**China Animal Healthcare Ltd.**
**中國動物保健品有限公司***
(Incorporated in Bermuda with limited liability)
**(Stock Code: 0940)**

# ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The board of directors (the "**Board**") of China Animal Healthcare Ltd. (the "**Company**") is pleased to announce its audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2014 together with the comparative figures for the previous year as follows:

## (I) FINANCIAL STATEMENTS

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**
For the financial year ended 31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Revenue** | 5 | 279,228 | 914,600 |
| Cost of sales | | (120,633) | (320,910) |
| Gross profit | | 158,595 | 593,690 |
| Other income and gains | | 4,408 | 1,275 |
| Distribution and selling expenses | | (55,647) | (212,751) |
| Administrative expenses | | (19,687) | (55,671) |
| Loss arising from the Incidents | 4 | (1,527,194) | - |
| Other expenses and losses | | (423,629) | (37,783) |
| Finance income | | 821 | 3,561 |
| Finance costs | | (3,591) | (7,635) |
| **(Loss)/Profit before tax** | 6 | (1,865,924) | 284,686 |
| Income tax expense | 7 | 23,070 | (73,186) |
| **(Loss)/Profit and total comprehensive (loss) income for the year** | | (1,842,854) | 211,500 |
| | | | |
| **(Loss)/Profit and total comprehensive (loss)/income for the year attributable to:** | | | |
| Owners of the Company | | (1,816,036) | 186,333 |
| Non-controlling interests | | (26,818) | 25,167 |
| | | (1,842,854) | 211,500 |
| | | | |
| **(Loss)/Earnings per share** | 9 | | |
| - Basic (RMB cents) | | (92.37) | 10.80 |
| - Diluted (RMB cents) | | (92.37) | 10.77 |

** For identification purpose only*

**Consolidated Statements of Financial Position**
At 31 December 2014

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | 107,715 | 176,846 |
| Prepaid lease payments | | 4,377 | 15,300 |
| Available-for-sale financial asset | | 76,440 | 1,125 |
| Intangible assets | | - | 525,300 |
| Goodwill | | - | 124,617 |
| Deferred tax assets | | - | 1,007 |
| Deposits for property, plant and equipment | | 3,464 | - |
| Deposits for intangible assets | | - | 10,000 |
| | | 191,996 | 854,195 |
| **Current Assets** | | | |
| Inventories | | 32,513 | 37,172 |
| Trade receivables | 10 | 60,808 | 120,965 |
| Prepayments and other receivables | | 7,298 | 10,410 |
| Prepaid lease payments | | 108 | 354 |
| Pledged deposits | | 21,190 | 29,131 |
| Cash and cash equivalents | | 150,339 | 1,422,963 |
| | | 272,256 | 1,620,995 |
| **Current Liabilities** | | | |
| Trade payables | 11 | 22,922 | 21,870 |
| Other payables and accrued charges | | 600,341 | 69,903 |
| Borrowings | | 64,421 | 87,297 |
| Provision for income tax | | 13,986 | 27,171 |
| | | 701,670 | 206,241 |
| **Net Current (Liabilities)/Assets** | | (429,414) | 1,414,754 |
| **Total Assets Less Current Liabilities** | | (237,418) | 2,268,949 |
| **Capital and Reserves** | | | |
| Issued equity | | 108,677 | 108,677 |
| Reserves | | (393,045) | 1,757,835 |
| (Capital deficiency)/Equity attributable to owners of the Company | | (284,368) | 1,866,512 |
| Non-controlling interests | | 33,313 | 267,682 |
| **(Capital Deficiency)/Total Equity** | | (251,055) | 2,134,194 |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | | 13,637 | 134,755 |
| | | (237,418) | 2,268,949 |

## 1. Corporation information

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The ultimate controlling party of the Group is Madam Li Chunhua.

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company.

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are research, development and manufacture of animal drugs.

## 2. Basis of preparation

As disclosed in the Company's announcements dated 10 June 2015, during the audit of the consolidated financial statements of the Group for the year ended 31 December 2014, the Company and Deloitte Touche Tohmatsu, the predecessor auditors of the Company (the "**Predecessor Auditors**"), were unable to agree upon certain specific work steps relating to the additional audit procedures required by the Predecessor Auditors to confirm the Group's bank account balances. In addition, the Predecessor Auditors have alleged misconduct on the part of an employee of the Group (collectively referred to as the "**Unresolved Matters**"). Consequently, the trading of the shares of the Company on the Main Board of the Stock Exchange had been suspended on 30 March 2015. The Predecessor Auditors tendered their resignation as auditors of the Company with effect from 25 September 2015.

As disclosed in the Company's announcement dated 10 July 2015, the Stock Exchange has imposed conditions to the Company in respect of resumption of trading of shares, including but not limited to conducting a forensic investigation on the Unresolved Matters, disclose the findings of the investigation, assess the impact on the Group's financial and operational positions and take appropriate remedial actions. As disclosed in the Company's announcement dated 30 October 2015, the Company appointed RSM Corporate Advisory (Hong Kong) Limited (formerly known as "RSM Nelson Wheeler Corporate Advisory Limited") (the "**Forensic Accountant**"), an independent professional firm, to conduct a forensic investigation in respect of the Unresolved Matters.

As disclosed in the Company's announcements dated 28 December 2015, 30 December 2015, 1 February 2016 and 17 October 2016, a truck (the "**Truck**") loaded with, among other things, original financial documents for five financial years ended 31 December 2015 of the Company's subsidiaries, including Shenzhou Pagina-Kang Technology Co. Ltd (深州保吉安康科技有限公司) ("**Shenzhou Pagina-Kang**"), Beijing Pagina-Kang Technology Co. Ltd (北京保吉安科技有限公司) ("**Beijing Pagina-Kang**") (formerly known as Beijing Healthcare Technology Co. Ltd (北京海思科瑞科技有限公司)), Hebei Biwei Science Technology Co. Ltd (河北畢威科技有限公司), Shijiazhuang Lixinkang Animal Medicine Company Limited (石家莊利欣康動物藥業有限公司), Shijiazhuang Greenxinkang Animal Medicine Company Limited (石家莊綠欣康動物藥業有限公司), Hebei Qingshanhong Animal Medicine Company Limited (河北青山紅動物藥業有限公司), Longyao Qingshanhong Animal Medicine Company Limited (隆堯青山紅動物藥業有限公司), Shijiazhuang Keruida Animal Medicine Company Limited (石家莊科瑞達動物藥業有限公司), Hebei Geruisi Animal Medicine Company Limited (河北格瑞斯動物藥業有限公司), Shijiazhuang Aoxin Animal Medicine Company Limited (石家莊澳信動物藥業有限公司), Hebei Runshengzhongfu Animal Medicine Company Limited (河北潤生中福動物藥業有限公司), Shijiazhuang Sikede Animal Medicine Company Limited (石家莊思科德動物藥業有限公司) ("**Shijiazhuang Sikede**"), Hebei Pagina-Kang Animal Medicine Company Limited (河北保吉安康動物藥業有限公司) ("**Hebei Pagina-Kang**") (formerly known as Shijiazhuang Maidisenda Animal Medicine Company Limited (石家莊麥迪森達動物藥業有限公司)), Beijing Jianxiang Hemu Biological Technology Limited (北京健翔和牧生物科技有限公司) ("**Beijing Jianxiang**

**Hemu**") and all financial documents for 4 years ended 31 December 2014 and part of the year ended 31 December 2015 of Shanxi Longkeer Biological Pharmaceutical Co. Ltd. (山西隆克爾生物製藥有限公司, ("**Shanxi Longkeer**") (collectively referred to as the "**Relevant PRC Subsidiaries**") (the "**Lost Documents**") was stolen in the Qingyuan District of Baoding City, Hebei Province, the PRC on 4 December 2015 (the "**Truck Theft**"). A Special Investigation Group (the "**Special Investigation Group**") accountable to the Board was established on 5 December 2015 which is headed by Mr. Li Jun, an executive director of the Company ("**Mr. Li**") at that material time, to (i) investigate into the Truck Theft, (ii) maintain close contact with the Public Security Bureau in the PRC (the "**PSB**") to search for the Truck, and (iii) confirm the list of Lost Documents and follow up on this matter. Since the occurrence of the Truck Theft, the finance team of the Group has been inquiring from different sources to retrieve as many copies of the Lost Documents as possible in order to minimise the impact of the Lost Documents. In order to complete the forensic investigation in respect of the Unresolved Matters, the Forensic Accountant was also instructed to reconstruct certain books and records of the Relevant PRC Subsidiaries and obtain alternative or secondary information or confirmations within the Group or from third parties.

As disclosed in the Company's announcement dated 17 October 2016, it had come to the attention of the Board that there were obvious discrepancies between the year end balances of the bank statements obtained directly from the banks and those stated in the accounting records of the Relevant PRC Subsidiaries as at 31 December 2014 and 2015 (the "**Possible Accounting Discrepancies**"). A special investigation committee (the "**Special Investigation Committee**") was established on 14 October 2016 which comprised of all independent non-executive directors of the Company at that material time to conduct investigations into the Possible Accounting Discrepancies. As disclosed in the Company's announcement dated 13 January 2017, the Possible Accounting Discrepancies were related to bank balances of subsidiaries operating under the Group's chemical drug business and the aggregate amount of the discrepancies is estimated to be in the range of approximately RMB835 million to RMB933 million. The Forensic Accountant was then requested by the Special Investigation Committee to extend the forensic investigation to cover the Possible Accounting Discrepancies (the works covered by the Forensic Accountants including the Unresolved Matters, the Truck Theft and the Possible Accounting Discrepancies, are referred to as the "**Forensic Investigations**").

As disclosed in the Company's announcements dated 27 July 2017 and 14 November 2017, the Forensic Investigations were completed and submitted to the Stock Exchange. The Special Investigation Committee at the meeting on 12 July 2017 resolved to make, amongst others, the following suggestions to the Board for their considerations: (i) a number of the management staff of the Company and of the Group who might be involved in all or some of the matters covered by the Forensic Investigations, should cease to hold their offices in the Group; (ii) in respect of the results of the Forensic Investigations, the Company should report to the Police in Hong Kong for investigation; and (iii) to instruct independent PRC legal advisers to consider whether the Company should take any civil action in the PRC against those former management staff of the Company and of the Group who might be involved in all or some of the matters covered by the Forensic Investigations, and to report the matters to the PSB for their investigation. The Company announced on 14 November 2017 that the Company had (i) on 2 August 2017, through its Hong Kong legal advisers, reported to the Commercial Crime Bureau of the Police (the "**CCB**") in Hong Kong and were informed that there was insufficient evidence to support a charge against any person. As such, there would be no prosecution action at this stage; (ii) sought legal advice from its legal advisers as to whether the Company should commence any action or other legal proceedings in the name and on behalf of the Company in Hong Kong for seeking remedy and/or recovery of losses and damages suffered or sustained by the Company. The Company was considering the same and would take appropriate actions promptly where appropriate; (iii) instructed the Company's PRC legal advisers to report the results of the Forensic Investigations to the PSB for their investigation and the PSB had accepted the case for their criminal investigation on 13 September 2017. Up to the date of the approval of the consolidated financial statements of the Group, the investigation by the PSB is still in progress; and (iv) on 28 August 2017, the Company's PRC legal advisers submitted to the PRC Court the papers for commencing civil action in the PRC against the former management staff of the Company and of the Group and the PRC Court had accepted the case. Up to the date of the approval of the consolidated financial statements of the Group for the year ended 31 December 2014, the relevant proceedings are still in progress.

In addition, the Special Investigation Committee has reached the following conclusions:

- the discrepancies between the balances shown on the bank statements obtained from the banks and the balances in the accounting records as at 31 December 2014 amounted to approximately RMB1,060,196,000. The discrepancies between the opening balances of the bank statements and the opening balances shown in the accounting records as at 1 January 2014 amounted to approximately RMB951,513,000, thus showing that the Group's funds were already unaccounted for at the beginning of the financial year ended 31 December 2014;

- there were overstatements of recorded sales revenue, however the amounts could not be determined;

- there were evidences obtained which supported that certain customers and suppliers to whom recorded sales and purchases related were either non-existent or had ceased to have sales or trading transactions with the Relevant PRC Subsidiaries since the years ended 31 December 2012 and 2013;

- there were insufficient information or evidence to support the validity of the Truck Theft and the details of the Lost Documents; and

- there were insufficient information or evidence to support the validity of the returns of goods and relevant claims as set out in the Company's announcement dated 30 November 2015 which were supposedly as a result of the revocation of GMP certificates and production permits as disclosed in the Company's announcement dated 23 October 2015.

Given the facts and circumstances that (i) the results of the investigation of the PSB is still in progress; (ii) the Group has been unable to retrieve and reconstruct complete books and records of the Relevant PRC Subsidiaries; and (iii) key management personnel of the Relevant PRC Subsidiaries had left the Group and the Group has lost contact with them, the Board has been unable to explain and validate the true state of the affairs of the Relevant PRC Subsidiaries at 31 December 2014. The Board considered that it would be difficult and time consuming to ascertain the true and correct financial position and profit or loss as of and for the year ended 31 December 2014 for the Relevant PRC Subsidiaries or to obtain sufficient documentary information to satisfy themselves regarding the treatment of the transactions during the year and various balances of the Relevant PRC Subsidiaries as at 31 December 2014. In the opinion of the Board, any reconstruction of the correct accounting records would also be almost impossible as it will be necessary to verify the information with external and independent sources and such sources may not be available or may be unreliable due to their connections with the previous management of the Relevant PRC Subsidiaries or those responsible for the financial information which the Unresolved Matters and the Possible Accounting Discrepancies.

As of the date of approval for issuance of the consolidated financial statements of the Group for the year ended 31 December 2014, the Board considered that it had made its best efforts, to the extent commercially practicable, to reconstruct the accounting records of the Relevant PRC Subsidiaries for the year ended 31 December 2014, applying the best estimates and judgement based on the information of the Group that are available to the Board. However, given the substantial portion of the books and records was lost and the key management of the Relevant PRC Subsidiaries left and lost contact, the Board believes as at the date of approval for issuance of the consolidated financial statements that it was impossible and impractical to ascertain the transactions and balances of the Relevant PRC Subsidiaries for inclusion in the consolidated financial statements of the Group for the year ended 31 December 2014. Also, due to the same reason abovementioned, the Board believes that it is almost impossible, and not practical, to verify the financial information as reported in the consolidated financial statements of the Group in the previous years. Accordingly, the comparative financial information disclosed in the consolidated financial statements only represents such information as reported in the consolidated financial statements of the Group for the year ended 31 December 2013 (the "**2013 Financial Statements**") and therefore may not be comparable with the figures for the current year.

Given these circumstances, the Board has not consolidated the results, cash flows and financial position of the Relevant PRC Subsidiaries (collectively referred to also as the "**De-consolidated Subsidiaries**") in the consolidated financial statements of the Group for the year ended 31 December 2014. The results, cash flows and assets and liabilities of the De-consolidated Subsidiaries have not been included in the consolidated financial statements of the Group with effect from 1 January 2014. As at the date of approval for issuance of these consolidated financial statements, the effects of the Truck Theft, the Possible Accounting Discrepancies and the irregularities and misconduct constituting the Unresolved Matters (hereinafter referred to collectively as the "**Incidents**") are still undetermined.

In the preparation of the consolidated financial statements of the Group for the year ended 31 December 2014, the directors of the Company (the "**Directors**") have included the results, cash flows and financial position of Inner Mongolia Bigvet Bio-tech Co., Ltd. (內蒙古必威安泰生物科技有限公司) ("**Bigvet Biotech**") in the consolidated financial statements as they were able to have access to the books and records and key management personnel of Bigvet Biotech. Bigvet Biotech is an indirectly held non-wholly owned subsidiary of the Company, which as at 31 December 2014, 87.8% of its equity interests were held by Beijing Pagina-Kang, Hebei Pagina-Kang and Shenzhou Pagina-Kang, which are part of the De-consolidated Subsidiaries. On 27 November 2017, the Directors had successfully arranged for the transfer of the 87.8% equity interests of Bigvet Biotech to Beijing Bigvet Technology Co., Ltd. (北京必威安泰科技有限公司), which is a wholly owned subsidiary of the Company established on 30 March 2017 and directly held by Evanton Pte. Ltd ("**Evanton**"), a directly held wholly owned subsidiary of the Company.

In the opinion of the Board, the consolidated financial statements as at and for the year ended 31 December 2014 prepared on the aforementioned basis are the only practicable way of presenting the results, cash flows and state of affairs of the Group as the Board was unable to obtain sufficient documentary information to satisfy themselves regarding the transactions and balances related to the De-consolidated Subsidiaries. However, the Board understands that the de-consolidation of the De-consolidated Subsidiaries effective from 1 January 2014 is not in compliance with the requirements of International Financial Reporting Standard ("**IFRS**") 10 "Consolidated Financial Statements". Given the abovementioned circumstances, the Board is unable to ascertain the impact of the Incidents with respect to the accounting records and transactions of the De-consolidated Subsidiaries, if any, and of the de-consolidation of the De-consolidated Subsidiaries on the consolidated financial statements.

Due to limited books of accounts and records available to the Board and the non-consolidation of the De-consolidated Subsidiaries with effect from 1 January 2014, the following disclosures have not been made in the consolidated financial statements, insofar as the details or information relate to the De-consolidated Subsidiaries as at and for the year ended 31 December 2014:

- Details of the credit policy and aging of debtors and creditors as required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**");
- Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and IFRSs;
- Details of allowance account for credit losses, financial risk management and fair value disclosure as required by IFRS 7, "Financial Instruments — Disclosures"; and
- Entity-wide disclosures as required by IFRS 8, "Operating Segments".

Further, for the same reasons as those stated above, the Board is unable to represent in these consolidated financial statements that all transactions entered into by the Group for the year ended 31 December 2014 have been properly reflected in the consolidated financial statements. In this connection, the Board is also unable to represent as to the completeness, existence and accuracy of identification and the disclosures of revenue and segment information, de-consolidation of De-consolidated Subsidiaries, other income and gains and finance income, other expenses and losses, finance costs, income tax, (loss) profit for the year, directors' and chief executive's emoluments, employees' emoluments, (loss) earnings per share, property, plant and equipment, prepaid lease prepayments, available-for-sale financial asset, intangible assets, goodwill, inventories, trade receivables, prepayments and other receivables, cash and cash equivalents and pledged deposits, trade payables, other payables and accrued charges, borrowings, deferred taxation, commitments, related party transactions, major non-cash transactions, particulars of subsidiaries of the Company and details of non-wholly owned subsidiaries that have material non-controlling interests insofar as the details or information related to the De-consolidated Subsidiaries.

As per assessment by the Board, based on the results of the Forensic Investigations and the information available at this stage, all identified, adjustments required to be put through in the consolidated financial statements for the year ended 31 December 2014 have been put through, insofar as these adjustments do not relate to the De-consolidated Subsidiaries. Since the follow up investigations by the PSB are still ongoing, any further adjustments and disclosures, if required, would be made in the consolidated financial statements of the Group as and when the outcome of the above uncertainties is known and the consequential adjustments and disclosures are identified.

Any adjustments arising from the matters described above would have a consequential significant effect on the net loss of the Group for the year ended 31 December 2014 and net liabilities of the Group as at 31 December 2014.

During the year ended 31 December 2014, the Group incurred a loss attributable to owners of the Company of approximately RMB1,816,036,000 and, as of that date, the Group's total liabilities exceeded its total assets by approximately RMB251,055,000. In addition, it was disclosed in the Company's announcement dated 14 November 2017 that, on 3 November 2017, the Company received a letter from the Stock Exchange notifying, among others, that the Listing Department of the Stock Exchange intends to commence the procedures under Rule 6.10 of the Listing Rules to cancel the Company's listing on the ground that the Company is no longer suitable for listing and intends to publish an announcement under Rule 6.10 pursuant to which the Company will have a period until 14 May 2018 to remedy the matters which have rendered the Company unsuitable for listing, failing which the Listing Department will recommend the Listing Committee to proceed with the cancellation of the Company's listing. In addition, the Board has been unable to represent that all present and contingent liabilities of the Group have been completely identified as described above. These conditions indicate the existence of a material uncertainty which may cast significant effect on the Group's ability to continue as a going concern.

As disclosed in the Company's announcement dated 26 May 2017, the Company received a petition dated 19 May 2017 (the "**Petition**") filed by Lilly Nederland Holding B.V. (the "**Petitioner**"), a substantial shareholder of the Company at that material time, in the Court of First Instance of the High Court of Hong Kong against (i) the Company; (ii) Mr. Wang Yangang ("**Mr. Wang**"); (iii) Ms. Li, the spouse of Mr. Wang and the ultimate controlling shareholder of the Company; and (iv) Wang Family Company Limited, a substantial shareholder of the Company. The Petitioner alleged, inter alia, that the affairs of the Group have been conducted by Mr. Wang, with the present management of the Group, in a manner which is unfairly prejudicial to the interests of the Group and all its minority shareholders including the Petitioner in that, inter alia, (i) trading in the Company's shares has been subjected to a prolonged suspension and the resumptions conditions have not been complied with; (ii) there has been a prolonged failure on the part of the Company to publish its annual accounts for 2014, 2015 and 2016; (iii) the shareholders of the Company have been deprived of their right to ascertain the true financial position of the Company and the Group for over 2 years; (iv) there were interference with the audit process of the Predecessor Auditors, failure to comply with the Predecessor Auditors' requests and concealment of the true reasons for the Predecessor Auditors' resignation; (v) the Company took no steps to investigate into the allegations made by the Predecessor Auditors and various alleged incidents; (vi) the business of the Group has been mismanaged which result in the revocation of the permits for the Group's chemical drug business and reduction in the turnover and profits of the Group; (vii) the Company failed to address the Petitioner's concerns or questions; and (viii) the discrepancies in bank balances were unexplained and the Company took no steps to recover the missing bank balances. The Petitioner sought a buy-out order and sought, as an alternative remedy, a winding-up order against the Company on just and equitable grounds under section 327 of the Companies (Winding-up and Miscellaneous Provisions) Ordinance (Chapter. 32 of the Laws of Hong Kong). The hearing of the Petition was adjourned to 7 March 2018.

As disclosed in the Company's announcement dated 14 November 2017, the Petitioner on 31 October 2017 entered into a shares transfer agreement (the "**Shares Transfer Agreement**") to dispose of 400,000,000 shares in the share capital of the Company (representing around 20.4% of the issued share capital of the Company) to Good Charm International Development Limited (益輝國際發展有限公司) ("**Good Charm**") (the "**Share Disposal**"). To the best of the Directors' knowledge, Good Charm is a wholly owned subsidiary of Tech-Bank Food Company Limited (天邦食品股份有限公司) ("**Tech-Bank**") which is a company listed in the Shenzhen Stock Exchange with stock code SZ: 002124, and is a third party independent of the Company and its connected persons as defined in the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange. After completion of the Shares Disposal on 7 December 2017, the Petitioner ceased to have any shareholding interest in the Company and Good Charm held 400,000,000 shares, representing 20.4% of the issued share capital of the Company and became a substantial shareholder of the Company. On 19 December 2017, the Petitioner filed summons to seek the withdrawal of the winding up proceedings. On 12 March 2018, the Court of the First Instance of High Court of Hong Kong has dismissed the Petition.

Given the circumstance in respect of the possibility of fulfillment of the resumption conditions imposed by the Stock Exchange and the continuity in the operations of the Group's biological drug products business, the Board is of the view that the Group is able to repay or extend existing borrowings and liabilities upon their maturities or when they fall due through cash flows from operations and working capital to be provided through continuing support from financial institutions. Accordingly, the Board has adopted the going concern basis in the preparation of the consolidated financial statements.

Should the resumption conditions be unable to be fulfilled, the Group might not be able to continue to operate as a going concern, in which case adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify all non-current assets and liabilities as current assets and liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

## 3. Adoption of new or amended IFRS

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB").

| | |
|---|---|
| IFRS 10, IFRS 12 and IAS 27 (Amendments) | Investment Entities |
| IAS 32 (Amendments) | Offsetting Financial Assets and Financial Liabilities |
| IAS 39 (Amendments) | Novation of Derivatives and Continuation of Hedge Accounting |
| IFRIC 21 | Levies |

The application of the new and amended IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and amended IFRSs that have been issued but not yet effective:

| | |
|---|---|
| IFRSs (Amendments) | Annual Improvements to IFRSs 2010–2012 Cycle[2] |
| IFRSs (Amendments) | Annual Improvements to IFRSs 2011–2013 Cycle[1] |
| IFRSs (Amendments) | Annual Improvements to IFRSs 2012-2014 Cycle[3] |
| IFRSs (Amendments) | Annual Improvements to IFRSs 2014-2016 Cycle[6] |
| IFRSs (Amendments) | Annual Improvements to IFRSs 2015-2017 Cycle[7] |
| IFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transactions[6] |
| IFRS 4 (Amendments) | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[6] |

| | |
|---|---|
| IFRS 9 | Financial Instruments[6] |
| IFRS 9 (Amendments) | Prepayment Features with Negative Compensation[7] |
| IFRS 10 and IAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[9] |
| IFRS 10, IFRS 12 and IAS 28 (Amendments) | Investment Entities: Applying the Consolidation Exception[3] |
| IFRS 11 (Amendments) | Accounting for Acquisitions of Interests in Joint Operations[3] |
| IFRS 14 | Regulatory Deferral Accounts[4] |
| IFRS 15 | Revenue from Contracts with Customers[6] |
| IFRS 15 (Amendments) | Clarifications to IFRS 15 Revenue from Contracts with Customers[6] |
| IFRS 16 | Leases[7] |
| IFRS 17 | Insurance Contracts[8] |
| IAS 1 (Amendments) | Disclosure Initiative[3] |
| IAS 7 (Amendments) | Disclosure Initiative[5] |
| IAS 12 (Amendments) | Recognition of Deferred Tax Assets for Unrealised Losses[5] |
| IAS 16 and IAS 38 (Amendments) | Clarification of Acceptable Methods of Depreciation and Amortisation[3] |
| IAS 16 and IAS 41 (Amendments) | Agriculture: Bearer Plants[3] |
| IAS 19 (Amendments) | Defined Benefit Plans: Employee Contributions[3] |
| IAS 19 (Amendments) | Plan Amendment, Curtailment or Settlement[7] |
| IAS 27 (Amendments) | Equity Method in Separate Financial Statements[3] |
| IAS 28 (Amendments) | Long-term Interests in Associates and Joint Ventures[7] |
| IAS 40 (Amendments) | Transfers of Investment property[6] |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration[6] |
| IFRIC 23 | Uncertainty over Income Tax Treatments[7] |

1 Effective for annual periods beginning on or after 1 July 2014.
2 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for first annual IFRS financial statements beginning on or after 1 January 2016
5 Effective for annual periods beginning on or after 1 January 2017
6 Effective for annual periods beginning on or after 1 January 2018
7 Effective for annual periods beginning on or after 1 January 2019
8 Effective for annual periods beginning on or after 1 January 2021
9 Effective for annual periods beginning on or after a date to be determined

The Directors anticipate that the application of the new and amended IFRSs, other than those set out below, will have no material impact on the consolidated financial statements.

***IFRS 9 Financial Instruments***

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 “Financial Instruments: Recognition and Measurement” that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.

***Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

***IFRS 16 Leases***

IFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with IAS 17 "Leases". Under IFRS 16, leases are recorded on the consolidated statement of financial position by recognising a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of the lease liability plus certain other amounts) either being disclosed separately in the consolidated statement of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognised lease assets and financial liabilities.

## 4. De-consolidation of de-consolidated subsidiaries

As explained in note 2 to the consolidated financial statements, the Directors have been unable to locate and to get access to the complete books and records of the De-consolidated Subsidiaries for the current and the previous years and the management of the De-consolidated Subsidiaries did not provide response to any request for information. The financial results, cash flows and assets and liabilities of the De-consolidated Subsidiaries have not been included in the consolidated financial statements of the Group in respect of the financial year ended 31 December 2014.

For the purposes of the consolidated financial statements, in view of the de-consolidation of the De-consolidated Subsidiaries with effect from 1 January 2014, all references to the "Group" refer to the Company and its subsidiaries excluding the De-consolidated Subsidiaries if the words "the Group" are used in respect of the year ended or as at 31 December 2014, but refer to the Company and all its subsidiaries (including the De-consolidated Subsidiaries) if the words are used in respect of the year ended or as at 31 December 2013 or earlier periods or dates.

Details of the assets and liabilities of the De-consolidated Subsidiaries as at 1 January 2014 and the results and cash flows of the De-consolidated Subsidiaries for the year ended 31 December 2013, based on the carrying amounts of their assets and liabilities included in the consolidated financial statements of the Group as at 31 December 2013, are set out below:

## (a) De-consolidation of De-consolidated Subsidiaries

| | RMB'000 |
|---|---|
| ***Details of net assets as at 1 January 2014*** | |
| Property, plant and equipment | 58,822 |
| Prepaid lease payments | 11,061 |
| Available-for-sale financial asset | 1,125 |
| Intangible assets | 182,250 |
| Goodwill | 54,876 |
| Deferred tax assets | 1,007 |
| Inventories | 16,598 |
| Trade receivables | 57,645 |
| Prepayments and other receivables | 437 |
| Amounts due from other companies of the Group | 156,136 |
| Pledged deposits | 8,250 |
| Cash and cash equivalents | 1,257,295 |
| Trade payables | (359) |
| Other payables and accrued charges | (51,620) |
| Amounts due to other companies of the Group (note) | (24,802) |
| Borrowings | (30,000) |
| Provision for income tax | (16,910) |
| Deferred tax liabilities | (78,372) |
| Net assets of the De-consolidated Subsidiaries | 1,603,439 |
| Less: Non-controlling interests | (76,245) |
| Net assets of the De-consolidated Subsidiaries attributable to the Company | 1,527,194 |
| Loss on de-consolidation of De-consolidated Subsidiaries, presented as "Loss arising from the Incidents" in consolidated profit or loss | (1,527,194) |

Note: Out of the amounts due by the De-consolidated Subsidiaries to the other companies of the Group as at 1 January 2014, an amount of approximately RMB24,802,000 was subsequently recognised as impairment loss by the Group in consolidated profit or loss for the year ended 31 December 2014.

| | RMB'000 |
|---|---:|
| ***Details of results for the year ended 31 December 2013*** | |
| Revenue | 748,960 |
| Cost of sales | (214,017) |
| Gross profit | 534,943 |
| Other income and gains | 11 |
| Distribution and selling expenses | (186,866) |
| Administrative expenses | (22,278) |
| Other expenses and losses | (24,240) |
| Finance income | 3,134 |
| Finance costs | (1,729) |
| Profit before tax | 302,975 |
| Income tax expense | (64,202) |
| Profit and other comprehensive income for the year | 238,773 |
| ***Details of cash flows for the year ended 31 December 2013*** | |
| Net cash from operating activities | 441,679 |
| Net cash used in investing activities | (3,161) |
| Net cash from financing activities | 13,724 |
| | 452,242 |

**(b) Net cash outflow arising on de-consolidation of De-consolidated Subsidiaries**

| | 2014<br>RMB'000 |
|---|---:|
| Cash and cash equivalents of De-consolidated Subsidiaries | (1,257,295) |

**(c) Amounts due from the De-consolidated Subsidiaries included in the consolidated statement of financial position as at 31 December 2014 were as follows:**

| | 2014<br>RMB'000 |
|---|---:|
| Prepayments and other receivables | - |

**(d) Amounts due to the De-consolidated Subsidiaries included in the consolidated statement of financial position as at 31 December 2014 were as follows:**

| | 2014<br>RMB'000 |
|---|---:|
| Other payables and accrued charges | 574,621 |

## 5. Revenue and segment information

Revenue of the Group represents the amounts received and receivables for goods sold to customers excluding value-added tax ("**VAT**"). An analysis of the Group's revenue for the year by major categories of goods sold is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Powdered form drugs | - | 504,040 |
| Injection form drugs | - | 33,891 |
| Biological drugs | 279,228 | 376,669 |
| | 279,228 | 914,600 |

The chief operating decision maker ("**CODM**") of the Group, being the Company's Chief Executive Officer, monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

For the year ended 31 December 2014, the Group's principal activities were research, development and manufacture of biological drugs. For the purpose of resources allocation and assessment of performance, the CODM regularly reviewed the Group's performance based on revenue and gross profit margin of the Group as a whole. No other discrete financial information was provided to the CODM. As the Group's resources are integrated and there are no discrete operating segment assets and liabilities reported to the CODM, accordingly, no separate segment information is presented.

For the year ended 31 December 2013, the Group's principal activities also included research, development and manufacture of powdered form drugs and injection form drugs, being the principal activities of the De-consolidated Subsidiaries. For segment reporting purposes, the Group was organised into three operating segments, namely powdered form drugs, injection form drugs and biological drugs. Each operating segment represented a strategic business unit that offered different forms of animal drug products. The Group's risks and rates of return were affected predominantly by different type of products produced and sold. Based on the three strategic business units' information, the CODM monitored the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

No operating segments had been aggregated to form the following reportable segments and there were no inter-segment sales during the year ended 31 December 2013.

Segment results represented the profit earned by each operating segment without allocation of delisting expenses, corporate expenses, finance income, finance costs and income tax expense. The Group's financing and income taxes were managed on a group basis and were not allocated to operating segments.

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets were allocated to operating segments other than deferred tax assets and corporate cash and cash equivalents; and
- all liabilities were allocated to operating segments other than borrowings, other corporate payables, deferred tax liabilities and provision for income tax.

The following is an analysis of the Group's revenue and results by reportable and operating segment for the year ended 31 December 2013:

| | Powdered form drugs RMB'000 | Injection form drugs RMB'000 | Biological drugs RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Segment revenue | 504,040 | 33,891 | 376,669 | 914,600 |
| Segment results | 206,691 | 14,461 | 111,275 | 332,427 |
| Delisting expenses | | | | (20,863) |
| Corporate expenses | | | | (22,804) |
| Finance income | | | | 3,561 |
| Finance costs | | | | (7,635) |
| Profit before tax | | | | 284,686 |

The following is an analysis of the Group's assets and liabilities by reportable and operating segment as at 31 December 2013:

| | Powdered form drugs RMB'000 | Injection form drugs RMB'000 | Biological drugs RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| ***Segment assets*** | | | | |
| Segment assets | 932,306 | 70,982 | 1,343,127 | 2,346,415 |
| Unallocated assets: | | | | |
| - corporate cash and cash equivalents | | | | 127,768 |
| - deferred tax assets | | | | 1,007 |
| Total assets | | | | 2,475,190 |
| ***Segment liabilities*** | | | | |
| Segment liabilities | 45,218 | 3,263 | 38,965 | 87,446 |
| Unallocated liabilities | | | | |
| - other corporate payables | | | | 4,327 |
| - borrowings | | | | 87,297 |
| - provision for income tax | | | | 27,171 |
| - deferred tax liabilities | | | | 134,755 |
| Total liabilities | | | | 340,996 |

**Other segment information**

Amounts included in the measurement of segment results or segment assets for year ended and as at 31 December 2013:

| | Powdered form drugs RMB'000 | Injection form drugs RMB'000 | Biological drugs RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Capital expenditure | | | | |
| - property, plant and equipment | 1,960 | 20 | 577 | 2,557 |
| Depreciation of property, plant and equipment | 1,794 | 131 | 15,915 | 17,840 |
| Amortisation of intangible assets | - | - | 75,400 | 75,400 |
| Release of prepaid lease payments | - | - | 384 | 384 |

**Geographical segments**

The Group's operations are located in the PRC and substantially all of the Group's non-current assets excluding financial instruments and deferred tax assets are located in the PRC. The Group's revenue from external customers are generated from the PRC.

**Information about major customers**

There was one major customer (2013: Nil) who individually accounted for 10% or more of the Group's revenue. Revenue of approximately RMB30,431,000 was derived from this customer in the Group's biological drugs business.

## 6. (Loss)/Profit for the year

(Loss)/Profit for the year has been arrived at after charging:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Depreciation of property, plant and equipment | 11,807 | 17,840 |
| Amortisation of intangible assets (included in cost of sales) | 47,900 | 75,400 |
| Total depreciation and amortisation | 59,707 | 93,240 |
| Staff costs, including directors emoluments | 22,718 | 129,455 |
| Contributions to defined contribution plans | 2,446 | 2,594 |
| | 25,164 | 132,049 |
| Auditors' remuneration | 2,800 | 2,000 |
| Release of prepaid lease payments | 108 | 384 |
| Operating leases payments in respect of rented premises | - | 11,616 |

## 7. Income tax expense

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| PRC Enterprise Income Tax: | | |
| Current year | 19,319 | 79,845 |
| Under provision in prior years | 357 | 16 |
| | 19,676 | 79,861 |
| Deferred tax | | |
| Current year | (42,746) | (6,675) |
| | (23,070) | 73,186 |

## 8. Dividends

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Dividends recognised as distribution during the year:<br>2013 final<br>- RMB2.5 cents per share | 49,150 | - |

No dividend was paid, declared or proposed during the year ended 31 December 2013.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2014.

## 9. (Loss)/Earnings per share

The calculation of the (loss)/earnings per share is based on the following data:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **(Loss)/Earnings** | | |
| (Loss)/Earnings attributable to the owners of the Company for the purpose of basic and diluted (loss)/earnings per share | (1,816,036) | 186,333 |

| | 2014 | 2013 |
|---|---|---|
| **Number of shares** | | |
| Number of ordinary shares for the purposes of basic (loss) earnings per share | 1,965,989,853 | 1,725,300,508 |
| Effect of dilutive potential ordinary shares arising from warrants | - | 5,123,662 |
| Number of ordinary shares for the purposes of diluted (loss) earnings per share | 1,965,989,853 | 1,730,424,170 |

Diluted earnings loss per share for the year ended 31 December 2014 was the same as the basic earnings per share as there was no potential ordinary shares outstanding during the year.

## 10. Trade receivables

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Trade receivables | 60,808 | 120,565 |
| Trade receivables from related parties (note) | - | 400 |
| | 60,808 | 120,965 |

Note: Related parties are companies controlled by Mr. Wang.

For the year ended 31 December 2014, the Group allowed credit periods ranging from 30 to 180 days to customers which were government bureaus. Other customers were granted with credit terms of 1 year or on cash on delivery or before delivery. The credit terms vary on a case by case basis based on the creditworthiness and the Group's existing relationships with the customers.

For the year ended 31 December 2013, the Group allows credit period ranging from 30 to 180 days to largescale poultry enterprises and varies on a case to case basis based on the creditworthiness and the Group's existing relationships with its customers.

### a) Aged analysis of trade receivables

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| 0–30 days | 55,573 | 21,420 |
| 31–90 days | 5,235 | 32,760 |
| 91–180 days | - | 41,836 |
| 181–365 days | - | 24,949 |
| | 60,808 | 120,965 |

## 11. Trade payables

The following is an aged analysis of the trade payables to third parties presented based on the invoice date at the end of the reporting period.

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| 0–30 days | 6,494 | 6,605 |
| 31–90 days | 5,137 | 9,878 |
| 91–180 days | 4,720 | 2,773 |
| 181–365 days | 5,088 | 1,518 |
| Over 365 days | 1,483 | 1,096 |
| | 22,922 | 21,870 |

There average credit period on purchases of goods is 0 to 40 days.

## (II) Management Discussion and Analysis

Given the circumstances that substantial portion of the books and records of the Company's subsidiaries could not be located or accessed, the financial statements of those subsidiaries have been de-consolidated from the consolidated financial information of the Group. Therefore, the financial statements as at and for the year ended 31 December 2014 comprise the Company, Evanton Pte. Ltd and Bigvet Biotech only ("New Group"). For consistency, various prior year's figures used in the following analysis is comprises the New Group only and is unaudited.

Financial Review

A breakdown of the Group's revenue by business activities for the financial year ended 31 December 2014 ("**FY2014**") is set out below.

| **Revenue** | **FY2014** | | **FY2013** | |
|---|---|---|---|---|
| | **RMB'000** | **%** | **RMB'000** | **%** |
| Powdered form drugs | - | - | 504,040 | 55.1 |
| Injection form drugs | - | - | 33,891 | 3.7 |
| Biological drugs | 279,228 | 100.0 | 376,669 | 41.2 |
| - *FMD* | 279,228 | | *165,572* | |
| - *PRRS* | - | | *140,789* | |
| - *Swine fever* | - | | *32,122* | |
| - *Others* | - | | *38,186* | |
| Total | 279,228 | 100.0 | 914,600 | 100.0 |

Biological Drugs

Sales of biological drugs amounted to RMB279.2 million in FY2014. This is a decrease of RMB97.5 million or 25.9% over FY2013 revenue of RMB376.7 million.

Revenue for FMD vaccines amounted to RMB279.2 million, an increase of RMB113.6 million or 68.6% from revenue of RMB165.6 million in FY2013. Revenue from sales of FMD vaccines to provincial veterinary stations increased by RMB34.3 million or 20.7% from RMB165.6 million in FY2013 to RMB199.9 million in FY2014. Following its initial launch in 2011, the Group's FMD vaccines have since enjoyed increasing market acceptance and approbation. In addition to selling to more provincial veterinary stations, the Group has also started selling premium FMD vaccines to breeders in FY2014. Premium FMD vaccines accounted for RMB79.3 million in turnover for the year.

Excluding effects of amortisation: Cost of sales of FMD vaccines constituted approximately 26.0% and 34.4% of its revenue in FY2014 and FY2013 respectively. Cost of sales of FMD vaccines increased by RMB15.8 million from RMB56.9 million in FY2013 to RMB72.7 million in FY2014. Gross profit margin improved by 8.4 percentage points to 74.0% in FY2014 from 65.6% in FY2013 due in part to increase in selling prices to provincial veterinary stations and in part to premium FMD vaccines sold during the year. Premium vaccines enjoyed higher gross profit margins than the ones sold to provincial veterinary stations.

Other income and gains mainly pertain to government grant and net foreign exchange gain.

Distribution and selling expenses pertaining to sales of FMD vaccines amounted to RMB55.6 million in FY2014, an increase of RMB33.7 million from RMB21.9 million in FY2013. The increase is due mainly to increases in payroll expenses, travelling expenses, transport expenses, after-sales service fees and promotion expenses. Increased payroll expenses is due mainly to higher sales commission paid out at the back of the 68.60% increase in sales of FMD vaccines.

Administrative expenses amounted to RMB19.7 million in FY2014 which are mainly made up of payroll expenses, other office expenses and professional fees.

Other expenses and losses of RMB423.6 million comprises mainly impairment loss on intangible assets, goodwill and amounts due from De-consolidated subsidiaries of RMB295.2 million, RMB69.7 million and RMB40.3 million respectively.

Loss arising from the Incidents amounted to RMB1.5 billion.

Finance income pertained to interest income on bank balances which amounted to RMB0.8 million.

Finance costs mainly pertained to loan interest expense on borrowings by Bigvet Biotech. The decrease can be attributed to the interest on Redemption Amount of the convertible bond of RMB2.5 million that was incurred in FY2013 and not in FY2014.

Income tax credit amounted to RMB23.1 million in the current year. The PRC subsidiary had been designated as a High and New Technology Enterprise and enjoys a tax rate of 15% for the financial years 2012 to 2014. It has successfully applied as a High and New Technology Enterprise in 2014 for a period from 2015 to 2017. In addition, the Group has also provided for withholding tax of 10% on the portion of undistributed profits derived by the PRC subsidiary in FY2014.

As a result of the foregoing, net loss for the year attributable to owners of the Company amounted to RMB1.8 billion in FY2014. Net loss attributable to non-controlling interests amounted to RMB26.8 million in FY2014.

The Group's non-current assets for FY2014 comprises mainly property, plant and equipment of RMB107.7 million, prepaid lease payments of RMB4.4 million and available-for-sale financial asset of RMB76.4 million. The available-for-sale financial asset of RMB76.4 million was paid towards the paid-in capital of Liaoning Yikang Biological Corporation Limited ("**Liaoning Yikang**") for a 16.99% stake in the company. Liaoning Yikang is a designated producer of bird flu inactivated vaccine and live-attenuated swine fever vaccine appointed by the Ministry of Agriculture of the People's Republic of China. The carrying value of the intangible assets of Bigvet Biotech which comprises production technology rights and seed strains is nil after impairment charge of RMB295.2 million and amortisation charge of RMB47.9 million during FY2014. The carrying value of goodwill on acquisition of Bigvet Biotech is nil after impairment charge of RMB69.7 million.

The Group's current assets for FY2014 comprises mainly inventories of RMB32.5 million, trade receivables of RMB60.8 million, prepayments and other receivables of RMB7.3 million, pledged deposits of RMB21.2 million and cash and cash equivalents of RMB150.3 million. Cash and cash equivalents (excluding pledged deposits of RMB21.2 million) amounted to RMB150.3 million as at 31 December 2014. Net cash used in operating activities amounted to RMB1.2 billion which resulted mainly from loss arising from the Incidents. Net cash used in investing activities amounted to RMB5.0 million which mainly relates to purchase of property, plant and equipment. Net cash used in financing activities amounted to RMB45.6 million which mainly relates to dividends amounting to RMB49.0 million that was paid to owners of the Company.

The Group's current liabilities for FY2014 comprises trade payables of RMB22.9 million, other payables and accrued charges of RMB600.3 million, borrowings of RMB64.4 million and provision for income tax of RMB14.0 million. Other payables and accrued charges comprises mainly amounts due to De-consolidated Subsidiaries of RMB574.6 million. The Group's borrowings of RMB64.4 million as at 31 December 2014 comprise loans taken for working capital purposes. The loans are due in 2015. Income tax liabilities relates mainly to corporate tax payable by the PRC subsidiary on the operating profits.

Non-current liability comprises deferred tax liabilities amounting to RMB13.6 million as at 31 December 2014. This pertained mainly to accruals for PRC withholding tax on expected dividends out of the profits derived by the PRC subsidiary.

The Group's capital and reserves comprised share capital, share premium, retained earnings, other reserves and non-controlling interests. Capital deficiency of RMB251.1 million was recorded as a result of the impact of the de-consolidation of the de-consolidated subsidiaries. Net loss attributable to owners of the Company and non-controlling interests amounted to RMB1.8 billion and RMB26.8 million during the year respectively. Total capital deficiency attributable to owners of the Company amounted to RMB284.4 million as at 31 December 2014.

## (III) Supplementary information

### 1. Audit Committee

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and standards adopted by the Group, reviewed the annual results for the year ended 31 December 2014, and has discussed and reviewed the internal control and reporting matters.

### 2. Compliance with the Corporate Governance Code

The Company devotes to best practice on corporate governance, and has complied with all the code provisions of the Corporate Governance Code (the ''**CG Code**'') as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") throughout the financial year ended 31 December 2014, except for deviations from Code Provisions A.2.1 and A.5.1 of the CG Code which is explained below:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer ("**CEO**") should be separate and should not be performed by the same individual.

Mr. Wang Yangang was the Chairman and CEO of the Company. The Board is of the view that there is already a sufficiently strong independent element on the Board to enable independent exercise of objective judgement on affairs and operations of the Group by members of the Board, taking into account factors such as the number of the independent non-executive directors on the Board as well as the contributions made by each member at board meetings which relate to the affairs and operations of the Group. The Board is satisfied that one person is able to effectively discharge the duties of both positions.

Code Provision A.5.1 stipulates that issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

During the year ended 31 December 2014, Madam Feng Jinglan (as chairman), Mr. Ong Kian Guan and Mr. Wong Gang were the members of the nomination committee of the Company (the "**Nomination Committee**") until their retirement as the Company's independent non-executive directors at the 2014 annual general meeting held on 3 June 2014 and did not seek for re-election.

The Company made their best endeavour to form the Nomination Committee again on 6 June 2014. Mr. Liu Zhanmin (independent non-executive Director) has been the chairman while Mr. Liang Hsien Tse Joseph (independent non-executive director) and Dr. Ying Du have been members of the Nomination Committee.

The Company has therefore deviated from Code Provision A.5.1 for only three days.

## 3. Compliance with the Model Code for Securities Transactions by Directors of Listed Issuer

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") as set out in Appendix 10 of the Listing Rules and its amendments from time to time as its own code of conduct regarding securities transaction by directors of the Company (the "**Directors**"). The Board confirms, having made specific enquiries with all Directors that during the year ended 31 December 2014, all Directors have complied with the required standards of the Model Code.

## 4. Closure of Register of Members

Not applicable as no dividend in respect of the year ended 31 December 2014 has been proposed by the Directors.

## 5. Purchase, Sales or Redemption of the Company's Securities

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the securities of the Company during the financial year ended 31 December 2014.

## 6. Event after the Reporting Period

(a) Performance Share Scheme

On 12 January 2015, pursuant to the Performance Share Scheme, two executive directors of the Company and 17 employees of the Group and 27 employees of the De-consolidated Subsidiaries (collectively, the "**Grantees**") were granted Awarded Shares ("**Awarded Shares**"). The aggregate number of Awarded Shares of the Company to be allotted and issued pursuant to the Grant, if fully vested, is 11,800,000. The Awarded Shares will be vested to the Grantees in 3 tranches in 2016, 2017 and 2018 equally subject to the fulfillment of the below performance targets of the Group:-

(i) for the financial year ended 2015, the Group records a 35% increase in net profit to 2014 excluding all exceptional items in the audited profit and loss statement;
(ii) for the financial year ended 2016, the Group records a 30% increase in net profit to 2015 excluding all exceptional items in the audited profit and loss statement;
(iii) for the financial year ended 2017, the Group records a 30% increase in net profit to 2016 excluding all exceptional items in the audited profit and loss statement.

The price of the Awarded Shares to the executive directors is HK$5.45 per share of the Company, being the closing price of such Awarded Shares as stated in the Stock Exchange's daily quotations sheets for the day immediately preceding the date on which the relevant Award Shares were granted.

The grant of the Awarded Shares was conditional upon approval by shareholders of the Company in a general meeting of the Company. Up to the date of approval of the consolidated financial statements for the year ended 31 December 2014, no such shareholders' meeting has been held to approve the grant of the Awarded Shares.

Other than as disclosed here, there are no shares granted or awarded under the Performance Share Scheme during the year ended 31 December 2014 and 2015.

(b) Disposal of Shares by and Change of Substantial Shareholder

On 31 October 2017, Lilly Nederland Holding B.V. ("**Petitioner**"), entered into a Shares Transfer Agreement (the "**Shares Transfer Agreement**") to dispose of 400,000,000 shares in the share capital of the Company (representing around 20.4% of the issued share capital of the Company) to Good Charm. After the completion of the Disposal on 7 December 2017, the Petitioner ceased to have any shareholding interest in the Company and Good Charm held 400,000,000 shares, representing 20.4% of the issued share capital of the Company and became a substantial shareholder of the Company. On 19 December 2017, the Petitioner filed summons to seek the withdrawal of the winding up proceedings. On 12 March 2018, the Court of the First Instance of High Court of Hong Kong has dismissed the Petition.

(c) Update on Recent Development of Suspension of Trading

On 3 November 2017, the Company received a letter from the Stock Exchange notifying, among others, that the Listing Department of the Stock Exchange intends to commence the procedures under Rule 6.10 of the Listing Rules to cancel the Company's listing on the ground that the Company is no longer suitable for listing and intends to publish an announcement under Rule 6.10 pursuant to which the Company will have a period until 14 May 2018 to remedy the matters which have rendered the Company unsuitable for listing, failing which the Listing Department will recommend the Listing Committee to proceed with the cancellation of the Company's listing. On 14 November 2017, the Company has submitted a request to the Listing Committee for review of the Listing Department's Decision of 3 November 2017 pursuant to Listing Rule 2B.06(1). The review hearing was held on 19 April 2018, during which the Listing Committee of the Stock Exchange considered the request made by the Company for review of the Department's Decision. On 27 April 2018, the Company received a facsimile from the Stock Exchange notifying the Company that the Listing Committee decided to uphold the Department's Decision to commence the procedures under Rule 6.10 of the Listing Rules to cancel the Company's listing on the ground that the Company is no longer suitable for listing. On 7 May 2018, the Company has lodged a request to the Listing (Review) Committee for reviewing the Listing Committee's Decision.

(d) Change in the Directors of the Company

Mr. Sun Jinguo resigned as an executive Director and deputy chief executive officer of the Company on 26 June 2015.

Mr. Liang Hsien Tse Joseph resigned as an independent non-executive Director on 26 June 2015.

Ms. Song Yanmei was appointed as an executive Director with effect from 9 July 2015.

Mr. Zhang Suqiang was appointed as an independent non-executive Director with effect from 27 July 2015.

Mr. Alberto Riva resigned as a non-executive Director with effect from 29 February 2016.

Dr. Du Ying resigned as a non-executive Director with effect from 17 March 2016.

Mr. Goh Kay Seng Edwin resigned as a non-executive Director with effect from 1 April 2016.

Mr. Wang Yangang resigned as the chairman of the Board, executive Director and chief executive officer of the Company with effect from 24 July 2017.

Mr. Li resigned as an executive Director and deputy chief executive officer of the Company with effect from 24 July 2017.

Mr. Wang Yongwei was appointed as an executive Director with effect from 11 September 2017.

7. **Extract of Independent Auditors' Report on the Company's Financial Statements for the year ended 31 December 2014, an extract of which is as follows:**

The Company's auditors have issued disclaimer of opinion on the Group's consolidated financial statements for the year ended 31 December 2014, an extract of which is as follows:

**BASIS FOR DISCLAIMER OPINION**

**(a) Loss of accounting records and de-consolidation of certain subsidiaries of the Company incorporated in the People's Republic of China (the "PRC")**

As disclosed in note 2 to the consolidated financial statements:

(i) On 10 June 2015, the Company announced that during the course of the audit of the Group's consolidated financial statements for the year ended 31 December 2014, the Company and its auditors at that material time (the "**Predecessor Auditors**") were unable to agree upon certain specific work steps in respect of additional audit procedures to confirm the bank balances of the Group and that the Predecessor Auditors had alleged misconduct on the part of an employee of the Group (collectively referred to as the "**Unresolved Matters**"). The Predecessor Auditors subsequently resigned on 25 September 2015;

(ii) On 30 October 2015, the Company announced that a firm of forensic accounting specialists (the "**Forensic Accountants**") was appointed to investigate the Unresolved Matters. Later, on 28 December 2015, the Company announced that a truck (the "**Truck**") loaded with, among other things, original financial documents of certain subsidiaries of the Company (the "**Relevant PRC Subsidiaries**") for the five financial years ended 31 December 2015 (the "**Lost Documents**") were stolen in the Qingyuan District of Baoding City, Hubei Province, the PRC on 4 December 2015 (the "**Truck Theft**"). Details of the Relevant PRC Subsidiaries are set out in note 2 to the consolidated financial statements;

(iii) On 28 December 2015, the Company also announced that a special investigation group (the "**Special Investigation Group**") accountable to the board of directors of the Company (the "**Board**") was established on 5 December 2015 which was headed by Mr. Li Jun, an executive director of the Company at that material time ("**Mr. Li**"), to (i) investigate into the Truck Theft, (ii) maintain close contact with the Public Security Bureau of the PRC (the "**PSB**") to search for the Truck, and (iii) confirm the list of Lost Documents and follow up on this matter;

(iv) On 17 October 2016, the Company announced that it had come to the attention of the Board that there were apparent discrepancies between the year end balances of the bank statements obtained directly from the banks and those stated in the accounting records of the Relevant PRC subsidiaries at 31 December 2014 and 2015 (the "**Possible Accounting Discrepancies**"). For the purpose of carrying out an independent and in-depth investigation into the Possible Accounting Discrepancies, a special investigation committee (the "**Special Investigation Committee**") with members comprised of all independent non-executive directors of the Company was established on 14 October 2016 to conduct an investigation into the Possible Accounting Discrepancies. The Forensic Accountants were instructed by the Special Investigation Committee to extend its scope of investigation to cover the Possible Accounting Discrepancies. As a result, the works covered by the Forensic Accountants comprise mainly the Unsolved Matters, the Truck Theft and the Possible Accounting Discrepancies (hereinafter referred to as the "**Forensic Investigations**").

(v) On 27 July 2017, the Company announced that the Forensic Accountants had completed their investigations and the Company had reported the results of the

Forensic Investigations to the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 30 June 2017. It was announced that in the light of the results of the Forensic Investigations, the Special Investigation Committee had, in a meeting convened on 12 July 2017, resolved to make, amongst others, the following suggestions to the Board for their consideration: (i) a number of the management staff who might be involved in all or some of the matters covered by the Forensic Investigation should cease to hold their offices in the Group; and (ii) in respect of the results of the Forensic Investigations, the Company should report the matter to the Police in Hong Kong for their investigation. The Special Investigation Committee, at the same meeting, also resolved to instruct independent PRC legal advisers to consider whether the Group should take any civil action in the PRC against those former and/or current management staff of the Group who might be involved in all or some of the matters covered by the Forensic Investigations or report the matter to the PSB for their investigation.

In addition, as disclosed in note 2 to the consolidated financial statements, the Special Investigation Committee has reached the following conclusions:

- the discrepancies between the balances shown on the bank statements obtained from the banks and the balances in the accounting records of the Relevant PRC Subsidiaries as at 31 December 2014 amounted to approximately RMB1,060,196,000. The discrepancies between the opening balances of the bank statements and the opening balances shown in the accounting records of the Relevant PRC Subsidiaries as at 1 January 2014 amounted to approximately RMB951,513,000, thus showing that the Group's funds were already unaccounted for at the beginning of the financial year ended 31 December 2014;

- there were overstatements of recorded sales revenue, the amounts of which could not, however, be determined;

- there were evidences obtained which supported that certain customers and suppliers to whom recorded sales and purchases related were either non-existent or had ceased to have sales or trading transactions with the Relevant PRC Subsidiaries since the years ended 31 December 2012 and 2013;

- there were insufficient information or evidence to support the validity of the Truck Theft and the details of the Lost Documents; and

- there were insufficient information or evidence to support the validity of the returns of goods and relevant claims as set out in the Company's announcement dated 30 November 2015 which were supposedly as a result of the revocation of GMP certificates and production permits as disclosed in the Company's announcement dated 23 October 2015.

(vi) on 14 November 2017, the Company announced that, after considering the advice from the independent PRC legal advisers of the Special Investigation Committee and upon the recommendation of the Special Investigation Committee: (i) the Company had reported to the Commercial Crime Bureau of the Police in Hong Kong and were informed that there was insufficient evidence to support a charge against any person. As such, there would be no prosecution action at that stage; (ii) the Company had sought legal advice from its legal advisers as to whether the Company should commence any action or other legal proceedings in the name and on behalf of the Company in Hong Kong for seeking remedy and/or recovery of losses and damages suffered or sustained by the Company; (iii) the Company had instructed the Company's PRC legal advisers to report the results of the Forensic Investigations to the PSB for their investigation and the PSB had accepted the case for their criminal investigation on 13 September 2017; and (iv) on 28 August 2017, the Company's PRC legal advisers submitted to the PRC court the papers commencing civil action in the PRC against the former management staff of the Company and the PRC court had accepted the case. As at the date of this report, the investigation of the

PSB and the proceeding in the PRC court are still in progress.

The management of the Group asserted that since the occurrence of the Truck Theft, the finance team of the Group had been attempting to retrieve as many copies of the Lost Documents as possible and that the Forensic Accountants were instructed to reconstruct certain books and records of the Relevant PRC Subsidiaries and obtain alternative or secondary information or confirmations within the Group or from third parties. As of the date of this report, the retrieval of copies of the Lost Documents and reconstruction of books and records referred to above could not be completed. Further, the investigations by the PSB based on the results of the Forensic Investigations concerning the Truck Theft, the Unresolved Matters and the Possible Accounting Discrepancies are still in progress. Under these circumstances, we have not been able to obtain sufficient appropriate audit evidence to enable us to assess the effects of the matters to which these investigations and other works relate. There were no alternative audit procedures that we could perform to obtain sufficient and appropriate evidence as to the causes and effects of the Truck Theft, the Possible Accounting Discrepancies and the irregularities and misconduct constituting the Unresolved Matters, and their implications and impacts on the elements presented in the consolidated financial statements of the Group for the year ended 31 December 2014 and the comparative figures presented in these consolidated financial statements. In particular, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves regarding (i) whether problematic transactions and balances that caused, or were caused by, the discrepancies, irregularities and misconduct which are the subject matters of the Unresolved Matters, the Truck Theft and the Possible Accounting Discrepancies and which were the subject matters of the Forensic Investigations had been completely identified by the management of the Group and appropriately reflected in the Group's consolidated financial statements for the respective financial years to which they relate (i.e. the year ended 31 December 2014 or preceding year or years, as the case may be); (ii) the nature and validity of the problematic transactions and balances and the reasons why they arose; (iii) whether there were any contingent or unrecorded liabilities arising from the problematic transactions and balances (including penalties and other financial consequences from breaches of laws and regulations); and (iv) whether there were any problematic transactions and balances involving related parties but which had not been identified by the management of the Group. As the closing balances as at 31 December 2013 of the assets and liabilities of the Group entered into the determination of the financial performance and cash flows of the Group for the current financial year ended 31 December 2014 and have carryforward effects on the closing balances as at 31 December 2014, any adjustments found to be necessary to the closing balances as at 31 December 2013 may significantly affect the balance of reserves of the Group as at 1 January 2014, the Group's results and cash flows for the year ended 31 December 2014, the closing balances of assets and liabilities as at 31 December 2014 and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2014.

The scope limitations described above also impact on our ability to determine the reliability of the management representations received by us as audit evidence for our audit testing purposes and hence of the audit evidence in general. Any adjustments found to be required may have consequential significant effects on the elements in the consolidated financial statements for the year ended 31 December 2014 and/or the comparative figures for the preceding financial year and hence on the net liabilities or assets of the Group as at 31 December 2014 and 2013 and the loss or profit and total comprehensive loss or income and cash flows for the years then ended.

Given the loss of books and records of the Relevant PRC Subsidiaries and the fact that the Group had lost contact with a number of key accounting personnel and management personnel of the Relevant PRC Subsidiaries who had left the Group before the date of this report, the Board considered that the Group did not have the necessary information about the transactions and account balances of the Relevant PRC Subsidiaries for inclusion of these entities in the consolidated financial statements of the Group for the year ended 31 December 2014. In addition, all of the Relevant PRC Subsidiaries, except for Shanxi Longkeer Biological Pharmaceutical Co. Ltd (山西隆克爾生物製藥有限公司) ("**Shanxi Longkeer**"), had commenced the process of liquidation as at the date of this report. Accordingly, the Board had determined that the Relevant

PRC Subsidiaries shall be de-consolidated from the consolidated financial statements of the Group with effect from 1 January 2014.

In the preparation of the consolidated financial statements of the Group for the year ended 31 December 2014, the directors of the Company have included the results, cash flows and financial position of Inner Mongolia Bigvet Bio-tech Co., Ltd (內蒙古必威安泰生物科技有限公司) ("**Bigvet Biotech**") in the consolidated financial statements as they were able to have access to the books and records and key management personnel of Bigvet Biotech. Bigvet Biotech is an indirectly held non-wholly owned subsidiary of the Company, which as at 31 December 2014, 87.8% of its equity interests were held by Beijing Pagina-Kang Technology Co. Ltd (北京保吉安科技有限公司) (formerly known as Beijing Healthcare Technology Co. Ltd (北京海思科瑞科技有限公司)) ("**Beijing Pagina-Kang**"), Hebei Pagina-Kang Kang Animal Medicine Company Limited (河北保吉安康動物藥業有限公司) and Shenzhou Pagina-Kang Technology Co. Ltd (深州保吉安康科技有限公司), which are part of the Relevant PRC Subsidiaries. On 27 November 2017, the directors of the Company had successfully arranged for the transfer of the 87.8% equity interests of Bigvet Biotech to Beijing Bigvet Technology Co. Ltd (北京必威安泰科技有限公司), which is a wholly owned subsidiary of the Company established on 30 March 2017 and directly held by Evanton Pte. Ltd ("**Evanton**"), a wholly owned subsidiary directly held by the Company.

The de-consolidation of the Relevant PRC Subsidiaries resulted in a loss on de-consolidation of approximately RMB1,527,194,000, representing the carrying amounts of the net assets of the Relevant PRC Subsidiaries as at 1 January 2014 as included in the management accounts of these subsidiaries used in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2013. This loss amount, which includes the effects of the Truck Theft, the Possible Accounting Discrepancies and the irregularities and misconduct constituting the Unresolved Matters (hereinafter referred to collectively as the "**Incidents**") which as at the date of this report are still undetermined, has been recognised as "loss arising from the Incidents" in consolidated profit or loss for the year ended 31 December 2014.

The de-consolidation of the Relevant PRC Subsidiaries with effect from 1 January 2014 resulted in the exclusion of the assets, liabilities, revenue, income, expenses, and cash flows of the Relevant PRC Subsidiaries from the consolidated financial statements of the Group for the year ended 31 December 2014. This accounting outcome is a departure from the requirements of IFRS 10 "Consolidated Financial Statements" which requires all subsidiaries controlled by the Company and its subsidiaries to be included in the consolidated financial statements. The facts and circumstances described above do not show that the Group had lost control over the Relevant PRC Subsidiaries with effect from 1 January 2014. Accordingly, under IFRS 10, the Company should have consolidated the Relevant PRC Subsidiaries in its consolidated financial statements for the year ended 31 December 2014. Had the Relevant PRC Subsidiaries been consolidated, many elements in the consolidated financial statements for the year ended 31 December 2014 would have been materially affected and the effects of the Incidents would have to be recognised, and reflected, in the consolidated financial statements of the financial years to which they relate. As at the date of this report, the effects of the Incidents are still undetermined and we have not been able to obtain sufficient appropriate audit evidence to enable us to assess the effects of the matters to which the investigations and retrieval of documents and reconstruction of books and records works relate, including the effects of the Truck Theft, the Possible Accounting Discrepancies and the irregularities and misconduct constituting the Unresolved Matters. Accordingly, the effects on the consolidated financial statements of the failure to consolidate the Relevant PRC Subsidiaries could not be determined.

**(b) Opening balances and the comparative information**

As explained in section (a) above, the scope of our audit work was limited as there were no alternative procedures that we could perform to obtain sufficient and appropriate evidence as to the causes and effects of the Truck Theft, the Possible Accounting Discrepancies and the irregularities and misconduct constituting the Unresolved

Matters, and their implications and impacts on the elements presented as comparative figures in the consolidated financial statements of the Group. In addition, as of the date of this report, the retrieval of copies of the Lost Documents and reconstruction of books and records referred to in section (a) above could not be completed. We were also unable to review bank statements from banks in respect of bank balances of the Group as of any financial year end dates prior to 31 December 2013 as the relevant bank accounts to which such bank balances relate had been closed. In view of the matters described herein, we were unable to determine whether adjustments might have been necessary in respect of the figures as at and for the year ended 31 December 2013 presented as comparative figures in the consolidated financial statements and the possible effects of these matters on the comparability of the current year's figures and the comparative figures.

Furthermore, the closing balances as at 31 December 2013 of the assets and liabilities of the Group entered into the determination of the financial performance and cash flows of the Group for the current financial year ended 31 December 2014 and have carryforward effects on the closing balances as at 31 December 2014. Consequently, any adjustments found to be necessary to the closing balances as at 31 December 2013 may significantly affect the balance of reserves of the Group as at 1 January 2014, the Group's results and cash flows for the year ended 31 December 2014, the closing balances of assets and liabilities as at 31 December 2014 and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2014. Accordingly, we were also unable to determine whether adjustments might have been necessary in respect of the financial performance of the Group for the year ended 31 December 2014 reported in the consolidated statement of profit or loss and total comprehensive income, the cash flows from operating, investing and financing activities reported in the consolidated statement of cash flows and the financial position of the Group as at 31 December 2014 reported in the consolidated statement of financial position.

**(c) Compliance with IFRSs and applicable laws and regulations**

As disclosed in note 2 to the consolidated financial statements, the Relevant PRC Subsidiaries had been de-consolidated from the consolidated financial statements of the Group with effect from 1 January 2014. The Board believed it was unable to assert that the consolidated financial statements comply with IFRSs or with the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange (the "**Listing Rules**"). Accordingly, the notes to the consolidated financial statements do not contain any statement of compliance with IFRSs and these disclosure requirements. This constitutes a non-compliance with the relevant disclosure requirements to state such compliance in the consolidated financial statements.

Further, due to lack of access to books and records and management personnel of the Relevant PRC Subsidiaries made available to us, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether there was non-compliance with applicable laws and regulations by the Relevant PRC Subsidiaries and hence about the completeness of any actual or contingent liabilities in the consolidated financial statements. There were no practicable alternative procedures that we could perform to satisfy ourselves as to whether there existed unrecorded provisions or undisclosed contingent liabilities and hence whether there were material misstatements of the consolidated financial statements due to non-compliance with laws and regulations. Any adjustments found to be necessary may have a consequential significant effect on the net liabilities or assets of the Group as at 31 December 2014 and 2013 and of the loss or profit and total comprehensive loss or income and cash flows for the years then ended and the related disclosures thereof in the consolidated financial statements.

**(d) Amounts due to the Relevant PRC Subsidiaries**

As disclosed in note 29 of the consolidated financial statements, the Group recorded amounts due to the Relevant PRC Subsidiaries of approximately RMB574,621,000 as at 31 December 2014. As disclosed in note 2 to the consolidated financial statements, the management of the Group had been unable to retrieve and reconstruct the books and records of the Relevant PRC Subsidiaries. Due to the lack of complete books and records of the Relevant PRC Subsidiaries, we were unable to perform audit procedures including obtaining inter-company confirmations from the Relevant PRC Subsidiaries and there were no alternative audit procedures we could perform under the circumstances to obtain sufficient appropriate audit evidence to satisfy ourselves that the amounts due to the Relevant PRC Subsidiaries as at 31 December 2014 and that relevant transactions entered into with the Relevant PRC Subsidiaries during the year ended 31 December 2014 were valid and complete. Any adjustments found to be required may have consequential significant effects on the balances of the amounts due to the Relevant PRC Subsidiaries, the amounts and description of the relevant transactions with the Relevant PRC Subsidiaries for the year ended 31 December 2014 and other elements in the consolidated financial statements for the year ended 31 December 2014 and hence on the net liabilities of the Group as at 31 December 2014 and the loss and total comprehensive loss and cash flows for the year then ended.

**(e) Amounts due from the Relevant PRC Subsidiaries**

Included in the consolidated statement of profit or loss of the Group for the year ended 31 December 2014 is the impairment loss of approximately RMB40,342,000 recognised in respect of the amounts due from the Relevant PRC Subsidiaries. As disclosed in note 2 to the consolidated financial statements, the management of the Group have been unable to have access to complete books and records of the Relevant PRC Subsidiaries and these entities had ceased operations as at the date of this report. All of the entities comprising the Relevant PRC Subsidiaries, except for Shanxi Longkeer, had commenced the process for liquidation. Given these circumstances, the management of the Group considered that the Group does not possess relevant information about the Relevant PRC Subsidiaries' financial position and financial ability to repay to enable impairment assessments of the receivable balances to be carried out and recoverability of the outstanding balances as at 31 December 2014 to be assessed. Accordingly, the Group has recognised an impairment loss allowance in respect of the full amounts owed by the Relevant PRC Subsidiaries as at 31 December 2014 to the extent the amounts were not subsequently settled after the end of the reporting period.

Due to the lack of complete books and records of the Relevant PRC Subsidiaries, we were unable to perform our audit procedures including obtaining of inter-company confirmations from the Relevant PRC Subsidiaries and there were no alternative audit procedures we could perform under the circumstances to obtain sufficient appropriate audit evidence to satisfy ourselves about the completeness of the amounts due from the Relevant PRC Subsidiaries as at 31 December 2014 and the relevant transactions entered into with the Relevant PRC Subsidiaries during the year ended 31 December 2014. In addition, as no impairment assessment was carried out by management of the Group on the balances owed by the Relevant PRC Subsidiaries, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves that the recoverable amounts of the balances due from the Relevant PRC Subsidiaries were nil as at 31 December 2014 and that the impairment loss recognised in respect of the amounts due from the Relevant PRC Subsidiaries was properly assessed in accordance with the requirements of International Accounting Standard ("**IAS**") 39 "Financial Instruments: Recognition and Measurement". There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the amounts due from the Relevant PRC Subsidiaries, the relevant transactions entered into with the Relevant PRC Subsidiaries for the year ended 31 December 2014 and the impairment loss recognised in respect of the amounts due from the Relevant PRC Subsidiaries were free from material misstatement. Any adjustments found to be required may have consequential significant effects on the balances of the amounts due from the Relevant PRC Subsidiaries, the amounts and description of the relevant transactions entered into with the Relevant PRC Subsidiaries for the year ended 31 December 2014 and the impairment loss in respect thereof and other elements in the consolidated financial statements for the year ended 31 December 2014 and hence on the net liabilities of the Group as at 31 December 2014 and the loss and total comprehensive loss and cash flows for the year then ended.

**(f) Revenue and trade receivables from third party customers**

Included in the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2014 were revenue of approximately RMB83,232,000 from sales of biological animal drugs products made to third party customers. The corresponding trade receivables from these third party customers amounted to approximately RMB35,079,000 as at 31 December 2014. We were unable to obtain sufficient appropriate audit evidence regarding these sales to the third party customers and the related trade receivables because (i) there was inadequate documentary evidence available in relation to the receipt of the goods by, and settlements of invoiced amounts from, a majority of these customers; (ii) there was inadequate documentary evidence available in relation to the occurrence and accuracy of these sales made to third party customers and the existence, accuracy and valuation of the related trade receivables; (iii) we were unable to carry out any effective confirmation procedures in relation to these sales to the third party customers for the purpose of our audit; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether these sales transactions and the related trade receivables were free from material misstatement. Any adjustments found to be required may have consequential significant effects on the amounts presented for revenue from sales of biological animal drugs products and trade receivables and other elements in the consolidated financial statements for the year ended 31 December 2014 and hence on the net liabilities of the Group as at 31 December 2014 and the loss and total comprehensive loss and cash flows for the year then ended.

**(g) Distribution and selling expenses**

Included in the distribution and selling expenses recognised in the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2014 were commissions and other payments of approximately RMB22,886,000 made to third party suppliers in respect of the sales of biological animal drugs products. We were unable to obtain sufficient appropriate audit evidence regarding the validity and completeness of these expenses paid or payable to the third party suppliers because (i) there was inadequate documentary evidence available in relation to the occurrence and accuracy of these expenses made to third party suppliers; (ii) we were unable to carry out any effective confirmation procedures in relation to these expenses to the third party suppliers for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether these expenses transactions were free from material misstatement. Any adjustments found to be required may have consequential significant effects on the amounts presented for distribution and selling expenses for the sales of biological animal drugs products and other elements in the consolidated financial statements for the year ended 31 December 2014 and hence on the net liabilities of the Group as at 31 December 2014 and the loss and total comprehensive loss and cash flows for the year then ended.

**(h) Available-for-sale financial asset**

Included in the consolidated statement of financial position as at 31 December 2014 was an available-for-sale financial asset (the "**AFS Financial Asset**") measured on a cost less impairment loss basis with carrying amount of approximately RMB76,440,000. We have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to (i) the validity of the cost of the AFS Financial Asset on initial recognition of RMB76,440,000; (ii) the identity of the vendors of the AFS Financial Assets and the fact that the vendors were not related parties of the Group in accordance with IAS 24 "Related Party Disclosures"; and (iii) the validity of the commercial terms arrived at in acquiring the AFS Financial Asset. Further, no impairment assessment was performed on the recoverability of the cost of the investment in the AFS Financial Asset and hence we were unable to be satisfied that the carrying amount as at 31 December 2014 was recoverable. Therefore, we were unable to satisfy ourselves as to whether the carrying amount of the AFS Financial Asset as at 31 December 2014 was fairly stated. Any adjustments found to be required may have a consequential significant effect on the carrying amount of the AFS Financial Asset as at 31 December 2014 and impairment loss on the AFS Financial Asset to be recognised in consolidated profit or loss of the

Group for the year then ended and hence on the net liabilities of the Group as at 31 December 2014 and the loss and total comprehensive loss and cash flows for the year then ended.

**(i) Intangible assets**

Included in the consolidated statement of financial position as at 31 December 2014 were intangible assets related to seed strains and production technology rights with gross carrying amounts of approximately Nil and RMB479,000,000 respectively (2013: RMB68,500,000 and RMB690,000,000 respectively). As set out in note 20 to the consolidated financial statements, movements in gross carrying amounts of the intangible assets during the year ended 31 December 2014 related to derecognition of the intangible assets upon de-consolidation of the Relevant PRC Subsidiaries of gross carrying amounts of approximately RMB68,500,000 and RMB211,000,000 for seed strains and production technology rights respectively. Amortisation of the production technology of approximately RMB47,900,000 was recognised in consolidated profit or loss for the year ended 31 December 2014. In addition, impairment loss to fully write down the entire balance of the net carrying value of the production technology rights of approximately RMB295,150,000 as at 31 December 2014 was recognised in consolidated profit or loss for the year ended 31 December 2014 as the management of the Group was of the opinion that the recoverable amounts of the production technology rights as at 31 December 2014 were insignificant. We have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to (i) the validity of the gross carrying amounts of the intangible assets which were carried forward from previous years, including the validity of the commercial terms arrived at in acquiring the intangible assets and whether the vendors of the intangible assets were related parties of the Group in accordance with IAS 24; (ii) the basis of identifying the cash generating units to which the intangible assets belonged when conducting impairment tests as at 31 December 2013 as disclosed in note 22 to the consolidated financial statements, (iii) the basis for using cash flow projections for a ten-year period from financial budgets and forecasts approved by the management of the Group and related supporting documents when conducting impairment tests as at 31 December 2013 as disclosed in note 22 to the consolidated financial statements and the reasonableness of and supporting bases for the key inputs and assumptions used in the impairment tests as at 31 December 2013, including but not limited to growth rates during and beyond the ten years' projection period and discount rates, budgeted sales and gross margins and their related cash inflow and outflow patterns. These key inputs and assumptions were used by management of the Group in arriving at the value in use of the cash generating units to which the intangible assets belonged, which then led to the conclusion that the recoverable amounts of the intangible assets as at 31 December 2013 were higher than their carrying amounts as at 31 December 2013; and (iv) the basis for the determination that the recoverable amount of the intangible assets was Nil as at 31 December 2014 as no impairment assessment of the intangible assets as at 31 December 2014 was carried out. Therefore, we were unable to satisfy ourselves as to whether the carrying amounts of the intangible assets and the amortisation expense and the impairment loss on the Intangible Assets as at and for the years ended 31 December 2014 and 2013 were fairly stated. Any adjustments found to be necessary to these carrying amounts, amortisation and impairment loss may have a consequential significant impact on the loss or profit and cash flows of the Group for the years ended 31 December 2014 and 2013, the Group's net liabilities or assets as at 31 December 2014 and 2013 and the related disclosures thereof in the consolidated financial statements.

**(j) Goodwill**

Included in the consolidated statement of financial position as at 31 December 2014 were goodwill with gross carrying amount of approximately RMB69,741,000 (31 December 2013: RMB124,617,000). As set out in note 21 to the consolidated financial statements, movements in gross carrying amount of the goodwill during the year ended 31 December 2014 related to derecognition of the goodwill upon de-consolidation of the Relevant PRC Subsidiaries of gross carrying amount of approximately RMB54,876,000. In addition, impairment loss to fully write down the entire gross carrying amount of the remaining balance of goodwill of approximately

RMB69,741,000 was recognised in consolidated profit or loss for the year ended 31 December 2014 as the management of the Group was of the opinion that the recoverable amount of the goodwill as at 31 December 2014 was insignificant. We have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to (i) the validity of the gross carrying amount of the goodwill which were carried forward from previous years, including the validity of the commercial terms arrived at in the business combination which gave rise to the recognition of the goodwill and whether the vendors in the business combination were not related parties of the Group in accordance with IAS 24; (ii) the basis of identifying the cash generating units to which the goodwill belonged when conducting impairment tests as at 31 December 2013 as disclosed in note 22 to the consolidated financial statements; (iii) the basis for using cash flow projections for a ten-year period from financial budgets and forecasts approved by the management of the Group and related supporting documents when conducting impairment tests as at 31 December 2013 as disclosed in note 22 to the consolidated financial statements and the reasonableness of and supporting bases for the key inputs and assumptions used in the impairment tests as at 31 December 2013, including but not limited to growth rates during and beyond the ten years' protection period and discount rates, budgeted sales and gross margins and their related cash inflow and outflow patterns. These key inputs and assumptions were used by management of the Group in arriving at the value in use of the cash generating units to which the goodwill belonged, which then led to the conclusion that the recoverable amount of the goodwill as at 31 December 2013 was higher than its carrying amount as at 31 December 2013; and (iv) the basis of the determination that the recoverable amount of the goodwill was Nil as at 31 December 2014 as no impairment assessment of the goodwill as at 31 December 2014 was carried out. Therefore, we were unable to satisfy ourselves as to whether the carrying amount of the goodwill and the impairment loss on the goodwill as at and for the years ended 31 December 2014 and 2013 were fairly stated. Any adjustments found to be necessary to the carrying amount and impairment loss may have a consequential significant effect on the loss or profit and cash flows of the Group for the years ended 31 December 2014 and 2013, the Group's net liabilities or assets as at 31 December 2014 and 2013 and the related disclosures thereof in the consolidated financial statements.

**(k) Investment in subsidiaries and amount due from/to subsidiaries**

Included in the statement of financial position of the Company as disclosed in notes 23 and 41 to the consolidated financial statements were (i) investment in subsidiaries of gross carrying amount of approximately RMB869,696,000 at 31 December 2014; (ii) amount due from a subsidiary of gross carrying amount of approximately RMB544,691,000 at 31 December 2014; and (iii) amount due to subsidiaries of approximately RMB3,850,000 at 31 December 2014. Impairment losses in respect of the investment in subsidiaries and amount due from a subsidiary of approximately RMB869,696,000 and RMB544,691,000 respectively were recognised by the Company for the year ended 31 December 2014.

As disclosed in note 23 to the consolidated financial statements, the cost of investment in subsidiaries of the Company amounting to approximately RMB869,696,000 as at 31 December 2014 represented the investment cost in the equity interest in a wholly owned subsidiary of the Company, Evanton, and the amount due from a subsidiary of gross carrying amount of approximately RMB544,691,000 as at 31 December 2014 represented the outstanding balance of loans advanced to Evanton. Evanton is an investment holding company and the investment cost and loans were utilised by Evanton, to a large extent, as investment costs in and loans and advances to the Relevant PRC Subsidiaries. The management of the Company considered that the Company does not possess relevant information about the Relevant PRC Subsidiaries' financial performances, financial position and financial ability to enable impairment assessments of the investment cost and amount due from Evanton to be carried out and recoverability of the investment cost and amount due from Evanton as at 31 December 2014 to be assessed. Accordingly, the Company has recognised an impairment loss in respect of the full amounts of its investment cost in Evanton and amount due from Evanton of approximately RMB869,696,000 and RMB544,691,000 respectively for the year ended 31 December 2014.

Due to the lack of complete books and records of the Relevant PRC Subsidiaries, we were unable to perform our audit procedures to satisfy ourselves about the recoverable amounts of the investment cost and amount due from Evanton as at 31 December 2014 and there were no alternative audit procedures we could perform under the circumstances to obtain sufficient appropriate audit evidence in these respects. Hence, we were unable to be satisfied that the impairment loss recognised in respect of the investment in subsidiaries and amount due from a subsidiary were free from material misstatement. Any adjustments found to be required may have consequential significant effects on the carrying amounts of the investment in subsidiaries and amount due from a subsidiary and the impairment loss recognised in respect thereof and other elements in the statement of financial position of the Company as at 31 December 2014 and hence on the net liabilities of the Company as at 31 December 2014.

**(l) Inventories**

We were not appointed as auditors until after 31 December 2014 and thus did not observe the counting of physical inventories of the Group at the beginning and end of the year ended 31 December 2014. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 31 December 2014 and 1 January 2014, which are stated in the consolidated statements of financial position at RMB32,513,000 and RMB37,172,000, respectively. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and the related elements making up the consolidated statement of profit or loss and other comprehensive income. Any adjustments found to be required may have a consequential significant effect on the inventories as at 31 December 2014 and 1 January 2014 and the related cost of sales and inventory written off recognised in the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2014 and hence on the net liabilities of the Group as at 31 December 2014 and the loss and total comprehensive loss and cash flows for the year then ended.

**(m) Contingent liabilities and commitments**

As explained in section (a) above, the Company should have consolidated the Relevant PRC Subsidiaries in its consolidated financial statements for the year ended 31 December 2014. Had these subsidiaries been consolidated, the contingent liabilities and commitments of the Group as disclosed in note 36 to the consolidated financial statements should include the contingent liabilities and commitments of the Relevant PRC Subsidiaries. Further, the contingent liabilities and commitments of the Relevant PRC Subsidiaries may affect or involve the entities included in the consolidated financial statements. Due to the lack of complete books and records of the Relevant PRC Subsidiaries made available to us, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves as to the completeness of the contingent liabilities and commitments of the Group as disclosed in note 36 to the consolidated financial statements. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether there existed material amounts of contingent liabilities and commitments of the Relevant PRC Subsidiaries as at 31 December 2014. Any undisclosed material amounts of contingent liabilities and commitments related to the Relevant PRC Subsidiaries found to be in existence may have a consequential significant effect on the fair presentation of the net liabilities of the Group as at 31 December 2014 and of the loss and total comprehensive loss and cash flows for the year then ended and the related disclosures thereof in the consolidated financial statements.

**(n) Events after the reporting period**

As explained in section (a) above, the Company should have consolidated the Relevant PRC Subsidiaries in its consolidated financial statements for the year ended 31 December 2014. Had these subsidiaries been consolidated, the events after the reporting period of the Group as disclosed in note 42 to the consolidated financial statements should include the events and transactions after the reporting period of the Relevant PRC Subsidiaries. Further, the events and transactions after the reporting period of the Relevant PRC Subsidiaries may affect or involve the entities included in the consolidated financial statements. Due to lack of complete books and records of the Relevant PRC Subsidiaries, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves as to the completeness of the events and transactions after the reporting period of the Group as disclosed in note 42 to the consolidated financial statements. There were no practicable alternative procedures that we could perform to satisfy ourselves as to whether there had occurred significant events or transactions during the period from 1 January 2015 to the date of this auditors' report which require disclosure in or adjustments to the consolidated financial statements. Any undisclosed or unadjusted events or transactions related to the Relevant PRC Subsidiaries found to have occurred during this intervening period may have consequential significant effects on the balances presented for the elements in the consolidated financial statements for the year ended 31 December 2014 and hence on the net liabilities of the Group as at 31 December 2014 and the loss and total comprehensive loss and cash flows for the year then ended or on the fair presentation of these net liabilities and loss and the related disclosures in the consolidated financial statements.

**(o) Related party transactions and balances**

As explained in section (a) above, the Company should have consolidated the Relevant PRC Subsidiaries in its consolidated financial statements for the year ended 31 December 2014. Had these subsidiaries been consolidated, the related party transactions and balances as disclosed in note 38 to the consolidated financial statements should include the transactions and balances of the Relevant PRC Subsidiaries with related parties of the Group. Further, the related party transactions and balances of the Relevant PRC Subsidiaries may affect or involve the entities included in the consolidated financial statements. Due to lack of complete books and records of the Relevant PRC Subsidiaries made available to us, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether there were material related party transactions and balances of the Relevant PRC Subsidiaries and hence about the completeness of the related party transactions and balances as disclosed in the consolidated financial statements. There were no practicable alternative procedures that we could perform to satisfy ourselves as to whether there existed material related party transactions and balances of the Relevant PRC Subsidiaries which require disclosure in the consolidated financial statements. Any undisclosed transactions or balances related to the Relevant PRC Subsidiaries found to have occurred or existed may have a consequential significant effect on the fair presentation of the net liabilities of the Group as at 31 December 2014 and of the loss and total comprehensive loss for the year then ended and the related disclosures thereof in the consolidated financial statements.

As disclosed in note 25 to the consolidated financial statements, approximately RMB20,905,000 and RMB44,627,000 were received from Beijing Pagina-Kang, one of the Relevant PRC Subsidiaries, and the Group's sales and finance staff, respectively, and were recorded by the Group as receipts for settlement of trade receivables of the Group. The scope of our audit procedures had been limited in relation to these receipts because (i) there was inadequate documentary evidence available to satisfy us as to the validity of and occurrence of the sales transactions that were recorded by the Group and whose recording gave rise to these trade receivables; (ii) we were unable to carry out any effective confirmation procedures in relation to these settlement of trade receivables from the third party customers for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the related sales transactions recorded were free from material misstatement. Any adjustments found to be required may have consequential significant effects on the amounts presented for revenue from sales of biological animal drugs products, trade receivables, amounts due to the De-consolidated Subsidiaries, amounts due to related parties and other elements in the consolidated financial statements for the year ended 31 December 2014 and hence on the net liabilities of the Group as at 31 December 2014 and the loss and total comprehensive loss and cash flows for the year then ended.

As disclosed in note 40 to the consolidated financial statements, on 17 February 2014, the Company announced that the Group has entered into three sales and purchase agreements to acquire 27.8% additional equity interests in Bigvet Biotech for a consideration of RMB417,000,000. The consideration was paid by Beijing Pagina-Kang, which is one of the Relevant PRC Subsidiaries as at and during the year ended 31 December 2014. We have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to (i) the validity of the commercial terms in arriving at the consideration for the acquisition of the 27.8% additional equity interests in Bigvet Biotech of approximately RMB417,000,000; and (ii) the identity of the vendors of the equity interests in Bigvet Biotech and the fact that the vendors were not related parties of the Group in accordance with IAS 24. Therefore, we were unable to satisfy ourselves as to whether the amounts presented in the consolidated financial statements of the Group for the year ended 31 December 2014 in relation to the acquisition of 27.8% additional equity interests in Bigvet Biotech were fairly stated. Any adjustments found to be required may have a consequential significant effect on the reserve movements recognised in consolidated statement of changes in equity in respect of the acquisition, retained earnings as at 31 December 2014 and other elements in the consolidated financial statements for the year ended 31 December 2014 and hence on the loss and total comprehensive loss and cash flows for the year then ended.

As disclosed in note 38 to the consolidated financial statements, as at 31 December 2014, the Company and Bigvet Biotech provided financial guarantees on behalf of Shenzhou Pagina-Kang, one of the Relevant PRC Subsidiaries, of US$16,500,000 (equivalent to approximately RMB102,410,000) and RMB110,000,000 respectively. The management of the Group considered that the Group does not possess relevant information about Shenzhou Pagina-Kang's financial performance, financial position and financial ability to enable assessments of the fair values of the financial guarantee liabilities as at grant dates and of the provision amounts required as at 31 December 2014 to be carried out. Accordingly, the Group has not recognised financial guarantee liabilities as at 31 December 2014. We have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the completeness of the identification and disclosure of the financial guarantee liabilities of the Group relating to the Relevant PRC Subsidiaries. Further, no fair value or provisioning assessment was performed on the financial guarantee liabilities identified by the Group. Hence we were unable to be satisfied that the carrying amount as at 31 December 2014 was fairly stated. Any adjustments found to be required may have a consequential significant effect on the carrying amount of the financial guarantee liabilities as at 31 December 2014 and the amortisation of initial carrying amount of the financial guarantee liabilities and additional provision amounts to be recognised in consolidated profit or loss of the Group for the year then ended and hence on the net liabilities of the Group as at 31 December 2014 and the loss and total comprehensive loss and cash flows for the year then ended.

**(p) Going concern basis of accounting**

As disclosed in note 2 to the consolidated financial statements, (i) the Group incurred a loss attributable to the owners of the Company of approximately RMB1,816,036,000 for the year ended 31 December 2014 and, as of that date, the Group's total liabilities exceeded its total assets by approximately RMB251,055,000; (ii) the Company announced that on 26 May 2017 a petition including but not limited to seeking winding up order filed by Lilly Nederland Holding B.V. (the "**Petitioner**"), a substantial shareholder of the Company against the Company in the Court of First Instance of the High Court of Hong Kong. The Petitioner subsequently filed summons to seek withdraw the winding up proceedings and the withdrawal dismissed by the court on 12 March 2018; (iii) the Company announced on 3 November 2017 that a letter was received from the Stock Exchange notifying, among others, that the listing department of the Stock Exchange (the "**Listing Department**") intends to commence the procedures under Rule 6.10 of the Listing Rules to cancel the Company's listing on the ground that the Company is no longer suitable for listing and intends to publish an announcement under Rule 6.10 pursuant to which the Company will have a period until 14 May 2018 to remedy the matters which have rendered the Company unsuitable for listing, failing which the Listing Department will recommend the listing committee of the Stock Exchange to proceed with the cancellation of the Company's listing. In addition, the adjustments found to be necessary to the Group's results for the year ended 31

December 2014 and closing balances of its assets and liabilities as at 31 December 2014 of the matters described in the sections above may cause the operating results, liquidity position and financial position of the Group as presented in the consolidated financial statements for the year ended 31 December 2014 to be adversely affected. These conditions indicate the existence of material uncertainties which may cast significant doubts about the Group's ability to continue as a going concern. Notwithstanding the abovementioned, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to repay or extend existing borrowings and liabilities upon their maturities or when they fall due through cash flows from operations and working capital to be provided through continuing support from financial institutions. As of the date of this report, we have not obtained the Group's cash flow forecast, including related reasonable and supportable bases for the underlying data and assumptions, which are necessary for us to assess the appropriateness of the use of the going concern assumption in the preparation of the consolidated financial statements. Because of the significance of these matters, we were unable to satisfy ourselves as to whether the use of going concern assumption in the preparation of the consolidated financial statements was appropriate. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

**DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2014, and of the Group's financial performance and cash flows for the year then ended in accordance with IFRSs and as to whether the consolidated financial statements have been prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**REPORT ON MATTERS UNDER SECTION 80(1) OF SCHEDULE 11 TO THE HONG KONG COMPANIES ORDINANCE (CAP. 622), WITH REFERENCE TO SECTIONS 141(4) AND 141(6) OF THE PREDECESSOR HONG KONG COMPANIES ORDINANCE (CAP. 32)**

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding the items stated in the Basis for Disclaimer of Opinion paragraphs above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper books of account had been kept for the year ended 31 December 2014.

**OTHER MATERS**

The consolidated financial statements of the Group for the year ended 31 December 2013 were audited by another auditors who expressed an unqualified opinion on those statements on 14 March 2014.

**8. Scope of work of HLB Hodgson Impey Cheng Limited**

The figures in respect of the preliminary announcement of the Group's results for the year have been agreed by the Group's auditors, HLB Hodgson Impey Cheng Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLB Hodgson Impey Cheng Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by HLB Hodgson Impey Cheng Limited on the preliminary announcement.

## 9. Disclosure on the Website of the Stock Exchange

This announcement shall be published on the website of the Stock Exchange (http://www.hkex.com.hk) and on the website of the Company (http://www.chinanimalhealthcare.com) in due course.

By Order of the Board
**China Animal Healthcare Ltd.**
**Song Yanmei**
*Chairperson and Executive Director*

Hong Kong, 16 May 2018

*As at the date of announcement, the executive Directors of the Company are Ms. Song Yanmei and Mr. Wang Yongwei; and the independent non-executive Directors of the Company are Mr. Cai Huiyi, Mr. Zhang Suqiang and Mr. Liu Zhanmin.*