred substantially all risks and rewards. Accordingly, the full carrying amounts of them and the associated account payables have been derecognised. The maximum loss and the undiscounted cash flows from the Continuing Involvement and repurchasing is equal to their carrying amounts. In the opinion of the Company, the fair values of the Continuing Involvement are not significant.

From January to June 2018, no gain or loss was generated by the Company on the date of transfer of the bills. The Company had no current or accumulated gain or expense arising from the continuing involvement in financial assets which had been derecognized. The endorsement was incurred evenly throughout the period.

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

X. DISCLOSURE OF FAIR VALUE**1. Fair value of assets and liabilities measured at fair value at the End of the Period***Amount denominated: RMB'000*

Item	Fair value at the End of the Period			Total
	Measured at fair value level 1	Measured at fair value level 2	Measured at fair value level 3	
I. Continuous fair value measurement				
(I) Financial assets held for trading	20,759.24	16.77	0.00	20,776.01
1. Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period				
(1) equity instrument investments	20,759.24	16.77	0.00	20,776.01
(2) derivative financial assets	0.00	0.00	0.00	0.00
2. Financial assets measured at fair value, with the change in fair value included in the profit or loss for the period	0.00	0.00	0.00	0.00
(II) Other equity instrument investments	0.00	395,574.02	0.00	395,574.02
Total assets continuously measured at fair value	20,759.24	395,590.79	0.00	416,350.03
(III) Financial liabilities held for trading				
In which: Derivative financial liabilities	0.00	19,361.02	0.00	19,361.02
Total liabilities continuously measured at fair value	0.00	19,361.02	0.00	19,361.02

2. Basis of market price for cases continuously measured at fair value level 1

Held-for-trading equity instruments and certain available-for-sale debt instrument investments are listed and traded on the Shenzhen Stock Exchange and Hong Kong Stock Exchange, their fair value is measured at the closing price on the last trading day of the Reporting Period.

3. Determination basis of item market price measured at continuous second level fair value

- (1) Derivative financial instruments is foreign currency forward contracts, the fair value is measured at the forward exchange rates quoted by the respective matured contract.
- (2) Other equity instruments held for which fair value is determined by the amount stated in the statement of investor provided by the counterparty.

From January to June 2018, there were no transfers of the fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Status of parent company of the Company

Name of parent company	Relationship with the related party	Type of entity	Place of registration	Legal representative	Nature of business
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Joint stock company with limited liability (listed)	Shenzhen	Zhu Baoguo	Production of oral liquid, drugs and healthcare food

Name of parent company	Registered capital	Percentage of the entity's shareholding held by the parent company (%)	Percentage of the entity's voting rights held by the parent company (%)	The ultimate controlling party of the entity	Unified social credit code
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	1,573,778,272	23.68	23.68	Zhu Baoguo	91440300618874367T

Notes to the parent company of the Company

As of 30 June 2018, the Company's parent company and its subsidiaries held a total of 322,214,328 shares in the Company, representing 44.81% of the total share capital of the Company. Among these shares, 13,312,561 legal person shares were held in the name of Guangzhou Begol Trading Corporation (廣州保科力貿易公司) and the transfer procedures were not completed. The transfer procedures for other shares were completed.

2. The Company's subsidiaries

Please refer to note VIII.1. Equity in subsidiaries.

3. Joint ventures and associates of the Company

Please refer to note VI.8. Long-term equity investments and note VIII.3. Equity in joint ventures and associates.

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***4. Other related parties of the Company**

Name of other related parties	Relationship with the Company	Organisation code
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	A company controlled by the parent company	91440300618855174Y
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	A company controlled by the parent company	914107007648945429
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	A company controlled by the parent company	91410800775129520A
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the parent company	914404007578808713
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the parent company	914404006174989103
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	A company controlled by the parent company	91440300741217151R
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	A company controlled by the parent company	91440300733083333P
Topsino Industries Limited (天誠實業有限公司)	A company controlled by the parent company	
Guangzhou Joincare Respiratory Drugs Engineering Technology Co., Ltd. (廣州健康元呼吸藥物工程技術有限公司)	A company controlled by the parent company	91440101347516532X
Joincare Pharmaceutical Group Industry Co., Ltd.	A company controlled by the parent company	
EPIRUS SWITZERLAND GmbH	A subsidiary of the company in which a Director of the Company is holding position	
CYNVENIO BIOSYSTEMS, INC.	A company at which a Director of the Company serves	
Zhuhai Xianghetai Investment Management Partnership (Limited Partnership) (珠海祥和泰投資管理合夥企業(有限合夥))	A company controlled by a senior management of the Company	91440400MA4UXRWA0K
Zhuhai Hengqin New Area Guanlian Gu Investment Partnership (Limited Partnership) (珠海橫琴新區觀聯谷投資合夥企業(有限合夥))	A company controlled by a director of the subsidiary of the Company	91440400MA4UY9CWX9
Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	A company controlled by a director of the subsidiary of the Company	91440400618076963F

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions****(1) Related party transactions relating to purchase of goods/receipt of services**

Related party	Description of related party transaction	Pricing basis and decision making procedures of the related party transactions	For the Current Period		For the Previous Period	
			Amount	Proportion to the transaction amount of the same category (%)	Amount	Proportion to the transaction amount of the same category (%)
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Raw materials	The market price	811,326.96	0.07	423,027.78	0.05
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	45,399,946.40	4.08	6,077,658.12	0.67
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Raw materials	The market price	0.00	0.00	0.00	0.00
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Raw materials	The market price	0.00	0.00	0.00	0.00
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished goods	The market price	182,145.34	0.02	64,804.82	0.01
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Raw materials	The market price	0.00	0.00	0.00	0.00
CYNVENIO BIOSYSTEMS, INC.	Raw materials	The market price	251,519.43	0.02	0.00	0.00
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	170,916,175.86	15.36	157,605,097.57	17.36
Purchase of goods in aggregate			217,561,113.99	19.55	164,170,588.29	18.09
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Water and power	The market price	4,542,148.82	3.38	7,712,847.20	5.97
Receipt of services in aggregate			4,542,148.82	3.38	7,712,847.20	5.97

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(2) Related party transactions relating to sales of goods/provision of services**

Related party	Description of related party transaction	Pricing principles and decision making procedures of the related party transactions	For the Current Period		For the Previous Period	
			Amount	Proportion to the transaction amount of the same category (%)	Amount	Proportion to the transaction amount of the same category (%)
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	15,949,464.01	0.35	2,290.60	0.00
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	47,866,654.11	1.05	915,381.28	0.02
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Finished goods	The market price	0.00	0.00	2,302,360.15	0.05
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	Finished goods	The market price	415,384.62	0.01	0.00	0.00
Sales of goods in aggregate			64,231,502.74	1.41	3,220,032.03	0.07
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Water and power	The market price	2,129,591.04	91.49	3,953,732.52	55.22
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Water and power	The market price	194,495.78	8.36	268,572.57	3.75
Provision of services in aggregate			2,324,086.82	99.85	4,222,305.09	58.97
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Processing fee	Based on negotiation	2,000.00	22.30	0.00	0.00
Provision of services in aggregate			2,000.00	22.30	0.00	0.00

(3) Related party leases**1 The Company as lessor**

Name of lessee	Type of leased assets	Lease income recognised for the Current Period	Lease income recognised for the Previous Period
Zhuhai Jincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings, equipment	37,705.46	120,560.05
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	45,021.62	0.00

2 The Company as lessee

Name of lessor	Type of leased assets	Lease expenses recognised for the Current Period	Lease expenses recognised for the Previous Period
Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Plant & buildings	386,099.86	350,335.14
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Plant & buildings	182,436.60	0.00

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(4) Related party asset transfers and debt restructuring**

Related party	Description of related party transaction	For the Current Period	For the Previous Period
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Sales of equipment	0.00	578,139.08
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Procurement of equipment	1,074,056.89	0.00
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Procurement of equipment	9,971,615.14	0.00
CYNVENIO BIOSYSTEMS, INC.	Procurement of equipment	799,570.58	13,093,539.59
CYNVENIO BIOSYSTEMS, INC.	Acquisition of technical know-how	6,583,554.46	0.00

(5) Related party guarantees

1 During the Reporting Period, the details on the guarantees provided to the subsidiaries by the Company were set out as follow (RMB'0,000):

A. Bank Loans Guaranteed

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balance at the end of the Period	Actual guaranteed amount	Guaranteed amount	Description and type of guarantee	Period of guarantee
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2016.11.30	512.76	512.76	17,000.00	Opening the letter of credit and bank acceptance bills, joint liability guarantee	2016.11.30-2019.11.30 (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)	2018.05.07	12,952.81	12,952.81	15,000.00	Opening bank acceptance bills, joint liability guarantee	2018.4.8-2020.4.8 (Industrial and Commercial Bank of China, Zhuhai Branch) (工商銀行珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2017.06.28	5,028.50	5,028.50	10,000.00	Opening bank acceptance bills, joint liability guarantee	2017.6.28-2019.6.30 (HSBC Bank (China), Zhuhai Branch) (滙豐中國珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.03.28	1,303.36	1,303.36	10,000.00	Opening bank acceptance bills, joint liability guarantee	2018.3.28-2022.9.28 (China Merchants Bank, Zhuhai Branch) (招商銀行珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2018.03.23	6,389.50	6,389.50	10,000.00	Opening bank acceptance bills, joint liability guarantee	2018.3.23-2019.3.23 (Industrial Bank, Zhuhai Branch) (興業銀行珠海分行)
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2015.09.11	323.25	323.25	4,000.00	Opening the letter of guarantee, joint liability guarantee	2015.9.11-2018.9.11 (Bank of China, Zhuhai Branch) (中國銀行珠海分行)
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2017.10.09	5,768.25	5,768.25	10,000.00	Opening the letter of credit and bank acceptance bills, joint liability guarantee	2017.08.22-2022.08.21 (Standard Chartered Bank (China), Zhuhai Branch) (渣打中國珠海分行)
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2016.06.22	48.81	48.81	5,000.00	Opening bank acceptance bills, joint liability guarantee	2016.6.22-2019.6.22 (Bank of Communication, Zhuhai Branch) (交通銀行珠海分行)
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	2017.12.08	28,133.46	28,133.46	30,000.00	Loan and opening bank acceptance bills, joint liability guarantee	2017.12.8-2021.6.8 (China Merchants Bank, Zhuhai Branch) (招商銀行珠海分行)

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(5) Related party guarantees** *(continued)*

1 During the Reporting Period, the details on the guarantees provided to the subsidiaries by the Company were set out as follow (RMB'0,000): *(continued)*

A. Bank Loans Guaranteed *(continued)*

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balance at the end of the Period	Actual guaranteed amount	Guaranteed amount	Description and type of guarantee	Period of guarantee
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2016.12.26	6,509.10	6,509.10	20,000.00	Opening the letter of guarantee and bank acceptance bills, joint liability guarantee	2016.12.26-2019.12.26 (Bank of Communication, Zhuhai Branch) (交通銀行珠海分行)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2017.10.09	9,854.20	9,854.20	10,000.00	Opening bank acceptance bills, joint liability guarantee	2017.08.22-2022.08.21 (Standard Chartered Bank (China), Zhuhai Branch) (渣打中國珠海分行)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2018.04.24	3,316.20	3,316.20	23,000.00	Opening bank acceptance bills, joint liability guarantee	2018.4.24-2019.4.23 (China Guangfa Bank, Zhuhai Branch) (廣發銀行珠海分行)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2018.03.20	1,082.72	1,082.72	16,000.00	Opening bank acceptance bills, joint liability guarantee	2018.3.28-2022.9.28 (China Merchants Bank, Zhuhai Branch) (招商銀行珠海分行)
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	2017.12.27	1,062.66	1,062.66	4,000.00	Opening bank acceptance bills, joint liability guarantee	2016.12.26-2019.12.26 (Bank of Communication, Zhuhai Branch) (交通銀行珠海分行)
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	2018.03.15	3,119.42	3,119.42	8,000.00	Opening bank acceptance bills, joint liability guarantee	2018.3.15-2019.3.15 (Industrial Bank, Zhuhai Branch) (興業銀行珠海分行)
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	2018.02.02	638.86	638.86	1,500.00	Opening bank acceptance bills, joint liability guarantee	2016.12.26-2019.12.26 (Bank of Communication, Zhuhai Branch) (交通銀行珠海分行)
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2017.11.14	3,903.41	3,903.41	28,000.00	Opening bank acceptance bills, joint liability guarantee	2017.11.14-2018.11.13 (China Bohai Bank, Guangzhou Branch) (渤海銀行廣州分行)
Livzon Group (Ningxia) Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	2018.03.28	3,296.67	3,296.67	22,000.00	Opening bank acceptance bills, joint liability guarantee	2018.3.28-2022.9.28 (招商銀行珠海分行)
Total actual amount guaranteed for subsidiaries during the Reporting Period			99,132.23			
Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period			93,243.95			

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

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

5. Related party transactions *(continued)*

(5) Related party guarantees *(continued)*

- 1 During the Reporting Period, the details on the guarantees provided to the subsidiaries by the Company were set out as follow (RMB'0,000): *(continued)*

B. Bill pledges guaranteed

On 23 April 2018, the thirteenth meeting of the Ninth Session of the Board of the Company reviewed and approved “the Resolution on Conducting Notes Pool Business” and agreed that an amount not exceeding RMB1.4 billion for conducting notes pool business is to be shared by the Company and its subsidiaries. The amount of funds may be re-utilized. As of 30 June 2018, the bill pledges guaranteed are as follows:

Guarantor	Pledgee	Bill pledge amount receivable	Name of guaranteed party	Description of guarantee	Guaranteed amount	Period of guarantee
The Company	(Industrial and Commercial Bank of China, Zhuhai Branch) (工商銀行 珠海分行)	59,583,079.78	Livzon group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Opening bank acceptance bills, joint liability guarantee	3,160,000.00	Till 2018.12.26
			Livzon Group Limin Pharmaceutical Manufacturing Co., Ltd. (麗珠集團利民製藥廠)	Opening bank acceptance bills, joint liability guarantee	5,659,997.14	Till 2018.12.28
					8,819,997.14	
	Total balance of actual amount guaranteed for subsidiaries at the end of the Reporting Period					

- 2 Guarantee provided to the Company by related 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 for 49% of the abovementioned guarantee credit for Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) and the guarantee period of which will be expired on the expiry date of the credit.

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(6) Remuneration of key management personnel**

1 Directors', supervisors' and senior management's remuneration disclosed as follows

January – June 2018

Unit: RMB'0,000

	Fees of Director/ Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	4.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50
Tao Desheng (陶德勝)	3.60	55.39	2.33	0.56	90.00	0.00	0.00	1.72	153.60
Fu Daotian (傅道田)	3.60	35.83	1.21	0.00	30.00	0.00	0.00	0.00	70.64
Xu Guoxiang (徐國祥)	3.60	30.75	2.20	0.57	80.00	0.00	0.00	11.85	128.97
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Independent Directors:									
Xu Yanjun (徐焱軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Guo Guoqing (郭國慶)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Wang Xiaojun (王小軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Zheng Zhihua (鄭志華)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Xie Yun (謝耘)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Supervisors:									
Wang Maolin (汪卯林)	2.10	25.38	2.24	0.56	8.83	0.00	0.00	3.74	42.85
Tang Yin (湯胤)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Huang Huamin (黃華敬)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Other senior management:									
Yang Daihong (楊代宏)	0.00	41.54	2.28	0.56	70.55	0.00	0.00	7.92	122.85
Lu Wenqi (陸文岐)	0.00	40.62	0.00	0.56	80.50	0.00	0.00	8.74	130.42
Si Yanxia (司燕霞)	0.00	36.92	2.28	0.56	66.70	0.00	0.00	7.90	114.36
Zhou Peng (周鵬)	0.00	33.39	2.26	0.56	34.50	0.00	0.00	7.55	78.26
Yang Liang (楊亮)	0.00	27.92	2.25	0.56	4.20	0.00	0.00	4.59	39.52
Total	48.60	327.74	17.05	4.49	465.28	0.00	0.00	54.01	917.17

Mr. Xu Guoxiang (徐國祥) was appointed on 30 June 2017; Mr. Yang Daihong (楊代宏) has retired on change of Board session on 30 June 2017; Mr. Zhong Shansheng (鍾山生) has resigned on 1 September 2017.

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(6) Remuneration of key management personnel** *(continued)*1 *Directors', supervisors' and senior management's remuneration disclosed as follows (continued)***January – June 2017***Unit: RMB'0,000*

	Fees of Director/ Supervisor	Salaries and allowances	Social insurance	Housing provident fund	Bonus	Signing bonus	Compensation for loss of office	Others	Total
Directors:									
Zhu Baoguo (朱保國)	4.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50
Tao Desheng (陶德勝)	3.60	25.36	2.19	0.51	75.00	0.00	0.00	6.79	113.45
Yang Daihong (楊代宏)	3.60	27.90	2.20	0.51	41.17	0.00	0.00	0.00	75.38
Fu Daotian (傅道田)	3.60	23.63	1.23	0.00	8.42	0.00	0.00	0.00	36.88
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Zhong Shan (鐘山)	3.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60
Independent Directors:									
Xu Yanjun (徐炎軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Guo Guoqing (郭國慶)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Wang Xiaojun (王小軍)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Zheng Zhihua (鄭志華)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Xie Yun (謝耘)	4.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.80
Supervisors:									
Wang Maolin (汪卯林)	2.10	14.37	2.10	0.51	3.45	0.00	0.00	0.00	22.53
Tang Yin (湯胤)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Huang Huamin (黃華敏)	1.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.80
Other senior management:									
Xu Guoxiang (徐國祥)	0.00	27.67	2.21	0.51	0.00	0.00	0.00	0.00	30.39
Lu Wenqi (陸文岐)	0.00	25.37	0.00	0.51	45.18	0.00	0.00	0.00	71.06
Si Yanxia (司燕霞)	0.00	17.79	2.13	0.51	37.32	0.00	0.00	0.00	57.75
Zhou Peng (周鵬)	0.00	21.11	2.15	0.51	8.47	0.00	0.00	0.00	32.24
Yang Liang (楊亮)	0.00	11.45	2.08	0.51	5.20	0.00	0.00	3.39	22.63
Total	52.20	194.65	16.29	4.08	224.21	0.00	0.00	10.18	501.61

Mr. Zhou Peng (周鵬) was appointed on 7 November 2016.

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 two of the five highest paid individuals were directors of the Company for January–June 2017 and January–June 2018, respectively. The rest were senior management of the Company (two and three for January–June 2017 and January–June 2018, respectively). The remuneration of the five highest paid individuals were already disclosed in note. XI.5.(6) "Remuneration of key management personnel", the emoluments of the five highest paid individuals were within the following bands:

Items	January – June 2018	January – June 2017
Number of individuals within the band of \$0-\$1,000,000		4
Number of individuals within the band of \$1,000,001-\$1,500,000	4	1
Number of individuals within the band of \$1,500,001-\$2,000,000	1	
Number of individuals within the band of \$2,000,001-\$2,500,000		
Number of individuals within the band of \$2,500,001-\$3,000,000		

3 Emoluments band of senior management

Items	January – June 2018	January – June 2017
Number of individuals within the band of \$0-\$1,000,000	3	7
Number of individuals within the band of \$1,000,001-\$1,500,000	4	1
Number of individuals within the band of \$1,500,001-\$2,000,000	1	
Number of individuals within the band of \$2,000,001-\$2,500,000		
Number of individuals within the band of \$2,500,001-\$3,000,000		

(7) Other affiliated transactions

"Resolution on the change in shareholding structure and connected transactions of Livzon MABPharm Inc., a subsidiary controlled by the Company" was considered and approved at the 2018 First Extraordinary General Meeting of the Company. The Company and Jincare Pharmaceutical Industry Group Co., Ltd. transferred its entire shareholdings in Livzon MABPharm Inc. to Livzon Biologics Hong Kong Limited. Upon the completion of the transaction, the Company and Jincare Pharmaceutical Industry Group Co., Ltd. indirectly hold through overseas wholly owned subsidiaries instead of directly holding equity interests of Livzon MABPharm Inc., and the final shareholding percentage of the Company and Jincare Pharmaceutical Industry Group Co., Ltd. in Livzon MABPharm Inc. remain unchanged as 51% and 49% respectively.

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***6. Amounts due from/to related parties****(1) Amounts due from related parties and prepayments**

Name of item	Related parties	Balance at the End of the Period		Balance at the beginning of the year	
		Gross amount	Provision for bad debts	Gross amount	Provision for bad debts
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	15,381,480.00	412,214.80	9,690,000.00	484,500.00
Accounts receivables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	20,473,511.22	204,803.51	2,726,413.16	136,320.66
Accounts receivables	Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	0.00	0.00	540,000.00	27,000.00
Accounts receivables	Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	167,438.00	1,674.38	0.00	0.00
Sub-total		36,022,429.22	618,692.69	12,956,413.16	647,820.66
Prepayments	Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	43,071.80	0.00	71,133.80	0.00
Prepayments	CYNVENIO BIOSYSTEMS, INC.	952,419.17	0.00	110,313.80	0.00
Sub-total		995,490.97	0.00	181,447.60	0.00
Dividends payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	2,677,500.00	0.00	0.00	0.00
Sub-total		2,677,500.00	0.00	0.00	0.00
Other receivables	Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	240.00	12.00	0.00	0.00
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	723,962.20	7,239.62	976,511.66	48,825.58
Sub-total		724,202.20	7,251.62	976,511.66	48,825.58

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**6. Amounts due from/to related parties** (continued)**(2) Amounts due to related parties and receipts in advance**

Name of item	Related parties	Balance at the End of the Period	Balance at the beginning of the year
Bills payables	iaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	53,124,000.00	25,050,000.00
Sub-total		53,124,000.00	25,050,000.00
Payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	162,840.00	11,800.00
Payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	32,131,778.68	23,691,089.77
Payables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	12,960.00	12,960.00
Payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	132,774,682.52	119,898,340.20
Sub-total		165,082,261.20	143,614,189.97
Dividends payables	Topsino Industries Limited (天誠實業有限公司)	200,385,218.19	0.00
Dividends payables	Zhuhai Zhenghe Co., Ltd. (珠海正禾企業有限公司)	148,804,303.71	168,404,303.71
Sub-total		349,189,521.90	168,404,303.71
Other payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	5,012,811.67	6,386,047.07
Other payables	Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	11,413,083.75	0.00
Sub-total		16,425,895.42	6,386,047.07

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

XII. SHARE-BASED PAYMENT**1. General information about share-based payments**

Item	Relevant description
Total equity instruments granted during the Current Period by the Company (Share)	—
Total equity instruments exercised during the Current Period by the Company (Share)	4,038,407
Total equity instruments of the Company expired during the Current Period (Share)	—
Range of exercise price of share option of the Company outstanding and remaining term of contract as the End of the Period	—
Range of exercise price of other equity instruments of the Company and remaining term of contract as at the End of the Period	Note

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

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

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

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

XII. SHARE-BASED PAYMENT *(continued)*

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

Note: *(continued)*

On 14 August 2015, the Company completed the 2014 Equity Distribution. According to the Incentive Scheme, adjustments were made to the number of Restricted Shares under the initial grant and repurchase price according to the adjustment methods of the number of shares granted and the price upon the transfer of capital reserves into the share capital, bonus issues and share sub-divisions. The number of the Restricted Shares of the first grant after the adjustments was 11,258,520 and the repurchase price of the first grant after the adjustments was RMB19.308 per share. On 27 October 2015, the 16th Board Meeting of the 8th Session of the Board, considered and approved "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". It was agreed to repurchase and cancel 93,080 Restricted Shares granted but not yet unlocked at RMB19.308 per share from 7 incentive participants in the initial grant of Restricted Shares who no longer satisfying the incentive conditions. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares was adjusted from 458 to 451.

On 28 March 2016, the Twenty-third Meeting of the Eighth Session of the Board considered and passed the "Resolution on Granting Shares to be Unlocked during the First Unlock-up period under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of the Restricted Shares Granted but Not Yet Unlocked to Incentive Participants Who Are No Longer Qualified". It was agreed to repurchase and cancel 32,500 Restricted Shares granted but not yet unlocked at RMB19.308 per share from 1 incentive participant in the initial grant of Restricted Shares who no longer satisfying the incentive conditions. The remaining 450 incentive participants in the initial grant of Restricted Shares have satisfied the unlocking conditions with 4,453,176 Restricted Shares unlocked and listed in the first tranche in the initial grant.

On 16 May 2016, the 26th Board Meeting of the 8th Session of the Board, considered and passed "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". It was agreed to repurchase and cancel 215,124 Restricted Shares granted but not yet unlocked at RMB19.308 per share from 13 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 10,000 Restricted Shares granted but not yet unlocked at RMB24.61 per share from 1 incentive participant from the reserved grant of Shares who no longer satisfying the incentive conditions, totaling 225,124 shares repurchased. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 450 to 437 and 177 to 176, respectively.

On 30 November 2016, the 32nd Board Meeting of the 8th Session of the Board, considered and passed "Resolution on Reserved Grant to be Unlocked during the First Unlocking Period under the Restricted Shares Incentive Scheme of the Company" and "the Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive". It was agreed to repurchase and cancel 103,974 Restricted Shares granted but not yet unlocked at RMB18.81 per share from 9 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 29,300 Restricted Shares granted but not yet unlocked at RMB24.11 per share from 5 incentive participants from the reserved grant of Shares who no longer satisfying the incentive conditions, totaling 133,274 shares repurchased. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 437 to 428 and 176 to 171, respectively. The remaining 171 incentive participants from the reserved grant have satisfied the unlocking conditions with 498,560 Restricted Shares unlocked and listed in the first tranche from the reserved grant.

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

XII. SHARE-BASED PAYMENT *(continued)*

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

Note: *(continued)*

On 28 March 2017, the Company convened the 36th meeting of the eighth session of the Board to consider and approve the "Resolution on Granting Shares to be Unlocked during the Second Unlocking Period of the first grant under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Qualified for Incentive". Pursuant to which, it was agreed that the Company repurchase and cancel 6,240 Restricted shares granted but not yet unlocked at RMB18.81 per share from 1 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 28,020 Restricted Shares granted but not yet unlocked at RMB24.11 per share from 5 incentive participant from the reserved grant of Shares who no longer satisfying the incentive conditions, totaling 34,260 shares repurchased. Upon completion of the repurchase, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 428 to 427 and 171 to 166, respectively. The remaining 427 incentive participants in the initial grant of Restricted shares have satisfied the unlocking conditions with 3,177,213 Restricted Shares unlocked and listed in the second tranche from the initial grant.

On 15 December 2017, the Company convened the sixth meeting of the ninth session of the Board to consider and approve the "Resolution on Granting Shares to be Unlocked during the Second Unlocking Period of the Reserve Grant under the Restricted Shares Incentive Scheme of the Company" and the "Resolution on Repurchase and Cancellation of Locked Restricted Shares Granted". Pursuant to which, it was agreed that the Company repurchase and cancel 77,774 Restricted Shares granted but not yet unlocked at RMB14.08 per share from 13 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 11,310 Restricted Shares granted but not yet unlocked from 3 incentive participants from the reserved grant of Shares who no longer satisfying the incentive conditions, and 1,014 Restricted Shares granted to 1 incentive participant under the reserved grant which no longer satisfy the unlock conditions, at RMB18.16 per share, totaling 90,098 shares repurchased. Upon completion of the repurchase and cancellation, the number of incentive participants of the initial grant of Restricted Shares and the reserved grant of incentive shares were adjusted from 427 to 414 and 166 to 163, respectively. The 162 incentive participants under the reserved grant have satisfied the unlocking conditions with 461,214 Restricted Shares unlocked and listed in the second tranche from the reserved grant.

On 29 March 2018, the Company convened the twelfth meeting of the ninth session of the Board to consider and approve the "Resolution on the Repurchase and Cancellation of Locked Restricted Shares Granted to Incentive Participants No Longer Satisfying the Conditions for Incentive" and the "Resolution on Granting Shares to be Unlocked during the Third Unlocking Period of the First Grant under the Restricted Shares Incentive Scheme of the Company". Pursuant to which, it was agreed that the Company repurchase and cancel 14,196 Restricted Shares granted but not yet unlocked at RMB14.08 per share from 2 incentive participants in the initial grant of Shares who no longer satisfying the conditions for incentive, and repurchase and cancel 11,505 Restricted Shares granted but not yet unlocked from 4 incentive participants from the reserved grant of Shares who no longer satisfying the incentive conditions at RMB18.16 per share, totaling 25,701 shares repurchased. The remaining 413 incentive participants under the first grant have satisfied the unlocking conditions with 4,038,407 Restricted Shares unlocked and listed in the third tranche from the reserved grant.

2. Equity settled share-based payments

Item	Relevant Content
Determination on Fair Value of Equity Instruments as the Date of Grant	Black-Scholes Model
Basis for Determining Quantity of Exercisable Equity Instruments	—
Reasons for Significant Discrepancies Between Estimate of Current and Previous Period	Nil
Accumulated Amount of Shares Settled in Equity Included in Capital Reserve	80,563,515.24
Total Expense Recognized for Equity Settled Share-Based Payments for this Period	0.00

3. Cash settled share-based payments

Nil.

XIII.COMMITMENTS AND CONTINGENCIES**1. Significant commitments****(1) Capital commitments**

Item	Balance at the End of the Period	Balance at the beginning of the year
Contracted but not recognised in the financial statements		
– Commitments in relation to acquisition of long-term assets	55,166,639.35	43,824,827.39
Total	55,166,639.35	43,824,827.39

(2) Operating lease commitments

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

Item	Balance at the End of the Period	Balance at the beginning of the year
Minimum lease payments under non-cancellable operating leases payable:		
Within 1 year	4,210,611.74	3,959,645.55
1 to 2 years	1,779,781.60	1,613,516.00
2 to 3 years	769,935.60	2,117,643.75
Over 3 years	1,634,624.46	167,097.00
Total	8,394,953.40	7,857,902.30

(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 2017 and the other commitments.

2. Contingencies

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

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

XIV. POST BALANCE SHEET DATE EVENTS

1. Transfer of equity interest in subsidiaries

On 11 June 2018, the Company convened the fourteenth meeting of the ninth session of the Board to consider and approve the "Resolution on the transfer of equity interest of Zhuhai Livzon Cynvenio Diagnosis Ltd. (珠海麗珠聖美醫療診斷技術有限公司) by controlled subsidiary company Zhuhai Livzon Diagnostic Reagents Inc (珠海麗珠試劑股份有限公司)". Pursuant to which, it was agreed that the equity interest of Zhuhai Livzon Cynvenio Diagnosis Ltd. (珠海麗珠聖美醫療診斷技術有限公司) ("Livzon Shengmei") held by Zhuhai Livzon Diagnostic Reagents Inc (珠海麗珠試劑股份有限公司) are transferred to the Company, 李琳, 石劍峰, 林豔, Zhuhai Zhenglu Enterprise Management Consulting Partnership (Limited Partnership) (珠海正路企業管理諮詢合夥企業(有限合夥)), Zhuhai Lishen Corporate Management Consulting Partnership (Limited Partnership) (珠海麗申企業管理諮詢合夥企業(有限合夥)). Specifically, 33.15% of the equity interest of Livzon Shengmei is transferred to the Company at a price of RMB44.2 million, 10.1% of the equity interest of Livzon Shengmei is transferred to 李琳 at a price of RMB13.46667 million, 7.79% of the equity interest of Livzon Shengmei is transferred to 石劍峰 at a price of RMB10.386665 million, 5.03% of the equity interest of Livzon Shengmei is transferred to 林豔 at a price of RMB6.706665 million, 10% of the equity interest of Livzon Shengmei is transferred to Zhuhai Zhenglu Enterprise Management Consulting Partnership (Limited Partnership) (珠海正路企業管理諮詢合夥企業(有限合夥)) at a price of RMB13.33333 million, 2.93% of the equity interest of Livzon Shengmei is transferred to Zhuhai Lishen Corporate Management Consulting Partnership (Limited Partnership) (珠海麗申企業管理諮詢合夥企業(有限合夥)) at a price of RMB3.90667 million.

As of 23 July 2018, Zhuhai Livzon Diagnostic Reagents Inc (珠海麗珠試劑股份有限公司) has received the aforesaid equity transfer amount and Livzon Shengmei has completed the industrial and commercial registration procedures for the change in shareholding.

When the aforesaid transfer of equity interest has been completed, Livzon Shengmei will no longer be included in the consolidated statement of the Company.

2. Equity incentives

(1) Adoption of share options incentive scheme

On 17 July 2018, the Company convened the sixteenth meeting of the ninth session of the Board to consider and approve the "Resolution on 2018 Share Options Incentive Scheme of the Company (Draft) and its Summary" ("Incentive Scheme"), "Resolution on Administrative Measures for Appraisal System of the 2018 Share Options Incentive Scheme of the Company (Draft) and its Summary", "Resolution on granting mandate to the board of directors at the general meeting to deal with matters regarding the 2018 Share Options Incentive Scheme."

Under the Incentive Scheme, the directors, senior management, mid-level management and relevant core personnel of the Company (including branches and subsidiaries), were granted 19,500,000 share options (among which, 17,550,000 share options was granted under the first grant and 1,950,000 share options was granted under the reserved grant) and the exercise price of the share options under the first grant shall be RMB47.01 per A Shares. The costs of Incentive Scheme incurred under the Incentive Scheme will be amortized by instalments as per Exercise proportion (the proportion is 40%, 30% and 30% respectively) during the implementation of the Incentive Scheme, and capital reserve will also be capitalized.

XIV. POST BALANCE SHEET DATE EVENTS *(continued)***2. Equity incentives** *(continued)***(1) Adoption of share options incentive scheme** *(continued)*

The Validity Period of the Incentive Scheme shall commence from the registration date of the grant of the Share Options and end on the date on which all the Share Options granted to the Incentive Participants have been exercised or otherwise cancelled, which shall not be longer than 60 months. The Incentive Participants shall exercise their Share Options by three tranches within the next 36 months following the 12-month period from the registration date of the Share Options under the First Grant. The following table sets forth the Exercise period and the Exercise schedule for each tranche:

Exercise arrangement	Duration	Exercise proportion
First Exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 12-month period from the registration date of the First Grant and ending on the last trading day of the 24-month period from the registration date of the First Grant	40%
Second Exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 24-month period from the registration date of the First Grant and ending on the last trading day of the 36-month period from the registration date of the First Grant	30%
Third Exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 36-month period from the registration date of the First Grant and ending on the last trading day of the 48-month period from the registration date of the First Grant	30%

If the Reserved Grant is completed in 2018, the exercise schedule of the Reserved Grant shall be the same as that of the First Grant; If the Reserved Grant is completed in 2019, the following table sets forth the exercise schedule for each tranche of the Reserved Grant:

Exercise arrangement	Duration	Exercise proportion
First exercise period for Share Options under the Reserved Grant	Commencing on the first trading day after expiry of the 12-month period from the registration completion date of the Reserved Grant and ending on the last trading day of the 24-month period from the registration completion date of the Reserved Grant	50%
Second exercise period for Share Options under the Reserved Grant	Commencing on the first trading day after expiry of the 24-month period from the registration completion date of the Reserved Grant and ending on the last trading day of the 36-month period from the registration completion date of the Reserved Grant	50%

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

XIV. POST BALANCE SHEET DATE EVENTS *(continued)*

2. Equity incentives *(continued)*

(1) Adoption of share options incentive scheme *(continued)*

Performance targets at the Company level: The Share Options granted under the Incentive Scheme are subject to annual assessment for exercise during the three accounting years in the exercise period, such that achieving of the performance targets by the Incentive Participant is a condition to exercise the Share Options. The performance targets of the First Grant are as follows:

Exercise period	Performance target
First exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2018 shall not be lower than 15%;
Second exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2019 shall not be lower than 15%;
Third exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2020 shall not be lower than 15%.

If the Reserved Grant is completed in 2018, the performance targets of the Reserved Grant shall be the same as that of the First Grant; If the Reserved Grant is completed in 2019, the following table sets forth the performance targets for each year of the Reserved Grant:

Exercise period	Performance target
First exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2019 shall not be lower than 15%;
Second exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2020 shall not be lower than 15%.

The calculation of the above indicators "net profit", "compound growth rate of the net profit" are based on the net profit attributable to the shareholders of the listed company (deducting non-recurring gain or loss) and the net profit as affected by the share-based payment expenses of the Incentive Scheme is excluded as the basis for calculation. In the event the Company fails to meet the performance targets above, all Share Options which are exercisable by a relevant Incentive Participant in the respective assessment year shall not be exercised and shall be cancelled by the Company.

Performance targets at individual level: The assessment of the Incentive Participants at individual level shall be conducted according to the Company's current requirements for remuneration and assessment, and the comprehensive appraisal results of the Incentive Participants for each assessment year will be graded as follows:

Appraisal results	Excellent	Good	Qualified	Fail
Exercise percentage	100%		80%	0%

If the performance target at the Company level for the respective year is met, the actual personal exercise amount of an Incentive Participant for the year = exercise percentage × the scheduled personal exercise amount of the Incentive Participant for the respective year. The Company shall cancel the Share Options granted to the Incentive Participant which cannot be exercised in the respective year.

The resolution shall be considered at the general meeting of the Company and the A shareholders' and H shareholders' class meeting by way of voting of special resolution.

XIV. POST BALANCE SHEET DATE EVENTS *(continued)***2. Equity incentives** *(continued)***(2) Stock option plan of subsidiaries**

On 17 July 2018, "Stock option plan and related matters of subsidiaries" and "Proposal to grant stock options of subsidiaries under the stock option plan of subsidiaries to Mr. Fu Daotian" has been considered and approved in the 16th meeting of the 9th session of the Board of the Company.

1 Details of stock option plan of subsidiaries

The qualified participants of this stock option plan are LivzonBiologics Limited (or including persons such as directors, employees, consultants and professional consultants of any of its subsidiaries) which has contributed or will contribute to Livzon Biologics Limited and any of its subsidiaries.

Maximum number of ordinary shares of LivzonBiologics Limited involved in the Stock options of subsidiaries which may be granted does not exceed 11,111,111 shares. In the 12 months from the day of granting options to any qualified participants, the maximum quota of ordinary shares which can be granted, have been granted or have cancelled under the options granted to the qualified participant must not exceed 1% of ordinary shares issued by LivzonBiologics Limited. In case of exceeding 1%, it must be submitted to the general meeting of the Company for consideration and approval.

Vesting period and exercise period: Unless otherwise specified by grantees in the offer document, the stock options of the subsidiaries of grantees will be 25% of the total number of ordinary shares of LivzonBiologics Limited involved in the stock options vested to its subsidiaries on the first anniversary day of the starting date of the stock options of the subsidiaries, and 50%, 75% and 100% of the total number vested on the second, third and fourth anniversary day respectively. Only the proportion of stock options of subsidiaries which have been granted can be exercised by the respective grantees in the stock options of subsidiaries. Options of grantees do not carry the rights to exercise any stock options of any subsidiaries before the first public offering date of Livzon Biologics Limited.

Performance targets: The board of directors of Livzon Biologics may in its absolute discretion impose any performance targets which must be achieved before a Subsidiary Share Option can be exercised as it may think fit.

Exercise price: The exercise price of each Share Option shall be determined by the board of directors of Livzon Biologics in its absolute discretion.

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

XIV. POST BALANCE SHEET DATE EVENTS *(continued)*

2. Equity incentives *(continued)*

(2) Stock option plan of subsidiaries *(continued)*

1 Details of stock option plan of subsidiaries *(continued)*

Term of validity of the Subsidiary Share Option Scheme: The Subsidiary Share Option Scheme shall be effective and valid for the period commencing on the date of adoption of the Subsidiary Share Option and ending during the date before the Livzon Biologics Listing Date of its initial public offering (both dates inclusive) or 10 years from the date of adoption of the Subsidiary Share Option Scheme (both dates inclusive), whichever is earlier.

Termination of the Subsidiary Share Option Scheme: Livzon Biologics by resolution in general meeting or the board of directors of Livzon Biologics may at any time resolve to terminate the operation of the Subsidiary Share Option Scheme and in such event no further Subsidiary Share Options shall be offered but the provisions of the Subsidiary Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Subsidiary Share Option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Subsidiary Share Option Scheme and Subsidiary Share Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Subsidiary Share Option Scheme.

2 Grant of Subsidiary Share Options under the Subsidiary Share Option Scheme to Mr. Fu Daotian

The board of directors of the Company proposed the grant of 1,666,666 subsidiary share options under the Subsidiary Share Option Scheme to Mr. Fu Daotian (Director and General Manager of Livzon MABPharm Inc. (麗珠單抗生物技術有限公司) (an indirectly owned subsidiary of Livzon Biologics Limited), and Director and Vice President of the Company) to subscribe for 1,666,666 ordinary shares in Livzon Biologics Limited.

The aforesaid proposal shall be considered and approved in the general meeting of the Company.

As at the date of the Report, the Company has no other non-adjustment events that need to be disclosed after the balance sheet date.

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

XV. OTHER SIGNIFICANT MATTERS**Adjustments to the amount of proceeds of projects invested with proceeds**

On 21 May 2018, the Company's 2017 Annual General Meeting, the 2018 Second Class Meeting of A Shareholders and the 2018 Second Class Meeting of H Shareholders have considered and approved the "Resolution on the Adjustments to the Amount of Proceeds used in Non-public Issuance of Fund-raising Investment Projects", and it was agreed that the amount of proceeds used in non-public issuance of fund-raising investment projects shall be adjusted. The details are as follows:

1. Adjustments to the amount of proceeds used in "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)

The executor of the project was the Company and subsidiary 子公司麗珠集團麗珠製藥廠, mainly for R&D and Industrialization Upgrade of Innovative Product of Ilaprazole Series, specifically Ilaprazole Tablet, Ilaprazole Sodium for Injection, Ilaprazole optical isomer preparation and Ilaprazole compound preparation, with total investment of RMB450,000,000.

Amount of proceeds of various investments are as follows:

Unit: RMB'0,000

Name of item	R&D					
	R&D equipment	Preclinical studies	Clinical studies	Industrialization development & technology upgrade	Clinical studies after listing	Industrialization Upgrade (Construction and equipment)
Ilaprazole Tablet		—	300	600	6,800	4,100
Ilaprazole Sodium for Injection	3,000	—	2,500	500	6,800	4,900
Ilaprazole optical isomer preparation		650	3,300	400	3,400	—
Ilaprazole compound preparation		650	3,300	400	3,400	—
Total	3,000	1,300	9,400	1,900	20,400	9,000

Note: Construction period of industrialization upgrade is 3 years.

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

XV. OTHER SIGNIFICANT MATTERS *(continued)*

Adjustments to the amount of proceeds of projects invested with proceeds *(continued)*

1. Adjustments to the amount of proceeds used in “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) *(continued)*

Due to the introduction of regulations in centralized assessment and clinical verification etc., the progress of obtaining approval of new indications of Ilaprazole Sodium for Injection and Ilaprazole Tablet did not meet the expectation, and the industrialization upgrade of the project will be carried out in phrases and postponed. The Company has adjusted the amount of proceeds of the projects invested with proceeds and details of the amount of proceeds of the projects after adjustment is as follows (by year):

Unit: RMB'0,000

Year	R&D equipment	Preclinical studies	Clinical studies	Industrialization	Clinical studies after listing	Industrialization Upgrade	Total
				& technology development upgrade			
2018	700.00	800.00	320.00	–	900.00	1,300.00	4,020.00
2019	700.00	800.00	840.00	–	1,800.00	750.00	4,890.00
2020	700.00	500.00	1,100.00	100.00	1,800.00	500.00	4,700.00
2021	500.00	200.00	1,640.00	300.00	2,000.00	750.00	5,390.00
2022	500.00	–	2,980.00	500.00	2,000.00	1,300.00	7,280.00
2023	400.00	–	4,180.00	–	1,500.00	700.00	6,780.00
2024	300.00	–	3,480.00	–	–	750.00	4,530.00
2025	300.00	–	1,280.00	200.00	1,000.00	517.00	3,297.00
Total	4,100.00	2,300.00	15,820.00	1,100.00	11,000.00	6,567.00	40,887.00

Note: Industrialization upgrade needs to be implemented step by step, and all investment is completed in approximately 7 years.

2. Adjustments to the amount of proceeds used in “Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc (phase I)” (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))

The project was executed by Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) mainly for: office complex, R&D centres, power workshops, dangerous goods store, tank area and pump area, guard room, sewage treatment station (New pool, equipment area, sludge dewatering area, dangerous waste room, auxiliary room), fermentation workshop 1, fermentation workshop 2, fermentation workshop 3, refining workshop 1, refining workshop 2, synthesis workshop 1, synthesis workshop 2, synthesis workshop 3, synthesis workshop 4, synthesis workshop 5, integrated warehouse etc.

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

XV. OTHER SIGNIFICANT MATTERS *(continued)***Adjustments to the amount of proceeds of projects invested with proceeds** *(continued)***2. Adjustments to the amount of proceeds used in “Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc (phase I)” (麗珠集團新北江製藥股份有限公司搬遷擴建項目(一期))** *(continued)*

The construction period of the project was 2.5 years and the total investment amount was RMB143,289,400. Details of construction investment as follows:

Unit: RMB'0,000

No.	Title of fees	Total investment
1	Costs of construction	1,936.66
2	Other fees of fixed assets	11,392.28
2.1	Construction fees of R&D centre	2,636.30
2.2	Investment in purchase of equipment	5,056.98
2.3	Investment in plants and infrastructure	3,699.00
3	Initial working capital	1,000.00
Total		14,328.94

As at 31 December 2017, due to the progress of the environmental assessment, the relocation and expansion project has not yet been officially launched. The Company has adjusted the amount of proceeds in the projects invested with proceeds and details of the amount of proceeds of the projects after adjustment is as follows (by year):

Unit: RMB'0,000

Year	Costs of construction	Other fees of fixed assets	Initial working capital	Total amount
2018	992.54	3,688.30	1,000.00	5,680.84
2019	337.04	5,396.38	—	5,733.42
2020	607.08	2,307.60	—	2,914.68
Total	1,936.66	11,392.28	1,000.00	14,328.94

This adjustment was made by the Company in view of the actual progress of the projects invested with proceeds. There were only adjustments to the amount of proceeds used in each of the subsequent years of the projects, without changing the use of the proceeds.

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

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

XVI. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES**1. Net current assets**

Item	Balance at the End of the Period	Balance at the beginning of the year
Current assets	10,628,092,961.52	11,359,734,091.18
Less: Current liabilities	4,341,836,002.42	4,411,030,586.24
Net current assets	6,286,256,959.10	6,948,703,504.94

2. Total assets less current liabilities

Item	Balance at the End of the Period	Balance at the beginning of the year
Total assets	15,464,421,401.75	15,897,730,717.63
Less: Current liabilities	4,341,836,002.42	4,411,030,586.24
Total assets less current liabilities	11,122,585,399.33	11,486,700,131.39

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

1. Bills receivables and accounts receivables

Type	Balance at the end of the Period	Balance at the beginning of the year
Bills receivables	487,447,639.73	636,582,349.82
Accounts receivables	833,376,148.77	637,179,064.67
Total	1,320,823,788.50	1,273,761,414.49

(1) Status of bills receivables

1 Classification of bills receivables

Type	Balance at the end of the Period	Balance at the beginning of the year
Bank acceptance bills	487,447,639.73	636,582,349.82
Total	487,447,639.73	636,582,349.82

2 Status of bills receivables which have been pledged at the End of the Period

Item	Amount pledged at the end of the period
Bank acceptance bills	59,583,079.78
Total	59,583,079.78

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

Item	Recognised amount by the End of the Period	Unrecognised amount by the End of the Period
Bank acceptance bills not yet mature but already endorsed	2,232,813.60	0.00
Bank acceptance bills not yet mature but already discounted	0.00	0.00

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

5 As at 30 June 2018, bills with carry amount of RMB59,583,079.78 (31 December 2017: RMB0) were pledged for the issuance of bank acceptance bills amounted to RMB8,819,997.14.

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

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

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

1. Bills receivables and accounts receivables *(continued)*

(2) Status of accounts receivables

1 Accounts receivables disclosed by types

Type	Balance at the End of the Period				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	849,677,416.47	99.37	16,301,267.70	1.92	833,376,148.77
Accounts receivables that are individually insignificant but impairment provided on an individual basis	5,371,803.79	0.63	5,371,803.79	100.00	0.00
Total	855,049,220.26	100.00	21,673,071.49	2.53	833,376,148.77

Type	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	673,570,782.74	99.63	36,391,718.07	5.40	637,179,064.67
Accounts receivables that are individually insignificant but impairment provided on an individual basis	2,497,535.08	0.37	2,497,535.08	100.00	0.00
Total	676,068,317.82	100.00	38,889,253.15	5.75	637,179,064.67

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***1. Bills receivables and accounts receivables** *(continued)***(2) Status of accounts receivables** *(continued)*1 *Accounts receivables disclosed by types (continued)*

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

Ageing	Balance at the End of the Period		
	Accounts receivables	Provision for bad debts	Percentage (%)
Within 3 months (including 3 months)	736,355,460.97	7,363,554.61	1.00
4-6 months (including 6 months)	74,839,438.64	3,741,971.93	5.00
7-12 months (including 12 months)	31,649,219.25	3,164,921.93	10.00
1-2 years (including 2 years)	5,850,282.95	1,170,056.59	20.00
2-3 years (including 3 years)	407,506.74	285,254.72	70.00
Over 3 years	575,507.92	575,507.92	100.00
Total	849,677,416.47	16,301,267.70	

- B. As at the End of the Period, the accounts receivables that are individually insignificant but impairment provided on an individual basis

Other receivables description	Gross amount	Provision for bad debts	Percentage (%)	Reason for provision made
Loans	5,371,803.79	5,371,803.79	100.00	Not expected to be recoverable

- 2 Provisions for bad debts made for the Current Period were RMB-17,055,409.76; no provision for bad debts was recovered or reversed during the period.
- 3 Actual write-off of accounts receivables for the Current Period

Item	Amount written-off
Receivables actually written off	160,771.90

- 4 The total of account receivables with five largest amount by creditors was RMB98,180,443.81, or 11.48% of the total account receivables by the end of the Current Period, total provision for bad debts by the end of the Current Period was RMB2,111,913.97.
- 5 The Company has no derecognized receivables out of transfer of financial assets.
- 6 The Company has no assets or liabilities arising from its continuous involvement of transferring receivables.

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

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

2. Other receivables

Item	Balance at the End of the Period	Balance at the beginning of the year
Other receivables	1,632,434,325.47	1,662,285,306.91
Interest receivables	0.00	5,945,063.41
Dividends receivables	1,261,009,825.50	566,928,924.56
Total	2,893,444,150.97	2,235,159,294.88

(1) Other receivables

1 Other receivables disclosed by types

Type	Balance at the End of the Period				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables assessed for impairment collectively	51,599,669.31	3.15	6,872,361.64	13.32	44,727,307.67
Receivables from each company in the scope of combination	1,587,707,017.80	96.78	0.00	0.00	1,587,707,017.80
Other receivables that are individually insignificant but impairment provided on an individual basis	1,206,598.22	0.07	1,206,598.22	100.00	0.00
Total	1,640,513,285.33	100.00	8,078,959.86	0.49	1,632,434,325.47

Type	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables assessed for impairment collectively	13,673,687.51	0.82	5,867,745.65	42.91	7,805,941.86
Receivables from each company in the scope of combination	1,654,479,365.05	99.09	0.00	0.00	1,654,479,365.05
Other receivables that are individually insignificant but impairment provided on an individual basis	1,541,860.22	0.09	1,541,860.22	100.00	0.00
Total	1,669,694,912.78	100.00	7,409,605.87	0.44	1,662,285,306.91

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***2. Other receivables** *(continued)***(1) Other receivables** *(continued)*1 *Other receivables disclosed by types (continued)*

- A. Other receivables in the portfolio with provision for bad debts made using the ageing analysis Method

Ageing	Balance at the End of the Period		
	Other receivables	Provision for bad debts	Provision Percentage (%)
Within 3 months (including 3 months)	39,345,494.73	393,454.95	1.00
4-6 months (including 6 months)	1,701,322.00	85,066.11	5.00
7-12 months (including 12 months)	3,529,501.70	352,950.17	10.00
1-2 years (including 2 years)	1,221,108.10	244,221.63	20.00
2-3 years (including 3 years)	18,580.00	13,006.00	70.00
Over 3 years	5,783,662.78	5,783,662.78	100.00
Total	51,599,669.31	6,872,361.64	

- B. Receivables from each company in the scope of combination

Other receivables description	Carrying amount	Provision for bad debts	Provision Percentage (%)	Reason
Current account	1,587,707,017.80	0.00	0.00	The debtor is a subsidiary of the Company and no provision for bad debts is made.

- C. As at the End of the Period, other receivables that are individually insignificant but impairment provided on an individual basis

Other receivables description	Gross amount	Provision for bad debts	Provision Percentage (%)	Reason for provision made
Current account	1,206,598.22	1,206,598.22	100.00	Not expected to be recoverable

- 2 Provisions for bad debts made for the Current Period were RMB669,353.99; no provision for bad debts was recovered or reversed.

- 3
- Actual write-off of other receivables for the Current Period*

Nil.

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

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

2. Other receivables (continued)

(1) Other receivables (continued)

4 Other receivables by nature of items

Nature or description	Balance at the End of the Period	Balance at the beginning of the year
Reserve fund	10,647,214.80	6,860,047.01
Related party balances	0.00	0.00
Receivables from each company in the scope of combination	1,587,707,017.80	1,654,479,365.05
Borrowing due from external entities	5,000,000.00	5,000,000.00
Others	37,159,052.73	3,355,500.72
Total	1,640,513,285.33	1,669,694,912.78

5 Status of other receivables due from top five customers as at the End of the Period

Name of unit	Nature of receivables	Balance at the end of the Period	Ageing	Proportion to receivables at the End of the Period (%)	Provision for bad debts at the End of the Period
Livzon Group (Ningxia) Pharmaceutical Co., Ltd (麗珠集團(寧夏)製藥有限公司)	Current account	1,106,376,575.40	Within 1 year	67.44	0.00
Livzon Biologics Hong Kong Limited (麗珠生物科技香港有限公司)	Amount of equity transferred	306,000,000.00	Within 1 year	18.66	0.00
Ando Development Limited (安滔發展有限公司)	Current account	123,888,637.96	Within 1 year	7.55	0.00
Zhuhai Zhong Hui Yuan Investment Partnership (Limited Partnership) (珠海中匯源投資合夥企業(有限合夥))	Amount of equity transferred	33,100,525.00	Within 3 months	2.01	331,005.25
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Current account	21,022,852.30	Within 1 year	1.28	0.00
Total	—	1,590,388,590.66	—	96.94	331,005.25

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

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

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***2. Other receivables** *(continued)***(2) Interest receivables**

Item	Balance at the end of the Period	Balance at the beginning of the year
Fixed deposit	0.00	5,945,063.41
Total	0.00	5,945,063.41

(3) Dividends receivables

Item	Balance at the end of the Period	Balance at the beginning of the year
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	391,650,975.80	391,650,975.80
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	154,877,948.76	175,277,948.76
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	600,135,960.02	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	113,749,940.92	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	595,000.00	0.00
Total	1,261,009,825.50	566,928,924.56

3. Long-term equity investments**(1) Classification of long-term equity investments**

Item	Balance at the End of the Period			Balance at the beginning of the year		
	Gross amount	Provision for impairment	Carrying value	Gross amount	Provision for impairment	Carrying value
Investments in subsidiaries	1,529,833,491.59	17,287,569.18	1,512,545,922.41	1,905,790,564.98	18,471,307.03	1,887,319,257.95
Investments in associates and joint ventures	40,821,572.57	1,200,000.00	39,621,572.57	35,393,189.13	1,200,000.00	34,193,189.13
Total	1,570,655,064.16	18,487,569.18	1,552,167,494.98	1,941,183,754.11	19,671,307.03	1,921,512,447.08

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

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

3. Long-term equity investments *(continued)*

(2) Investments in subsidiaries

Investee	Balance at the beginning of the year	Increase during the Current Period	Decrease during the Current Period	Balance at the End of the Period	Provision for impairment for the Current Period	Balance of provision for impairment at the End of the Period
Zhuhai Livzon Baiameng Biological Materials Co., Ltd. (珠海麗珠-拜阿蒙生物材料有限公司)	3,934,721.95	0.00	0.00	3,934,721.95	0.00	0.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	361,060,443.85	0.00	0.00	361,060,443.85	0.00	0.00
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	170,872,457.35	0.00	0.00	170,872,457.35	0.00	0.00
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	31,438,404.00	0.00	0.00	31,438,404.00	0.00	0.00
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	4,539,975.00	0.00	0.00	4,539,975.00	0.00	0.00
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	6,004,000.00	0.00	0.00	6,004,000.00	0.00	0.00
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	64,770,100.01	0.00	0.00	64,770,100.01	0.00	0.00
Ando Development Limited (安滔發展有限公司)	534,050.00	0.00	0.00	534,050.00	0.00	0.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	116,446,982.80	0.00	18,957,073.39	97,489,909.41	0.00	6,087,569.18
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2,896,800.00	0.00	0.00	2,896,800.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Marketing Ltd. (麗珠集團麗珠醫藥行銷有限公司)	12,008,000.00	0.00	0.00	12,008,000.00	0.00	0.00
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	184,301,219.52	0.00	0.00	184,301,219.52	0.00	0.00
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	40,020,000.00	0.00	0.00	40,020,000.00	0.00	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	280,769,410.50	0.00	0.00	280,769,410.50	0.00	11,200,000.00
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	357,000,000.00	0.00	357,000,000.00	0.00	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) Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團(寧夏)製藥有限公司)	180,000,000.00	0.00	0.00	180,000,000.00	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 Gene Diagnostics Ltd. (珠海市麗珠基因檢測科技有限公司)	30,000,000.00	0.00	0.00	30,000,000.00	0.00	0.00
Total	1,905,790,564.98	0.00	375,957,073.39	1,529,833,491.59	0.00	17,287,569.18

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

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

3. Long-term equity investments (continued)

(3) Investments in associates and joint ventures

Investee	Balance at the beginning of the year	Change during the Current Period				
		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)	11,711,329.89	0.00	0.00	640,039.31	0.00	0.00
Jiangsu Nike Medical Equipment Co., Ltd. (江蘇尼科醫療器械有限公司)	21,429,927.63	0.00	0.00	-944,360.29	0.00	0.00
Shenzhen City Youbao Technology Co., Ltd (深圳市有寶科技有限公司)	1,051,931.61	0.00	0.00	-4,495.58	0.00	0.00
DOSERNA INC	0.00	6,332,200.00	0.00	0.00	0.00	0.00
Total	35,393,189.13	6,332,200.00	0.00	-308,816.56	0.00	0.00

Investee	Change during the Current Period				Balance at the End of the Period	Balance of provision for impairment at the End of the Period
	Cash dividend or profit distribution announced	Impairment provision	Others	Balance at the End of the Period		
Associates						
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	0.00	0.00	0.00	1,200,000.00	1,200,000.00	
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	595,000.00	0.00	0.00	11,756,369.20	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	20,485,567.34	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	1,047,436.03	0.00	
DOSERNA INC	0.00	0.00	0.00	6,332,200.00	0.00	
Total	595,000.00	0.00	0.00	40,821,572.57	1,200,000.00	

4. Operating income and operating cost

Item	For the Current Period		For the Previous Period	
	Income	Cost	Income	Cost
Principal activities	2,422,216,496.01	1,454,491,104.66	2,516,026,716.34	1,429,118,380.09
Other activities	3,499,891.85	0.00	3,362,825.10	0.00
Total	2,425,716,387.86	1,454,491,104.66	2,519,389,541.44	1,429,118,380.09

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

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

5. Taxes and surcharges

Item	For the Current Period	For the Previous Period
Urban maintenance and construction tax	6,991,644.00	11,741,615.68
Education surcharges	4,994,031.43	8,386,868.31
Land use tax	0.00	150,000.00
Property tax	0.00	799,800.00
Stamp duty	768,293.34	1,655,282.11
Vehicle and vessel usage tax	11,022.04	8,742.24
Total	12,764,990.81	22,742,308.34

6. Investment Income

Item	For the Current Period	For the Previous Period
Long-term equity investment income under cost method	771,485,900.94	1,211,076,325.24
Long-term equity investments income under equity method	-308,816.56	-730,915.12
Investment income generated from disposal of long-term equity investments	-2,572,285.54	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	131,844.96	123,604.65
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
Interest income of debt investment during its holding period	0.00	0.00
Interest income of other debt investment during its holding period	0.00	0.00
Disposal income of debt investment	0.00	0.00
Disposal income of other debt investment	0.00	0.00
Income generated from revaluation of remaining equity measured at fair value upon loss of control	0.00	0.00
Return from cash management	0.00	3,854,968.10
Total	768,736,643.80	1,214,323,982.87

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

XVII. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***7. Supplemental information to cash flow statement**

Item	For the Current Period	For the Previous Period
(1) Reconciliation of net profit to cash flow from operating activities :		
Net profit	821,240,458.27	1,153,357,502.87
Add: Provision for impairment of assets	-13,358,877.71	13,793,748.43
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets	6,558,988.27	5,150,620.32
Amortisation of intangible assets	3,509,126.02	5,794,489.31
Amortisation of long-term deferred expenses	158,618.34	60,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains/income)	17,700.66	-40,486.79
Losses on retirement of fixed assets ("—" represents gains/income)	1,582.88	0.00
Losses from changes in fair value ("—" represents gains/income)	-3,386,767.41	0.00
Financial expenses ("—" represents gains/income)	-14,246,774.34	-12,473,387.41
Investments losses ("—" represents gains/income)	-768,736,643.80	-1,214,323,982.87
Decrease in deferred tax assets ("—" represents increase)	6,329,053.41	-13,903,527.47
Increase in deferred tax liabilities ("—" represents decrease)	1,551,448.78	834,243.89
Decrease in inventories ("—" represents increase)	-190,852,024.55	223,164,113.67
Decrease in trade receivables ("—" represents increase)	-902,362.75	-629,824,306.71
Increase in trade payables ("—" represents decrease)	-818,385,447.32	402,165,460.28
Others	0.00	8,559,980.22
Net cash flows from operating activities	-970,501,921.25	-57,685,532.26
(2) Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into capital	0.00	0.00
Convertible corporate bonds due within one year	0.00	0.00
Fixed assets acquired under finance leases	0.00	0.00
(3) Net movement in cash and cash equivalents:		
Cash at the End of the Period	5,306,721,848.28	2,444,861,726.81
Less: Cash at the beginning of the year	6,494,605,142.51	1,606,485,665.85
Add: Cash equivalents at the End of the Period	0.00	0.00
Less: Cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	-1,187,883,294.23	838,376,060.96

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

XVIII.SUPPLEMENTAL INFORMATION

1. Breakdown of extraordinary gains or losses

Item	For the Current Period	For the Previous Period
Gains or losses from the disposal of non-current assets Ultra vires or without official approval documents, or incidental tax rebate or relief	-121,892.09	-7,017,747.76
Government grants included in the profit or loss for the period, save for those government grants closely associated to the normal operation of the Group, complying with the policies and regulations of China, being entitled at a certain standard amount or certain level	0.00	0.00
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period	114,515,854.69	70,870,480.62
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	4,310,498.10
Provision for impairment as a result of force majeure factors, such as natural disasters	0.00	0.00
Gains or losses from debt restructuring	0.00	0.00
Corporate reorganisation expenses, such as expenditures for staff dormitory, and business combination expenses	0.00	0.00
Gains or losses from transaction with transaction price not at fair value over the part at fair value	0.00	0.00
Net gains or losses of subsidiaries for the period arising from business combination under common control from the beginning of the year to the date of combination	0.00	0.00
Gains or losses arising from contingent matters not related to the normal operation of the Company	0.00	0.00
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the hedging activities of the normal operation of the Company)	-17,421,672.92	733,944.14
Reversal of provision for impairment of receivables that are individually tested for impairment	0.00	0.00
Gains or losses from external entrusted loans	0.00	0.00
Gains or losses from changes in fair value of investment properties subsequently measured under the fair value model	0.00	0.00
Effect of one-off adjustment made according to the laws and regulations regarding taxation and accounting to profit or loss for the period	0.00	0.00
Custodian fee income from entrusted operation	0.00	0.00
Other non-operating income and expenditures apart from the above	-8,151,365.26	-2,411,600.27
Items of gains or losses meeting the definition of extraordinary gains or losses	0.00	0.00
Sub-total	88,820,924.42	66,485,574.83
Effect of income tax	12,541,409.68	10,289,554.86
Effect of non-controlling interests (after tax)	14,050,401.05	7,460,960.73
Total	62,229,113.69	48,735,059.24

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

XVIII.SUPPLEMENTAL INFORMATION *(continued)***1. Breakdown of extraordinary gains or losses** *(continued)*

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

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

2. Rate of return on net assets and earnings per share**January – June 2018**

Profit for the Reporting Period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares of the Company	5.79%	0.88	0.88
Net profit attributable to shareholders of ordinary shares of after deducting extraordinary gains or losses	5.22%	0.80	0.80

January – June 2017

Profit for the Reporting Period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares of the Company	7.42%	0.70	0.70
Net profit attributable to shareholders of ordinary shares of after deducting extraordinary gains or losses	6.70%	0.64	0.64

XI. DOCUMENTS AVAILABLE FOR INSPECTION

- (I) They include a copy of the 2018 interim report of the Company which is signed by the legal representative.
- (II) They include the Company's unaudited financial report for the six months ended 30 June 2018 prepared in accordance with the China Accounting Standards for Business Enterprises which is signed and sealed by the person-in-charge of the Company, the person-in-charge of the Company's financial affairs (mainly responsible for accounting work), the person-in-charge of the accounting department (accounting supervisor).
- (III) They include the original copies of all of the documents and announcements of the Company which have been disclosed on the designated website as approved by CSRC during the Reporting Period.
- (IV) They include both English and Chinese versions of the 2018 interim report of the Company published on the website of Hong Kong Exchanges and Clearing Limited.

Livzon Pharmaceutical Group Inc.
Zhu Baoguo
Chairman

17 August 2018



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