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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 2016

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 2016 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 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	4	264,934	252,941
Cost of sales		(99,785)	(75,167)
Gross profit		165,149	177,774
Other income and gains		6,335	-
Distribution and selling expenses		(85,102)	(59,833)
Administrative expenses		(30,769)	(24,233)
Other expenses and losses		(20,722)	(153,822)
Finance income		293	690
Finance costs		(2,173)	(2,506)
Profit/(Loss) before tax	6	33,011	(61,930)
Income tax expense	7	(11,936)	(16,399)
Profit/(Loss) for the year, representing total comprehensive income/(loss) for the year		21,075	(78,329)
Profit/(Loss) and total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		16,291	(83,020)
Non-controlling interests		4,784	4,691
		21,075	(78,329)
Earnings/(Loss) per share	9		
- Basic and diluted (RMB cents)		0.83	(4.22)

* For identification purpose only

Consolidated Statements of Financial Position
At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current Assets			
Property, plant and equipment		112,789	106,345
Prepaid lease payments		4,161	4,269
Available-for-sale financial asset		76,440	76,440
Intangible assets		-	-
Goodwill		-	-
Deposits for property, plant and equipment		1,193	15,151
		<u>194,583</u>	<u>202,205</u>
Current Assets			
Inventories		36,140	37,836
Trade receivables	10	55,663	32,205
Prepayments and other receivables		76,855	23,211
Prepaid lease payments		108	108
Pledged deposits		9,700	-
Cash and cash equivalents		86,448	107,419
		<u>264,914</u>	<u>200,779</u>
Current Liabilities			
Trade and bills payables	11	57,214	31,526
Other payables and accrued charges		663,093	647,952
Borrowings		25,000	25,000
Provision for income tax		1,513	10,810
		<u>746,820</u>	<u>715,288</u>
Net Current Liabilities		<u>(481,906)</u>	<u>(514,509)</u>
Total Assets Less Current Liabilities		<u>(287,323)</u>	<u>(312,304)</u>
Capital and Reserves			
Issued equity		108,677	108,677
Reserves		(459,774)	(476,065)
Capital deficiency attributable to owners of the Company		(351,097)	(367,388)
Non-controlling interests		42,788	38,004
Capital deficiency		<u>(308,309)</u>	<u>(329,384)</u>
Non-current Liabilities			
Deferred tax liabilities		20,986	17,080
		<u>(287,323)</u>	<u>(312,304)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 (北京保吉安康科技有限公司) (“**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 was 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 2016, 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 and 2015 amounted to approximately RMB1,060,196,000 and RMB1,295,608,000 respectively. 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 2016 and 2015. 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 years ended 31 December 2016 and 2015 for the Relevant PRC Subsidiaries or to obtain sufficient documentary information to satisfy themselves regarding the treatment of the transactions during the years and various balances of the Relevant PRC Subsidiaries as at 31 December 2016 and 2015. 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 2016, 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 years ended 31 December 2016 and 2015, 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 years ended 31 December 2016 and 2015. 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.

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 years ended 31 December 2016 and 2015. 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 years ended 31 December 2016 and 2015, 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 2016 and 2015, 87.8% of its equity interests were held by Beijing Pagina-Kang and Hebei 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 years ended 31 December 2016 and 2015 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 years ended 31 December 2016 and 2015:

- 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 years ended 31 December 2016 and 2015 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, profit (loss) for the year, directors' and chief executive's emoluments, employees' emoluments, earnings (loss) 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 and bills 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 years ended 31 December 2016 and 2015 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 profit or loss of the Group for the years ended 31 December 2016 and 2015 and net liabilities of the Group as at 31 December 2016 and 2015.

As at 31 December 2016, the Group's total liabilities exceeded its total assets by approximately RMB308,309,000 (2015: RMB329,384,000). 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 resumption 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**").

IFRSs (Amendments)	Annual Improvements to IFRSs 2012-2014 Cycle
IFRS 10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
IAS 1 (Amendments)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)	Agriculture: Bearer Plants
IAS 27 (Amendments)	Equity Method in Separate Financial Statements

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 are not yet effective:

IFRSs (Amendments)	Annual Improvements to IFRSs 2014-2016 Cycle ²
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle ³
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions ²
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ²
IFRS 9	Financial Instruments ²
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation ³
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
IFRS 15	Revenue from Contracts with Customers ²
IFRS 15 (Amendments)	Clarifications to IFRS 15 Revenue from Contracts with Customers ²
IFRS 16	Leases ³
IFRS 17	Insurance Contracts ⁴
IAS 7 (Amendments)	Disclosure Initiative ¹
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses ¹
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement ³
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures ³
IAS 40 (Amendments)	Transfers of Investment property ²
IFRIC 22	Foreign Currency Transactions and Advance Consideration ²
IFRIC 23	Uncertainty over Income Tax Treatments ³

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after 1 January 2021

⁵ 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.

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. 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:

	2016	2015
	RMB'000	RMB'000
Biological drugs	264,934	252,941

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.

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.

Geographical segments

The Group's operations are located in the PRC and substantially all of the Group's non-current assets excluding financial instruments 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 (2015: one) who individually accounted for 10% or more

of the Group's revenue. Revenue of approximately RMB35,925,000 (2015: RMB33,545,000) was derived from this customer in the Group's biological drugs business.

5. 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 books and records of the De-consolidated Subsidiaries for the current and 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 since 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 years ended or as at 31 December 2016 and 2015, 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.

(a) Amounts due from the De-consolidated Subsidiaries included in the consolidated statement of financial position as at 31 December 2015 and 2016 were as follows:

	2016 RMB'000	2015 RMB'000
Prepayments and other receivables	9,700	13,200
	<u>9,700</u>	<u>13,200</u>

(b) Amounts due to the De-consolidated Subsidiaries included in the consolidated statement of financial position as at 31 December 2015 and 2016 were as follows:

	2016 RMB'000	2015 RMB'000
Other payables and accrued charges	630,944	621,295
	<u>630,944</u>	<u>621,295</u>

6. Profit/(Loss) for the year

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

	2016 RMB'000	2015 RMB'000
Staff costs, including directors' emoluments	21,797	22,344
Contributions to defined contribution plans	2,105	2,172
Sales commissions paid to staff (included in distribution and selling expenses)	2,533	6,571
	<u>26,435</u>	<u>31,087</u>
Auditor's remuneration	2,400	2,400
Depreciation of property, plant and equipment	11,810	11,462
Release of prepaid lease payments	108	108
	<u>14,718</u>	<u>14,978</u>

7. Income tax expense

	2016 RMB'000	2015 RMB'000
PRC Enterprise Income tax		
Current year	9,647	12,741
(Over)/Under provision in prior years	(1,617)	215
	<hr/>	<hr/>
	8,030	12,956
Deferred tax		
Current year	3,906	3,443
	<hr/>	<hr/>
	11,936	16,399
	<hr/>	<hr/>

8. Dividends

No dividend was proposed during the years ended 31 December 2015 and 2016.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2016.

9. Earnings/(Loss) per share

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

	2016 RMB'000	2015 RMB'000
Earnings/(Loss)		
Profit/(Loss) attributable to the owners of the Company for the purpose of basic and diluted earnings/(loss) per share	16,291	(83,020)
	<hr/>	<hr/>
	2016	2015
Number of shares		
Number of ordinary shares for the purposes of basic and diluted loss per share	1,965,989,853	1,965,989,853
	<hr/>	<hr/>

Diluted earnings/(loss) per share for the years ended 31 December 2016 and 2015 were the same as the basic earnings per share as there was no potential ordinary shares outstanding during the years.

10. Trade receivables

	2016 RMB'000	2015 RMB'000
Trade receivables	56,912	32,270
Less: allowance for doubtful debts	<u>(1,249)</u>	<u>(65)</u>
	55,663	32,205

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.

(a) Aged analysis of trade receivables

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period.

	2016 RMB'000	2015 RMB'000
0–30 days	41,426	24,539
31–90 days	12,423	7,470
91–180 days	1,608	196
181–365 days	<u>206</u>	<u>-</u>
	55,663	32,205

11. Trade and bills payables

	2016 RMB'000	2015 RMB'000
Trade payables	32,964	31,526
Bills payables	<u>24,250</u>	<u>-</u>
	57,214	31,526

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.

	2016 RMB'000	2015 RMB'000
0–30 days	11,660	13,352
31–90 days	8,615	4,221
91–180 days	6,924	8,478
181–365 days	785	3,725
Over 365 days	<u>4,980</u>	<u>1,750</u>
	32,964	31,526

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 years ended 31 December 2016 and 2015 comprise the Company, Evanton Pte. Ltd and Bigvet Biotech only.

Financial Review

A breakdown of the Group's revenue by business activities for the financial year ended 31 December 2016 ("FY2016") is set out below.

Revenue	FY2016		FY2015	
	RMB'000	%	RMB'000	%
Biological drugs – FMD Vaccines	264,934	100.0	252,941	100.0

Revenue for FMD vaccines amounted to RMB264.9 million in FY2016. This is an increase of RMB12.0 million or 4.7% over FY2015 revenue of RMB252.9 million.

Revenue from sales of FMD vaccines to provincial veterinary stations increased by RMB24.6 million or 11.2% from RMB219.5 million in FY2015 to RMB244.1 million in FY2016. Sales of premium FMD vaccines in FY2016 amounted to RMB20.8 million, a drop of RMB12.4 million or 37.2% in the current year from RMB33.2 million in FY2015. This decline in sales of premium FMD vaccines can be attributed to the Company being suspended from trading on Hong Kong Exchange and Clearing Limited ("HKEx"), which led to poor morale and high staff turnover which in turn affected sales performance.

Cost of sales of FMD vaccines constituted approximately 37.7% and 29.7% of its revenue in FY2016 and FY2015 respectively. Cost of sales increased by RMB24.6 million or 32.8% from RMB75.2 million in FY2015 to RMB99.8 million in FY2016. Gross profit margin dropped by 8.0 percentage points to 62.3% in FY2016 from 70.3% in FY2015. The decline in gross profit margin is mainly due to a slight decline in average selling prices and lower sales of premium FMD vaccines which enjoys a higher gross profit margin than vaccine sales to provincial veterinary stations.

Distribution and selling amounted to RMB85.1 million in FY2016, an increase of RMB25.3 million or 42.3% from RMB59.8 million in FY2015. The increase is due mainly to increases in payroll expenses, travelling expenses, transport expenses and promotion expenses. Increased payroll expenses is due mainly to higher sales commission paid out at the back of the 4.7% increase in sales of FMD vaccines.

Administrative expenses amounted to RMB30.8 million in the current year, an increase of RMB6.5 million or 27.0% from RMB24.2 million in FY2015. The increase is due mainly to an increase in professional expenses to meet the resumption conditions imposed on the Company after being suspended from trading on HKEx.

Other expenses and losses of RMB20.7 million comprises mainly research and development expenses of RMB11.3 million and inventories written off of RMB8.2 million. The decrease in other expenses and losses in FY2016 can mainly be attributed to impairment loss on impairment loss recognised in respect of amounts due from the de-consolidated subsidiaries of RMB136.6 million in FY2015 which did not occur in current year.

Finance income pertained to interest income on bank balances and loans receivables.

Finance costs mainly pertained to loan interest expense on borrowings by Bigvet Biotech.

Income tax expense amounted to RMB11.9 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 FY2015.

As a result of the foregoing, net profit for the year attributable to owners of the Company increased by RMB99.3 million, from loss of RMB83.0 million in FY2015 to RMB16.3 million in FY2016. Net profit attributable to non-controlling interests amounted to RMB4.8 million in FY2016.

The Group's non-current assets for FY2016 comprises mainly property, plant and equipment ("PPE") of RMB112.8 million, prepaid lease payments of RMB4.2 million, deposits for PPE of RMB1.2 million and available-for-sale financial asset of RMB76.4 million. PPE increased by RMB6.4 million during the year mainly due to depreciation charge of RMB11.8 million, partially offset by PPE additions of RMB18.3 million. Prepaid lease payments amounted to RMB4.2 million as at 31 December 2016 after amortisation charge of RMB0.1 million for the year. 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.

Current assets of the Group increased by RMB64.1 million to RMB264.9 million as at 31 December 2016, comprising mainly inventories of RMB36.1 million, trade receivables of RMB55.7 million, prepayments and other receivables of RMB76.9 million, pledged deposits of RMB9.7 million and cash and cash equivalents of RMB86.4 million. Inventories comprises stockpile of FMD vaccines of RMB17.0 million and raw materials and packing materials of RMB19.1 million. Prepayments and other receivables increased by RMB53.6 million to RMB76.9 million in FY2016 from RMB 23.2 million in FY2015. The increase is attributed mainly to an increase in prepayment for raw material of about RMB24.2 million and loan receivables of RMB29.5 million from a non-related party which was settled after year end. Cash and cash equivalents excluding pledged deposits of RMB9.7 million amounted to RMB86.4 million as at 31 December 2016. Net cash used in operating activities amounted to RMB1.9 million. Net cash used in investing activities amounted to RMB14.0 million which mainly relates to purchase of property, plant and equipment of RMB4.3 million and placement of pledged deposits of RMB9.7 million. Net cash used in financing activities amounted to RMB2.2 million which mainly relates to interest paid on bank borrowings.

The Group's current liabilities for FY2016 comprising trade and bills payables of RMB57.2 million, other payables and accrued charges of RMB663.1 million, borrowings of RMB25.0 million and provision for income tax of RMB1.5 million, increased from RMB715.3 million as at 31 December 2015 to RMB746.8 million as at 31 December 2016. This is due mainly to an increase in bills payables by RMB24.3 million and other payables and accrued charges by RMB15.1 million, partially offset by decrease in provision for income tax by RMB9.3 million. Other payables and accrued charges mainly comprises amounts due to De-consolidated Subsidiaries of RMB630.9 million. The Group's borrowings of RMB25.0 million as at 31 December 2015 comprise loans taken for working capital purposes and the loans are due in 2017. 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 RMB21.0 million as at 31 December 2016. 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 RMB308.3 million was recorded. Net profit attributable to owners of the Company amounted to RMB16.3 million and profit attributable to non-controlling interests amounted to RMB4.8 million during the year. Total capital deficiency attributable to owners of the Company amounted to RMB351.1 million as at 31 December 2016.

(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 2016, 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 Listing Rules throughout the financial year ended 31 December 2016, except for deviations from Code Provisions A.2.1 and C.1.2 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 C.1.2 stipulates that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer’s performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13.

Due to the Lost Documents incident, the Company was unable to prepare monthly financial report to facilitate the Board members to discharge their duties under Rule 3.08 and Chapter 13 during the period.

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 2016, 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 2016 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 2016.

6. Event after the Reporting Period

(a) 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.

(b) 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.

(c) Change in the Directors of the Company

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 Jun 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 2016, 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 2016, an extract of which is as follows:

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements and as to whether the consolidated financial statements have been properly

prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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 and 2015 amounted to approximately RMB1,060,196,000 and RMB1,295,608,000 respectively. 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 years ended 31 December 2016 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 2016 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 2015 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 2016 and have carryforward effects on the closing balances as at 31 December 2016, any adjustments found to be necessary to the closing balances as at 31 December 2015 may significantly affect the balance of reserves of the Group as at 1 January 2016, the Group's results and cash flows for the year ended 31 December 2016, the closing balances of assets and liabilities as at 31 December 2016 and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2016.

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 presented or disclosed in the consolidated financial statements in respect of the years ended 31 December 2016 and 2015 and hence on the net liabilities of the Group as at 31 December 2016 and 2015 and the profit or loss and total comprehensive income or loss 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 and subsequent financial years. 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 2016 and 2015, 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 2016 and 2015 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**”) and Hebei Pagina-Kang Animal Medicine Company Limited (河北保吉安康動物藥業有限公司) (“**Hebei Pagina-Kang**”), 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 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 years ended 31 December 2016 and 2015. 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 years ended 31 December 2016 and 2015. Had the Relevant PRC Subsidiaries been consolidated, many elements in the consolidated financial statements for the year ended 31 December 2016 and 2015 would have been materially affected and 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**”) 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 comparative information

The opening balances and comparative information disclosed in the consolidated financial statements are based on the consolidated financial statements of the Group for the year ended 31 December 2015 in respect of which we expressed a disclaimer opinion in our auditor's report dated 16 May 2018. The matters which led us to disclaim our opinion are explained in paragraphs (a) to (p) herein. Therefore, the opening balances and comparative information presented or disclosed in the consolidated financial statements may not be comparable with the figures presented or disclosed in respect of the current year and, as stated in paragraph (a) above, any adjustments to the opening balances as at 1 January 2016 would have consequential effects on the profit for the year ended 31 December 2016 and/or the net liabilities of the Group as at 31 December 2016.

(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 the 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 of the Group as at 31 December 2016 and 2015 and of the profit or loss and total comprehensive income or loss 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 RMB630,944,000 as at 31 December 2016 (2015: RMB621,295,000). 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 access to books

and records of the Relevant PRC Subsidiaries made available to us, 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 2016 and 2015 and that relevant transactions entered into with the Relevant PRC Subsidiaries during the years ended 31 December 2016 and 2015 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 years ended 31 December 2016 and 2015 and other elements in the consolidated financial statements for the years ended 31 December 2016 and 2015 and hence on the net liabilities of the Group as at 31 December 2016 and 2015 and the profit or loss and total comprehensive income or loss and cash flows for the years 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 2016 is the impairment loss of Nil (2015: approximately RMB136,558,000) recognised in respect of the amounts due from the Relevant PRC Subsidiaries of the Company. As disclosed in note 2 to the consolidated financial statements, the management of the Group have been unable to have access to 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 2016 and 2015 to be assessed. Accordingly, the Group has recognised an impairment loss allowance in respect of the full amounts owed by the Relevant PRC Subsidiaries group as at 31 December 2016 and 2015 to the extent the amounts were not subsequently settled after the end of the reporting periods.

Due to the lack of access to books and records of the Relevant PRC Subsidiaries made available to us, 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 2016 and 2015 and the relevant transactions entered into with the Relevant PRC Subsidiaries during the years ended 31 December 2016 and 2015. In addition, as no impairment assessment was carried out by management of the Group on the balances owed by the Relevant PRC Subsidiaries group, 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 group were nil as at 31 December 2016 and 2015 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 years ended 31 December 2016 and 2015 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 years ended 31 December 2016 and 2015 and the impairment loss in respect thereof and other elements in the consolidated financial statements for the years ended 31 December 2016 and 2015 and hence on the net liabilities of the Group as at 31 December 2016 and 2015 and the profit or loss and total comprehensive income or loss and cash flows for the years 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 2016 were revenue of approximately RMB18,681,000 (2015: RMB33,164,000) from sales of biological animal drugs products made to third party customers. The corresponding trade receivables from these third party customers amounted to approximately RMB1,478,000 (2015: RMB348,000) as at 31 December 2016. 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 for the years ended 31 December 2016 and 2015 and for trade receivables as at 31 December 2016 and 2015 and other elements presented in the consolidated financial statements and hence on the net liabilities of the Group as at 31 December 2016 and 2015 and the profit or loss and total comprehensive income or loss and cash flows for the years 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 2016 were commissions and other payments of approximately RMB71,162,000 (2015: RMB38,322,000) 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 for the years ended 31 December 2016 and 2015 and other elements presented in the consolidated financial statements and hence on the net liabilities of the Group as at 31 December 2016 and 2015 and the profit or loss and total comprehensive income or loss and cash flows for the years then ended.

(h) Available-for-sale financial asset

Included in the consolidated statement of financial position as at 31 December 2016 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 (2015: 76,440,000). 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 2016 and 2015 was recoverable. Therefore, we were unable to satisfy ourselves as to whether the carrying amount of the AFS Financial Asset as at 31 December 2016 and 2015 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 2016 and 2015 and impairment loss on the AFS Financial Asset to be recognised in consolidated profit or loss of the Group for the years then ended and hence on the net liabilities of the Group as at 31 December 2016 and 2015 and the profit or loss and total comprehensive income or loss and cash flows for the years then ended.

(i) Intangible assets

Included in the consolidated statement of financial position as at 31 December 2016 were intangible assets related to production technology rights with gross carrying amount of approximately RMB479,000,000 (2015: RMB479,000,000). No amortisation of the production technology rights (2015: Nil) was recognised in consolidated profit or loss for the year ended 31 December 2016 as impairment loss to fully write down the entire balance of the net carrying value of the production technology rights was recognised in a prior year. 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; and (ii) the basis for the determination that the recoverable amount of the intangible assets was Nil as at 31 December 2016 and 2015 as no impairment assessment of the intangible assets as at 31 December 2016 and 2015 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 impairment loss on the intangible assets as at and for the years ended 31 December 2016 and 2015 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 profit or loss and net cash flows used in operating activities of the Group for the years ended 31 December 2016 and 2015, the Group’s net liabilities as at 31 December 2016 and 2015 and the related disclosures thereof in the consolidated financial statements.

(j) Goodwill

Included in the consolidated statement of financial position as at 31 December 2016 were goodwill with gross carrying amount of approximately RMB69,741,000 (2015: RMB69,741,000). Impairment loss to fully write down the entire gross carrying amount of the balance of goodwill of approximately RMB69,741,000 was recognised in a prior year. 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; and (ii) the basis of the determination that the recoverable amount of the goodwill was Nil as at the end of the prior financial year in which the goodwill was fully impaired and as at 31 December 2016 and 2015 as no impairment assessment of the goodwill as at these dates 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 2016 and 2015 were fairly stated. Any adjustments found to be necessary to the carrying amount and impairment loss may have a consequential significant effect on the profit or loss and net cash flows used in operating activities of the Group for the years ended 31 December 2016 and 2015, the Group's net liabilities as at 31 December 2016 and 2015 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 40 to the consolidated financial statements were (i) investment in subsidiaries of gross carrying amount of approximately RMB869,696,000 (2015: RMB869,696,000) at 31 December 2016; (ii) amount due from a subsidiary of gross carrying amount of approximately RMB560,851,000 (2015: RMB546,042,000) at 31 December 2016; and (iii) amount due to subsidiaries of approximately RMB3,947,000 (2015: RMB3,947,000) at 31 December 2016. Impairment losses in respect of the investment in subsidiaries and amount due from a subsidiary of approximately Nil (2015: Nil) and RMB14,810,000 (2015: RMB1,351,000) respectively were recognised by the Company for the year ended 31 December 2016.

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 (2015: RMB869,696,000) as at 31 December 2016 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 RMB560,851,000 (2015: RMB546,042,000) as at 31 December 2016 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 2016 and 2015 to be assessed. Accordingly, the Company has recognised impairment loss allowances in respect of the full amounts of its investment cost in Evanton and amount due from Evanton as at 31 December 2016 and 2015.

Due to the lack of access to books and records of the Relevant PRC Subsidiaries made available to us, 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 2016 and 2015 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 2016 and

2015 and hence on the net liabilities of the Company as at 31 December 2016 and 2015.

(l) Inventories

We did not observe the counting of physical inventories of the Group at the beginning and end of the years ended 31 December 2016 and 2015. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 31 December 2016 and 2015 and 1 January 2015, which were stated in the consolidated statements of financial position as at 31 December 2016 and 2015 at RMB36,140,000 and RMB37,836,000, respectively. Further, included in the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2016 was write off of inventories of approximately RMB8,241,000 (2015: Nil) because of vaccine inventories on hand which were already past due their expiry dates as at 31 December 2016. We were unable to obtain sufficient appropriate audit evidence to support the validity and occurrence of this write off because there was inadequate supporting documentary evidence available in relation to the occurrence, aging and accuracy of the vaccine inventories whose costs were written off. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether these write off of inventories were free from material misstatement. As a result of these matters, we were unable to determine whether any adjustments might be necessary in respect of recorded or unrecorded inventories and the related elements recognised in 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 2016 and 2015 and 1 January 2015 and the related cost of sales and inventory write off recognised in the consolidated statement of profit or loss and other comprehensive income of the Group for the years ended 31 December 2016 and 2015 and hence on the net liabilities of the Group as at 31 December 2016 and 2015 and the profit or loss and total comprehensive income or loss and cash flows for the years then ended.

(m) Prepayments and loan receivables

Included in “prepayments and other receivables” in the consolidated statement of financial position of the Group as at 31 December 2016 were prepayments for acquisition of raw materials of RMB22,500,000 and loan receivables of RMB29,500,000. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the validity and commercial substance of these prepayments and loan receivables and, as a result, as to whether the relevant suppliers and borrower were related to related parties of the Group. Therefore, we were unable to satisfy ourselves as to whether the prepayments and loan receivables as at and the relevant transactions entered into with the suppliers and borrower for the year ended 31 December 2016 were free from material misstatement and whether the disclosures and presentation of these balances and transactions in the consolidated financial statements reflect accurately the underlying reality and commercial substance of the balances and transactions. Any adjustments found to be required may have consequential significant effects on the balances of the prepayments and loan receivables and other elements in the consolidated financial statements for the years ended 31 December 2016 and hence on the net liabilities of the Group as at 31 December 2016 and the profit and total comprehensive income and cash flows for the year then ended or on the fair presentation of these net liabilities and profit and the related disclosures in the consolidated financial statements.

(n) 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 years ended 31 December 2016 and 2015. 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 access to 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 2016 and 2015. 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 2016 and 2015 and of the profit or loss and total comprehensive income or loss and cash flows for the years then ended and the related disclosures thereof in the consolidated financial statements.

(o) 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 years ended 31 December 2016 and 2015. Had these subsidiaries been consolidated, the events after the reporting period of the Group as disclosed in note 41 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 access to 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 events and transactions after the reporting period of the Group as disclosed in note 41 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 2017 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 years ended 31 December 2016 and 2015 and hence on the net liabilities of the Group as at 31 December 2016 and 2015 and the profit or loss and total comprehensive income or loss and cash flows for the years then ended or on the fair presentation of these net liabilities and profit or loss and the related disclosures in the consolidated financial statements.

(p) 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 years ended 31 December 2016 and 2015. 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 access to 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 2016 and 2015 and of the profit or loss and total comprehensive income or loss for the years then ended and the related disclosures thereof in the consolidated financial statements.

As disclosed in note 25 to the consolidated financial statements, approximately Nil and RMB15,000 (2015: RMB41,000,000 and RMB10,000,000) 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 years ended 31 December 2016 and 2015 and hence on the net liabilities of the Group as at 31 December 2016 and 2015 and the profit or loss and total comprehensive income or loss and cash flows for the years then ended.

As disclosed in note 38 to the consolidated financial statements, as at 31 December 2016, 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 RMB114,587,000) and RMB110,000,000 respectively (2015: US\$16,500,000 (equivalent to approximately RMB107,171,000) 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 2016 and 2015 to be carried out. Accordingly, the Group has not recognised financial guarantee liabilities as at 31 December 2016 and 2015. 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 2016 and 2015 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 2016 and 2015 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 years then ended and hence on the net liabilities of the Group as at 31 December 2016 and 2015 and the profit or loss and total comprehensive income or loss and cash flows for the years then ended.

(q) Going concern basis of accounting

As disclosed in note 2 to the consolidated financial statements, (i) as of 31 December 2016, the Group's total liabilities exceeded its total assets by approximately RMB308,309,000 (2015: RMB329,384,000); (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 2016 and closing balances of its assets and liabilities as at 31 December 2016 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 2016 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.

REPORT ON OTHER MATTERS UNDER SECTIONS 407(2) AND 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence as described in the Basis for Disclaimer of Opinion section of our report above:

- we were unable to determine whether adequate accounting records had been kept; and
- we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

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.