IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular (the "Offering Circular"). You are advised to read this disclaimer carefully before accessing, reading or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from the Issuer, the Guarantor or the Company (each as defined in the Offering Circular) as a result of such access.

Confirmation of Your Representation: In order to be eligible to view this Offering Circular or invest in the securities, investors must be outside the United States. This Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to represent to the Issuer, the Guarantor, the Company and Bank of China Limited, Barclays Bank PLC, DBS Bank Ltd. and Founder Securities (Hong Kong) Limited (together, the "Joint Lead Managers") that (1) you and any customers you represent are outside the United States and that the e-mail address that you gave us and to which this e-mail has been delivered is not, located in the United States, its territories or possessions, and (2) you consent to delivery of the Offering Circular and any amendments or supplements thereto by electronic transmission.

The Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and, consequently, neither the Joint Lead Managers, the Issuer, the Guarantor, the Company nor any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls the Joint Lead Managers, the Issuer, the Guarantor, the Company or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Joint Lead Managers, the Issuer, the Guarantor or the Company.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE BONDS AND THE GUARANTEE HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

MiFID II product governance/Professional investors and ECPs only target market – For the purposes of Directive 2014/65/EU (as amended, "**MiFID II**"), any person offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the target market in respect of the Bonds which is eligible counterparties and professional clients only, each as defined in MiFID II; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the target market) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

You are reminded that you have accessed the Offering Circular on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.

Actions that You May Not Take: If you receive this Offering Circular by e-mail, you should not reply by e-mail to this Offering Circular, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. If you receive this Offering Circular by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

STRICTLY CONFIDENTIAL

Nuoxi Capital Limited
（諾熙資本有限公司）

(incorporated with limited liability in the British Virgin Islands and a wholly-owned subsidiary of Hongkong JHC Co., Limited)

Series A U.S.$200,000,000 4.70 per cent. Guaranteed Bonds due 2021 (The Series A Bonds)
Series B U.S.$400,000,000 5.35 per cent. Guaranteed Bonds due 2023 (The Series B Bonds)

unconditionally and irrevocably guaranteed by

Hongkong JHC Co., Limited

with the benefit of a Keepwell Deed and a Deed of Equity Interest Purchase Undertaking provided by

Peking University Founder Group Company Limited

方正集团
FOUNDER

(incorporated in the People's Republic of China)

Issue Price of the Series A Bonds: 100.00 per cent.
Issue Price of the Series B Bonds: 100.00 per cent.

The Series A 4.70 per cent. guaranteed bonds due 2021 in the aggregate principal amount of U.S.$200,000,000 (the "Series A Bonds") and the Series B 5.35 per cent. guaranteed bonds due 2023 in the aggregate principal amount of U.S.$400,000,000 (the "Series B Bonds", and together with the Series A Bonds, the "Bonds") will be issued by Nuoxi Capital Limited（諾熙資本有限公司）(the "Issuer") and will be unconditionally and irrevocably guaranteed (the "Guarantee") by Hongkong JHC Co., Limited (the "Guarantor"). The Issuer and the Guarantor are subsidiaries of Peking University Founder Group Company Limited (the "Company").

The Issuer, the Guarantor and the Company will enter into a keepwell deed (the "Keepwell Deed") on or about 24 January 2018 with The Bank of New York Mellon, London Branch (the "Trustee") as trustee of the Bonds as further described in "*Offer Structure*" and "*Description of the Keepwell Deed*". The Issuer, the Guarantor, the Company and the Trustee will enter into a deed of equity interest purchase undertaking on or about 24 January 2018 (the "Deed of Equity Interest Purchase Undertaking") as further described in "**Offer Structure**" and "*Description of the Deed of Equity Interest Purchase Undertaking*". Neither the Keepwell Deed nor the Deed of Equity Interest Purchase Undertaking constitutes a direct or indirect guarantee of the Bonds by the Company.

Interest on each series of the Bonds is payable semi-annually in arrear on the Interest Payment Date (as defined in the "*Terms and Conditions of the Bonds*") falling on 24 January and 24 July in each year. The Bonds will be direct, unconditional, unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer, at all times ranking *pari passu* without any preference or priority among themselves and ranking at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. Payments on the Bonds will be made without deduction for or on account of taxes of the British Virgin Islands, Hong Kong and the PRC (as defined herein) to the extent described in "*Terms and Conditions of the Bonds – Taxation*".

The Series A Bonds mature on 24 January 2021 at their principal amount. The Series B Bonds mature on 24 January 2023 at their principal amount. The Bonds are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of the British Virgin Islands, Hong Kong or the PRC. The Bonds also contain a provision for redemption at the option of the Bondholders at 101 per cent. of the principal amount of each Bond, together with interest accrued to the date for redemption, upon the occurrence of a Change of Control Put Event (as defined in the "*Terms and Conditions of the Bonds*"). See "*Terms and Conditions of the Bonds – Redemption and Purchase*".

Investing in the Bonds involves certain risks. See "*Risk Factors*" beginning on page 18.

The Bonds and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Bonds are being offered and sold only outside the United States in offshore transactions in compliance with Regulation S under the Securities Act ("Regulation S"). For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "*Subscription and Sale*" beginning on page 141.

MiFID II product governance/Professional investors and ECPs only target market – For the purposes of Directive 2014/65/EU (as amended, "**MiFID II**"), any person offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the target market in respect of the Bonds which is eligible counterparties and professional clients only, each as defined in MiFID II; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the target market) and determining appropriate distribution channels.

The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

The denomination of each series of the Bonds shall be U.S.$200, 000 each and integral multiples of U.S.$1, 000 in excess thereof.

Application has been made to The Stock Exchange of Hong Kong Limited ("HKSE") for the listing of each series of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) ("Professional Investors") only. This document is for distribution to Professional Investors only. **Investors should not purchase the Bonds in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Bonds are only suitable for Professional Investors.**

HKSE has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Bonds on HKSE is not to be taken as an indication of the commercial merits or credit quality of the Bonds, the Issuer, the Guarantor, the Company or quality of disclosure in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Guarantor and the Company. The Issuer, the Guarantor and the Company accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Bonds have not been rated.

Each series of the Bonds will be represented initially by beneficial interests in a global certificate (a "Global Certificate") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depositary for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream"). Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the relevant Global Certificates.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

Bank of China	**Barclays**	**DBS Bank Ltd.**	**Founder Securities (Hong Kong) Limited**

Offering Circular dated 18 January 2018

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IMPORTANT NOTICE

Each of the Issuer, the Guarantor and the Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor, the Company and its subsidiaries (the Company and its subsidiaries, collectively, the "Group"), the Bonds, the Guarantee, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking, which is material in the context of the issue and offering of the Bonds; (ii) the statements contained in it relating to the Issuer, the Guarantor, the Company and the Group are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor, the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Guarantor, the Company, the Group, the Bonds, the Guarantee, the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking, the omission of which would, in the context of the issue and offering of the Bonds, the Guarantee, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer, the Guarantor and the Company to ascertain such facts and to verify the accuracy of all such information and statements. In addition, each of the Issuer, the Guarantor and the Company accepts full responsibility for the accuracy of the information contained in this Offering Circular.

This Offering Circular has been prepared by the Issuer, the Guarantor and the Company solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, the Company and Bank of China Limited, Barclays Bank PLC, DBS Bank Ltd. and Founder Securities (Hong Kong) Limited (together, the "Joint Lead Managers") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, the People's Republic of China, the British Virgin Islands, Hong Kong, Japan and Singapore, to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "*Subscription and Sale*".

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Company, the Group, the Bonds, the Guarantee, the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents (as defined in the "*Terms and Conditions of the Bonds*"). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor, the Company, the Group or any of them since the date hereof or create any implication that the information contained herein is correct at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

The Issuer has submitted this Offering Circular confidentially to a limited number of institutional investors so that they can consider a purchase of the Bonds. The Issuer has not authorised its use for any other purpose. This Offering Circular may not be copied or reproduced in whole or in part. It may be distributed only to and its contents may be disclosed only to the prospective investors to whom it is provided. By accepting delivery of this Offering Circular, each investor agrees to these restrictions.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents. None of the Joint Lead Managers, the Trustee and the Agents has independently verified any of the information contained in this Offering Circular and can give any assurance that this information is accurate, truthful or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

IN CONNECTION WITH THE ISSUE OF THE BONDS, ANY JOINT LEAD MANAGER, AS THE STABILISING MANAGER (THE "STABILISING MANAGER") (OR PERSONS ACTING ON ITS BEHALF) MAY, SUBJECT TO ALL APPLICABLE LAWS AND DIRECTIVES, OVERALLOT AND EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS.

In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Company, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee or the Agents or any person affiliated with the Joint Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee and the Agents accept any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or on its or their behalf in connection with the Issuer, the Guarantor, the Company, the Group or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement.

Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Company, the Group or the Bonds. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Company and the Group and the terms of the offering of the Bonds, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Issuer, the Guarantor, the Company, the Group, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates are not making any representation to any purchaser of the Bonds regarding the legality of any investment in the Bonds by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates in connection with its investigation of the accuracy of such information or its investment decision.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Issuer, the Guarantor and the Company believe this information to be reliable, it has not been independently verified by the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents or their respective directors, advisers, employees, agents and affiliates, and none of the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents or their respective directors, affiliates, advisers, employees or agents makes any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. This Offering Circular summarises certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents.

The contents of this Offering Circular have not been reviewed by any regulatory authority in any jurisdiction. Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

Unless otherwise indicated, all references in this Offering Circular to "China" or the "PRC "are to the People's Republic of China and, for the purpose of this Offering Circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan, and all references to "Hong Kong" are to the Hong Kong Special Administrative Region of China.

Unless otherwise specified or the context requires, references herein to "Renminbi", "RMB" or "CNY" are to the lawful currency of the PRC, references herein to "Hong Kong dollars", "HK dollars", "HK$" or "HKD" are to the lawful currency of Hong Kong and references herein to "U.S. dollars", "U.S.$" or "USD" are to the lawful currency of the United States of America.

Unless indicated otherwise, the translation of Renminbi amounts into U.S. dollar amounts has been made at the rate of CNY6.6533 to U.S.$1.00 and the translation of Hong Kong dollar amounts into U.S. dollar amounts has been made at the rate HK$7.8110 to U.S.$1.00, the exchange rate set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States on 29 September 2017.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and the actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Issuer, the Guarantor and the Company believe this information to be reliable, it has not been independently verified by the Issuer, the Guarantor, the Company, the Joint Lead Managers or their respective directors and advisors, and none of the Issuer, the Guarantor, the Company, the Joint Lead Managers nor their respective directors and advisors make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only.

Presentation of Financial Information

The Company's audited consolidated financial statements as at and for the years ended 31 December 2015 and 2016 are prepared in accordance with generally accepted accounting principles in the PRC (the "PRC GAAP") and have been audited by Asia Pacific (Group) Certified Public Accountants, the independent auditors of the Company.

The Company's unaudited reviewed consolidated interim financial statements as at and for the nine months ended 30 September 2016 and 2017 have been prepared and presented in accordance with PRC GAAP and have been reviewed by Asia Pacific (Group) Certified Public Accountants.

The Company's audited consolidated financial statements as at and for the years ended 31 December 2015 and 2016 and the Company's unaudited reviewed consolidated interim financial statements as at and for the nine months ended 30 September 2016 and 2017 (the "Chinese Financial Statements") have only been prepared in Chinese. An English translation of the Chinese Financial Statements (the "Financial Statements Translation") has been prepared and included in this Offering Circular for reference only. Should there be any inconsistency between the Chinese Financial Statements and the Financial Statements Translation, the Chinese Financial Statements shall prevail. The Financial Statements Translation does not itself constitute audited financial statements, and is qualified in its entirety by, and is subject to the more detailed information and the financial information set out or referred to in, the Chinese Financial Statements.

The Guarantor's audited financial statements as at and for the year ended 31 December 2016 are prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS"). The Guarantor's audited financial statements as at and for the year ended 31 December 2016 have been audited by Global CPA (HK) Limited, the independent auditors of the Guarantor.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include statements relating to:

- the business and operating strategies and future business development of the Group;
- the general economic, market and business conditions in China and elsewhere;
- the Group's ability to enter into new markets and expand its operations;
- the Group's expectations with respect to its ability to acquire and maintain regulatory qualifications required to operate its business;
- the Group's sources of funding and estimated capital expenditure;
- the Group's financial condition and performance;
- changes in currency exchange rates, interest rates, taxes and duties, equity prices and other market rates including those pertaining to PRC and industry and markets in which the Group operates;
- macroeconomic and regulatory policies of the PRC government;
- natural disasters, industrial action, terrorist attacks and other events beyond the Group's control;
- changes in the competition landscape in the industries in which the Group operates; and
- other factors, including those discussed in "*Risk Factors*".

In some cases, the investors can identify forward-looking statements by such terminology as "may", "will", "should", "could", "would", "expect", "intend", "plan", "anticipate", "going forward", "ought to", "seek", "project", "forecast", "believe", "estimate", "predict", "potential" or "continue" or the negative of these terms or other comparable terminology. Such statements reflect the current views of the Issuer, the Guarantor, the Company or the Group with respect to future events, operations, results, liquidity and capital resources and are not a guarantee of future performance, some of which may not materialise or may change. Although the Issuer, the Guarantor, the Company and the Group believe that the expectations reflected in these forward-looking statements are reasonable, there is no assurance that those expectations will prove to be correct, and the investors are cautioned not to place undue reliance on such statements. The Issuer, the Guarantor and the Company undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the Issuer's, the Guarantor's and the Company's actual results could differ materially from those anticipated in these forward-looking statements. All forward-looking statements contained in this Offering Circular are qualified by reference to the cautionary statements set forth in this section.

These forward-looking statements speak only at the date of this Offering Circular. The Issuer, the Guarantor and the Company expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change of events, conditions or circumstances on which any such statement was based.

GLOSSARY

In this Offering Circular, unless the context indicates otherwise, the following terms have the respective meanings set forth below:

ACCESS	Zhuhai Advanced Chip Carriers & Electronic Substrates Solutions Technologies Co., Ltd.(珠海越亞封裝基板技術股份有限公司).
AFC	auto fare collection.
APIs	active pharmaceutical ingredients.
B2C	business-to-customer.
BCD	Bipolar-CMOS-DMOS.
Beiyi Pharmaceutical . . .	Beijing Beiyi Pharmaceutical Co., Ltd.(北京北醫醫藥有限公司).
BiCMOS	a type of transistor made of three layers of semiconductors.
Bondholder(s)	holder(s) of the Bond(s).
BVI.	British Virgin Islands.
China Hi-Tech	China Hi-tech Group Co., Ltd.(中國高科集團股份有限公司) which is listed on the SSE with stock code 600730.
Chongqing Daxin Pharmaceutical	Chongqing Daxin Pharmaceutical Co., Ltd.(重慶大新藥業股份有限公司).
CMOS.	complementary metal-oxide-semiconductors.
Companies Ordinance . .	The Companies Ordinance (Cap. 32) of Hong Kong.
Credit Suisse Founder . .	Credit Suisse Founder Securities Limited(瑞信方正證券有限責任公司).
CSRC	China Securities Regulatory Commission(中國證券監督管理委員會).
Director(s).	director(s) of the Company.
DMOS.	DMOS transistors.
EIT Law	Enterprise Income Tax Law of the PRC.
EzDISA.	a geographic information sharing platform, which is a key product of Founder International Software.
Founder Apabi	Beijing Founder Apabi Technology Limited(北京方正阿帕比技術有限公司).
Founder BEA Trust	Founder BEA Trust Co., Ltd.(方正東亞信托有限責任公司).
Founder Broadband	Founder Broadband Network Services Co., Ltd.(方正寬帶網絡服務股份有限公司).

Founder Century Information	Beijing Founder Century Information System Co., Ltd. (北京方正世紀資訊系統有限公司).
Founder Fubon	Founder Fubon Fund Management Co., Ltd. (方正富邦基金管理有限公司).
Founder CIFCO Futures	Founder CIFCO Futures Co., Ltd. (方正中期期貨有限公司).
Founder H Fund	Founder Hesheng Investment Co., Ltd. (方正和生投資有限責任公司).
Founder Holdings	Founder Holdings Limited (方正控股有限公司), which is listed on the HKSE with stock code 00418.
Founder Industry Holdings	Founder Industry Holdings Co., Ltd. (方正產業控股有限公司).
Founder Information Hong Kong.	Founder Information (Hong Kong) Limited (香港方正資訊有限公司).
Founder Information Group	PKU Founder Information Industry Group Co., Ltd. (北大方正信息產業集團有限公司).
Founder Information Industry Group	Founder Information Group, Founder Holdings and their respective subsidiaries.
Founder Information Technology.	PKU Founder Information Technology Co., Ltd. (北大方正信息技術有限公司).
Founder International Software.	Founder International Software Co., Ltd. (方正國際軟件有限公司).
Founder Life Insurance. .	PKU Founder Life Insurance Co., Ltd. (北大方正人壽保險有限公司).
Founder Microelectronics	Founder Microelectronics Co., Ltd. (方正微電子有限公司).
Founder PCB.	PCB division of Founder Technology.
Founder Research	Founder Pharmaceutical Research Institute (方正醫藥研究院).
Founder Securities	Founder Securities Co., Ltd. (方正證券股份有限公司) which is listed on the SSE with stock code 601901.
Founder Technology. . . .	Founder Technology Group Co., Ltd. (方正科技集團股份有限公司) which is listed on the SSE with stock code 600601.
Founder Training and Development Centre . .	PKU Founder Training Centre (北大方正培訓中心).
Founder WITS.	the newspaper typesetting system and software developed by the Group (方正維思).
General Office of the State Council	General Office of the State Council of the PRC (中國國務院辦公廳).
GIS.	geographic information system.

GMP	good manufacturing practice.
GSP	good supply practice.
HDI	high-density interconnect.
HIMSS	the Healthcare Information and Management Systems Society.
HIMSS EMRAM	The HIMSS Analytics Electronic Medical Record Adoption Model
Hong Kong or HKSAR	Hong Kong Special Administrative Region of the PRC.
HV-CMOS	high-voltage CMOS.
HV-DMOS	high-voltage DMOS.
IC	integrated circuit.
IFRS	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board (IASB) and the International Accounting Standards (IAS) and interpretation issued by the International Accounting Standards Committee (IASC).
independent third party(ies)	party(ies) not connected with the Group and our connected persons (as defined in the Listing Rules).
IPO	initial public offering.
IT	information technology.
JCI	joint commission international.
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
Macau	Macau Special Administrative Region of the PRC.
MBA	a master's degree in business administration.
MCU	micro control unit.
Ministry of Science and Technology	Ministry of Science and Technology of the PRC (中華人民共和國科學技術部).
Minzu Securities	China Minzu Securities Co., Ltd. (中國民族證券有限責任公司).
MLR	Ministry of Land and Resources of the PRC (中華人民共和國國土資源部).
MOFCOM	Ministry of Commerce of the PRC (中華人民共和國商務部).
MOHURD	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部).

MP3	MPEG-2 Audio Layer III, an encoding format for digital audio.
NDRC	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會).
OTC	over-the-counter.
PBOC	People's Bank of China (中國人民銀行), the central bank of the PRC.
PCB	printed circuit board.
PCT	Patent Cooperation Treaty.
PKU Asset Management	Peking University Asset Management Company Limited (北大資產經營有限公司).
PKU Founder Commodities	PKU Founder Commodities Group Co., Ltd. (北大方正物產集團有限公司).
PKU Founder Electronics	Beijing PKU Founder Electronics Co., Ltd. (北京北大方正電子有限公司).
PKU Founder Finance	PKU Founder Group Finance Co., Ltd. (北大方正集團財務有限公司).
PKU Healthcare Centre	PKU Medical Healthcare Management Centre (北大醫療健康管理中心)(originally known as Yijiandian Healthcare Management Centre (怡健殿健康管理中心)
PKU Healthcare	PKU Healthcare Co., Ltd. (北大醫藥股份有限公司) since 21 November 2013, which is listed on the SZSE with stock code 000788, formerly known as PKU International Healthcare Group Southwest Synthetic Pharmaceutical Co., Ltd. (北大國際醫院集團西南合成製藥股份有限公司).
PKU International Hospital	Peking University International Hospital (北京大學國際醫院).
PKU Resources Group Holdings	Peking University Resources Group Holding Co., Ltd. (北大資源集團控股有限公司).
PKU Resources	Peking University Resources (Holdings) Company Limited (北大資源(控股)有限公司).
QTA	quick turn around.
Real Estate Market Notice	Notice on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) promulgated by the General Office of the State Council.
RF	radio frequency.
SAFE	State Administration of Foreign Exchange of the PRC (國家外匯管理局).
SARS	severe acute respiratory syndrome.

Shanghai Founder Digital Publishing . . . . Founder Digital Publishing Technology (Shanghai) Co., Ltd. (上海方正數字出版技術有限公司).

Shanghai JHC . . . . Shanghai JHC Trading Co., Ltd. (上海京慧誠國際貿易有限公司).

Shenzhen Microelectronics . . . . . Shenzhen Founder Microelectronics International Co., Ltd. (深圳方正微電子有限公司).

SiP . . . . system in package.

sq.m. . . . . square metre.

SSE. . . . . Shanghai Stock Exchange (上海證券交易所).

State Council . . . . State Council of the PRC (中華人民共和國國務院).

subsidiary(ies) . . . . the meaning ascribed to it in section 2 of the Companies Ordinance.

Suzhou Steel Group . . . . Jiangsu Suzhou Steel Group Co., Ltd. (江蘇蘇鋼集團有限公司).

SWD . . . . software distribution.

SZSE . . . . Shenzhen Stock Exchange (深圳證券交易所).

U.S. or United States . . . the United States of America, its territories, its possessions and all areas subject to its jurisdiction.

U.S. FDA. . . . . the U.S. Food and Drug Administration.

U.S. Securities Act . . . . . the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

Wuhan Ye Kai Tai. . . . . Wuhan Ye Kai Tai Pharmaceutical Co., Ltd. (武漢葉開泰醫藥科技有限公司).

Zhengquan Holdings . . . Beijing Zhengquan Holdings Co., Ltd. (北京政泉控股有限公司).

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.

Overview of the Group

The Group is a leading state-owned diversified conglomerate with strategic business segments covering several major industries in the PRC. Its business segments consist of information technology, healthcare and pharmaceuticals, finance and securities, bulk commodities trading and other businesses, such as education and training. The Company was founded in 1986 by Peking University (北京大學), which is wholly-owned by the Ministry of Finance of the PRC and controlled by the Ministry of Education of the PRC. As at the date of this Offering Circular, 70 per cent. of the Company's issued share capital is held by Peking University through its wholly-owned subsidiary PKU Asset Management with the remaining 30 per cent. held by Beijing Zhaorun Investments Management Co., Ltd (北京招潤投資管理有限公司), a holding company controlled by the Group's employees. As at 30 September 2017, the Company had an issued share capital of CNY1,103 million and total assets of CNY250,139.9 million on a consolidated basis. For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the Group recorded revenue of CNY80,511.3 million, CNY82,004.8 million, CNY63,169.1 million and CNY79,997.0 million, respectively.

The Group considers its information technology, healthcare and pharmaceuticals, finance and securities and bulk commodities trading businesses as its core strengths. The Group intends to concentrate on the development of its information technology and healthcare and pharmaceuticals segments by leveraging its close collaboration with Peking University, and the expertise and capabilities of its finance and securities business, in order to achieve higher growth and greater synergies between different business segments. The Group envisages that its finance and securities business and the bulk commodities trading business will generate sufficient profits and cash flows to support the development of its other business segments.

The Group, headquartered in Beijing, operates throughout the PRC, providing services to clients in more than 20 provinces, municipalities and autonomous regions. The Group is also committed to introducing its products and services to overseas markets. For example, the Group established Founder Holdings in 1992, which was listed on the HKSE in 1995, to provide media and software products. It also established Founder Information Hong Kong in 2002 for the Group's domestic and international investments. As at 30 September 2017, the Group employed more approximately 36,000 employees globally. In addition, the Group holds interests in six public companies listed on the stock exchanges of Shanghai, Shenzhen or Hong Kong.

The Group has five business segments: information technology, healthcare and pharmaceuticals, finance and securities, bulk commodities trading and other businesses. The Group considers its information technology, healthcare and pharmaceuticals, finance and securities and bulk commodities trading businesses as its core strengths. The Group's business segments and their key products and services include:

Business segment	Key products/services
Information Technology	PCB Package substrate Computer Laser illumination System integration and industry solutions
Healthcare and Pharmaceuticals	Medical services Healthcare management services Drug research and production Sulphonamides Antibiotics Cardiovascular Chinese medicine Western medicine Chemical medicine Medical equipment sales and logistics
Finance and Securities	Stocks Bonds Futures brokerage Equity and debt underwriting and sponsorship Securities dealing Financial leasing Direct investment Funds Life insurance
Bulk Commodities Trading	Agricultural products Chemical and energy products Metal products and related raw materials
Other Businesses	Education and training

Competitive Strengths

The Group believes that it has the following competitive strengths:

- a large state-owned conglomerate with close affiliation with, and strong support from, Peking University and the PRC government;
- well-diversified business portfolio generating operating synergies and stable income;
- leading market positions and strong research and development capabilities;
- strong internal control and asset management capabilities;
- strong liquidity and access to diverse funding sources; and

- experienced and committed management team.

Business Strategies

The Group's overall business strategy is to focus on, and continue to expand, its core businesses to improve profitability and to enhance market leadership in each of its business segments.

To accomplish this, the Group plans to employ the following strategies:

- to leverage high-quality resources from Peking University, to combine manufacturing and research and development capabilities, for commercialisation of cutting-edge research achievements;

- to integrate its existing business segments for synergies, enhance its operating efficiency, and build a comprehensive business industrial chain;

- to strengthen its existing strong positions in its core businesses through acquisitions and strategic partnerships;

- to fine-tune its management model and improve synergies between segments to increase operational efficiency; and

- to continuously focus on innovation and utilizes its extensive industry expertise and strong research capabilities to increase its competitive position in the market.

The Guarantor

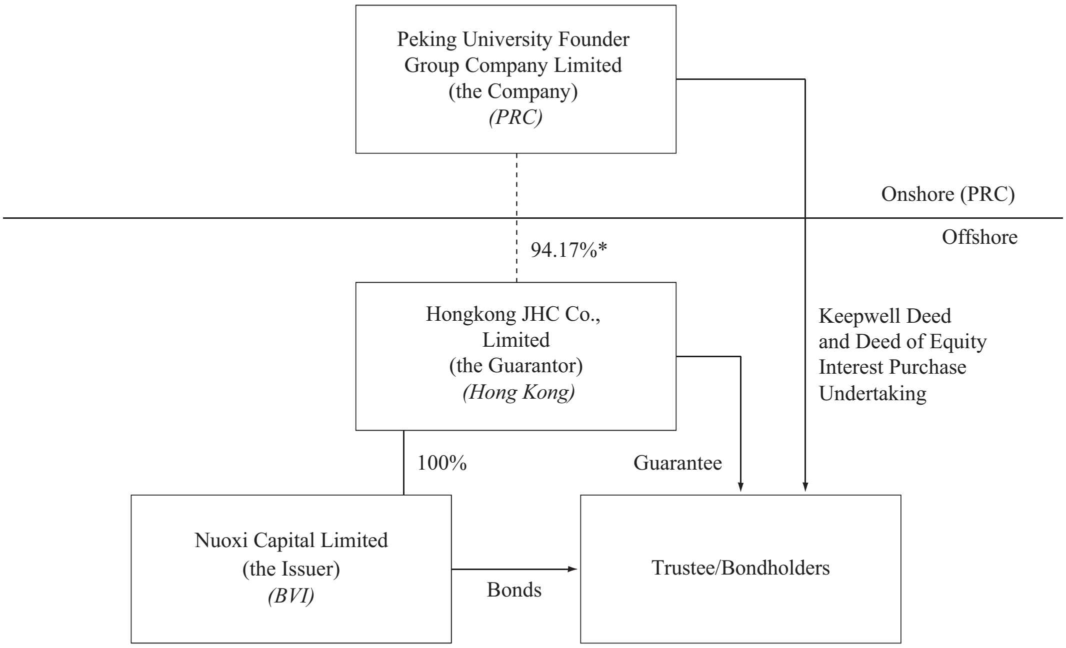
The Guarantor is positioned by the Group as a primary overseas platform for investment holding, cross-border bulk commodities trading and financing. Principal non-ferrous metal products traded by the Guarantor include copper cathodes, nikkel and zinc slabs. The Guarantor was incorporated in Hong Kong in September 2012 with limited liability. As at 30 September 2017, the Company indirectly held approximately 94.17 per cent. of the issued share capital of the Guarantor. As at 30 June 2017, the Guarantor had a paid-up capital of U.S.$9.98 million with total asset of approximately U.S.$856.2 million.

The Issuer

The Issuer was incorporated as a BVI business company with limited liability on 20 February 2017 under the laws of the British Virgin Islands. The registered office of the Issuer is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The Issuer is a wholly-owned subsidiary of the Guarantor.

OFFER STRUCTURE

The following is a description of the structure of the offering, which should be read in conjunction with the sections entitled "Risk Factors", "Terms and Conditions of the Series A Bonds", "Terms and Conditions of the Series B Bonds", "Description of the Keepwell Deed" and "Description of the Deed of Equity Interest Purchase Undertaking". The following chart illustrates the structure of the offering at the date of this Offering Circular:



Note: As at 30 September 2017, the Company indirectly held approximately 94.17 per cent. of the issued share capital of the Guarantor.

The Bonds and the Guarantee

The Bonds will be issued by the Issuer. The Bonds constitute direct, unsubordinated, unconditional and, subject to Condition 4(a) of the Terms and Conditions of the Bonds, unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves, and the payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.

On the Issue Date, the Bonds will have the benefit of the Guarantee by the Guarantor. Pursuant to the Guarantee, the Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed.

The Keepwell Deed

The Issuer, the Guarantor and the Company will execute the Keepwell Deed as further described in "*Description of the Keepwell Deed*" with the Trustee on or about the Issue Date. Under the Keepwell Deed, the Company will undertake with the Issuer, the Guarantor and the Trustee, so long as any of the Bonds remain outstanding, that:

- it shall directly or indirectly own and hold not less than 85 per cent. of the outstanding shares of the Guarantor and shall not directly or indirectly pledge, grant a security interest, or in any way encumber or otherwise dispose of any such shares unless required to dispose of any or all such shares pursuant to a court decree or order of any government authority which, in the opinion of a legal adviser to the Company, may not be successfully challenged; and

- it shall cause the Guarantor to directly or indirectly own and hold all the outstanding shares of the Issuer and not to directly or indirectly pledge, grant a security interest, or in any way encumber or otherwise dispose of any such shares unless required to dispose of any or all such shares pursuant to a court decree or order of any government authority which, in the opinion of a legal adviser to the Company, may not be successfully challenged.

In addition, the Company will undertake, among other things, so long as any of the Bonds remain outstanding, to:

- cause each of the Issuer and the Guarantor to have a Consolidated Net Worth of at least U.S.$1.00 at all times;

- cause each of the Issuer and the Guarantor to have sufficient liquidity to ensure timely payment by each of the Issuer and the Guarantor of any amounts payable in respect of the Bonds and the Guarantee in accordance with the Terms and Conditions of the Bonds and/or the Trust Deed and otherwise under the Trust Deed and the Agency Agreement;

- cause the Guarantor to have an aggregate Total Equity of at least HK$9,980,000 at all times;

- subject to certain exceptions as described in "*Description of the Keepwell Deed*", not, and procure that its subsidiaries (other than a Listed Subsidiary and any subsidiary of such Listed Subsidiary) will not, create or permit to subsist any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness outside the PRC;

- to procure that the articles of association of each of the Issuer and the Guarantor shall not be amended in a manner that is, directly or indirectly, adverse to Bondholders;

- to cause each of the Issuer and the Guarantor to remain in full compliance with the Terms and Conditions of the Bonds, the Guarantee, the Trust Deed and all applicable laws, rules and regulations in Hong Kong (in the case of the Guarantor) or the British Virgin Islands (in the case of the Issuer);

- promptly to take any and all action necessary to comply with its obligations under the Keepwell Deed;

- to cause each of the Issuer and the Guarantor to take all action necessary in a timely manner to comply with its obligations under the Keepwell Deed;

- to procure that the Issuer will not carry on any business activity whatsoever other than in connection with the issue of the bonds and any other activities incidental thereto (which activities shall, for the avoidance of doubt, include the on-lending of the proceeds of the issue of the bonds (the "Proceeds of the Bonds") to the Guarantor or the Company or as any of them may direct), and to cause such recipient of the Proceeds of the Bonds to pay the interest and principal in respect of such intercompany loan on time; and

- to maintain the Guarantor as a primary overseas platform of the Company for investment holding, trading and financing.

In addition, in the event (i) the Issuer does not provide a notice confirming it has sufficient liquidity to the Company and the Trustee no later than 30 Facility Business Days before each Interest Payment Date (the "Liquidity Notice Date") or (ii) an Event of Default has occurred, the Company shall, subject to prevailing laws, regulations and government policies at such time and if required, the approvals from or registration with competent PRC government authorities, as soon as practicable, among other things, grant to the Issuer a standby facility (the "Standby Facility") pursuant to which the Company will remit an amount after conversion (if required) sufficient to enable the Issuer (a) in the case of (i) to discharge its obligations under the Bonds and the Trust Deed which will become due on the immediate next Interest Payment Date, or in the case of (ii) to discharge its obligations under or in respect of the Bonds in accordance with the Terms and Conditions of the Bonds and/or the Trust Deed and otherwise under the Trust Deed and the Agency Agreement, and (b) cover all costs, fees, expenses and other amounts payable to the Trustee and/or the Agents under or in connection with the Bonds, the Trust Deed, the Agency Agreement, the Deed of Equity Interest Purchase Undertaking and/or the Keepwell Deed as at the date of the Liquidity Notice Date plus provisions for costs, fees, expenses and all other amounts which may be incurred after the Liquidity Notice Date as notified by the Trustee. The terms of the Standby Facility shall be at arm's length (or more favourable to the Issuer) and shall not require any security from the Issuer.

The Keepwell Deed is not a guarantee by the Company of the payment of any obligation, responsibilities, indebtedness or liability, of any kind or character whatsoever, of the Issuer or Guarantor under the laws of any jurisdiction. The performance by the Company of certain of its obligations under the Keepwell Deed may be subject to approvals, registrations, filings or clearance or other authorisation of PRC government authorities, and the Company will undertake to use its best efforts to obtain the same. See "*Risk Factors – Neither the Keepwell Deed nor the Deed of Equity Interest Purchase Undertaking from the Company is a guarantee of the payment obligations of the Issuer and the Guarantor under the Bonds and the Guarantee*".

The Deed of Equity Interest Purchase Undertaking

The Issuer, the Guarantor and the Company will execute the Deed of Equity Interest Purchase Undertaking (as further described in "*Description of the Deed of Equity Interest Purchase Undertaking*") with the Trustee on or about the Issuer Date. Pursuant to the terms of the Deed of Equity Interest Purchase Undertaking, the Company will agree to purchase, either by itself or through a PRC-incorporated Subsidiary of the Company, the Equity Interest held by the Guarantor and/or any other Subsidiaries of the Company incorporated outside the PRC (each a "Relevant Transferor"), upon receiving a written purchase notice (the "Purchase Notice") from the Trustee in accordance with the Trust Deed given following the Trustee being expressly notified or becoming actually aware of the occurrence of an Event of Default under the Bonds (the "Purchase"). The purchase price will be determined by the Company provided that the purchase price shall after conversion (if required), among other things, be sufficient to enable the Issuer and the Guarantor to discharge in full their respective obligations under the Bonds, the Guarantee and the Trust Deed, plus the interest payable in respect of one interest period on the Bonds, plus all costs, fees, expenses and other amounts payable to the Trustee and/or the Agents under or in connection with the Bonds, the Trust Deed, the Agency Agreement, the Keepwell Deed and/or the Deed of Equity Interest Purchase Undertaking as at the date of such Purchase Notice plus provisions for costs, fees, expenses and all other amounts which may be incurred after the date of the Purchase Notice, as notified by the Trustee in the Purchase Notice.

The Company shall, and shall procure each Relevant Transferor to, use their respective best efforts to do all such things and take all such actions as may be necessary or desirable to (i) procure the completion of the Purchase on the relevant Purchase Closing Date (including providing information and applying for Relevant Approvals) as soon as reasonably practicable within six months from the date of the Purchase Notice; and (ii) procure the remittance of the sum of the Purchase Price to or to the order of the Relevant Transferor(s) in accordance with the Deed of Equity Interest Purchase Undertaking. See "*Risk Factors – Performance by the Company of its undertaking under the Deed of Equity Interest Purchase Undertaking is subject to approvals of the PRC governmental authorities*".

THE ISSUE

The following contains summary information about the Bonds. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" and "Summary of Provisions Relating to the Bonds in Global Form" shall have the same meanings in this summary. For a comprehensive description of the terms of the Bonds, see the section entitled "Terms and Conditions of the Bonds" of this Offering Circular.

Issuer	Nuoxi Capital Limited (諾熙資本有限公司).
Keepwell Deed and Deed of Equity Interest Purchase Undertaking Provider	Peking University Founder Group Company Limited.
Guarantor.	Hongkong JHC Co., Limited.
Guarantee.	The Guarantor has unconditionally and irrevocably guaranteed the due payment of the principal and interest in respect of the Bonds and all other sums expressed to be payable by the Issuer under the Bonds and the Trust Deed, as further described in Condition 3 of the Terms and Conditions of the Bonds. The Guarantor's obligations in respect of the Bonds and the Trust Deed are contained in the Trust Deed (and any supplement thereto).
Issue	Series A U.S.$200,000,000 in aggregate principal amount of 4.70 per cent. Guaranteed Bonds due 2021 and Series B U.S.$400,000,000 in aggregate principal amount of 5.35 per cent. Guaranteed Bonds due 2023.
Series A Bonds Issue Price	100.00 per cent.
Series B Bonds Issue Price	100.00 per cent.
Form and Denomination . .	Each series of the Bonds will be issued in registered form in the specified denomination of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof.
Interest	The Bonds will bear interest from and including 24 January 2018 at the rate of 4.70 per cent. per annum (in respect of Series A Bonds) and 5.35 per cent. per annum (in respect of Series B Bonds), respectively, payable semi-annually in arrear on the Interest Payment Dates falling on 24 January and 24 July in each year commencing on 24 July 2018.
Issue Date	24 January 2018.
Maturity Date	For the Series A Bonds, 24 January 2021. For the Series B Bonds, 24 January 2023.
Status of the Bonds	The Bonds constitute direct, unsubordinated, unconditional and, subject to Condition 4(a) of the Terms and Conditions of the Bonds, unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves, as further described in Condition 3(a) of the Terms and Conditions of the Bonds.

Status of the Guarantee . .	The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
Negative Pledge	The Bonds contain a negative pledge provision, as further described in Condition 4(a) of the Terms and Conditions of the Bonds.
Events of Default	The Bonds contain certain events of default provisions as further described in Condition 9 of the Terms and Conditions of the Bonds.
Taxation.	All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within a Relevant Jurisdiction, unless such withholding or deduction is required by law, as further described in Condition 8 of the Terms and Conditions of the Bonds. In such event, the Issuer or, as the case may be, the Guarantor shall, subject to the limited exceptions specified in the Terms and Conditions of the Bonds, pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required.
Final Redemption	Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.
Redemption for Tax Reasons	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount, together with accrued interest, at any time in the event of certain changes affecting taxes of a Relevant Jurisdiction, as further described in Condition 6(b) of the Terms and Conditions of the Bonds.
Redemption for Change of Control	At any time following the occurrence of a Change of Control Put Event, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of such holder's Bonds, at 101 per cent. of their principal amount, together with accrued interest, as further described in Condition 6(c) of the Terms and Conditions of the Bonds.
Clearing Systems.	The Bonds will be represented initially by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in this Offering Circular, certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
Governing Law	English law.

Trustee	The Bank of New York Mellon, London Branch.
Principal Paying Agent. . .	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Listing	Application has been made to the HKSE for the listing of, and permission to deal in each series of the Bonds by way of debt issues to professional investors only.
Rating	The Bonds have not been rated.
Further Issues	The Issuer may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them and the timing for reporting to the NDRC) so as to form a single series with the Bonds, as further described in Condition 15 of the Terms and Conditions of the Bonds.
Use of Proceeds	See the section entitled "*Use of Proceeds*".
Keepwell Deed	The Issuer, the Guarantor, the Company and the Trustee will enter into a keepwell deed as further described in "*Offer Structure*" and "*Description of the Keepwell Deed*".
Deed of Equity Interest Purchase Undertaking . .	The Issuer, the Guarantor, the Company and the Trustee will enter into a deed of equity interest purchase undertaking as further described in "*Offer Structure*" and "*Description of the Deed of Equity Interest Purchase Undertaking*".

SELECTED FINANCIAL INFORMATION OF THE COMPANY

The following tables set forth the Company's summary consolidated financial information as at and for the periods indicated.

The summary consolidated financial information as at and for the years ended 31 December 2015 and 2016 and as at and for the nine months ended 30 September 2016 and 2017 set forth below has been extracted from the Company's audited consolidated financial statements as at and for the years ended 31 December 2015 and 2016 and unaudited but reviewed consolidated interim financial statements as at and for the nine months ended 30 September 2016 and 2017.

The Company's audited consolidated financial statements as at and for the year ended 31 December 2015 and 2016 have been prepared and presented in accordance with PRC GAAP and have been audited by Asia Pacific (Group) Certified Public Accountants. The Company's unaudited but reviewed consolidated interim financial statements as at and for the nine months ended 30 September 2016 and 2017 have been prepared and presented in accordance with PRC GAAP and have been reviewed by Asia Pacific (Group) Certified Public Accountants. PRC GAAP differs in certain material respects from IFRS. For a discussion of certain differences between PRC GAAP and IFRS, see "Summary of Significant Differences between PRC GAAP and IFRS".

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, such audited and/or unaudited but reviewed consolidated financial statements of the Company, including the notes thereto, included elsewhere in this Offering Circular. Historical results of the Company are not necessarily indicative of results that may be achieved for any future period.

The unaudited but reviewed consolidated interim financial statements of the Company as at and for the nine months ended 30 September 2016 and 2017 have not been audited by a certified public accountant, and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Neither the Joint Lead Managers nor their respective affiliates, directors, employees or advisers makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited but reviewed consolidated interim financial statements and potential investors must exercise caution when using such data to evaluate, the Company's financial condition and results of operations. In addition, the unaudited but reviewed consolidated interim financial statements of the Company as at and for the nine months ended 30 September 2016 and 2017 should not be taken as an indication of the expected Financial condition or results of operations of the Company for the full financial year ending 31 December 2017.

Consolidated Income Statement of the Company

	For the year ended 31 December		For the nine months ended 30 September	
	2015	2016	2016	2017
			(Unaudited)	
		(CNY in millions)		
Gross revenue	**80,511**	**82,005**	**63,169**	**79,997**
Including: operating revenue	80,511	82,005	63,169	79,997
Including: prime operating revenue	79,986	81,388	62,750	79,563
Other operating revenue	525	617	419	434
Total operating costs	**82,125**	**88,737**	**66,453**	**83,502**
Including: operating costs	69,139	74,605	57,061	72,451
Including: prime operating revenue	68,829	74,285	56,837	72,167
Other operating cost	310	320	224	284
Business tariff and annex	1,106	337	230	228
Marketing expenses	2,201	2,435	1,967	1,402
General and administrative expenses	3,324	3,991	2,617	4,580
Including: business entertainment expenses	198	199	151	90
Research and development expense	306	357	198	242
Financial expenses	5,671	5,986	4,552	4,743
Including: interest expense	5,942	6,829	4,602	4,798
Interest revenue ("+")	356	1,006	202	182
Exchange net loss ("-" for net income)	(20)	63	79	(1)
Impairment losses on assets	683	1,384	26	98
Other gains	–	–	–	9
Add: Gain on the change of fair value ("-" for loss)	1,191	(274)	3,286	2,127
Income from investment ("-" for loss)	6,397	12,575	4,179	2,234
Including: Income from investment in associates and joint ventures	179	92	(170)	309
Operating profit	**5,975**	**5,569**	**4,181**	**864**
Add: non-operating profit	404	412	194	130
Including: gain from disposal of non-current assets	111	4	1	7
Gain from non-monetary assets exchange gains (non-monetary gains)	–	–	–	–
Government grant	188	249	118	70
Gain from debt restructuring	–	–	–	–
Less: non-operating expenditure	267	321	208	154
Including: losses from disposal of non-current assets	14	7	4	18
Loss from exchange of non-monetary asset	–	–	–	–
Gain from debt restructuring	–	–	–	–
Total profit	**6,112**	**5,660**	**4,168**	**840**
Less: Income tax	1,794	2,664	1,355	517
Add: Unrecognised profit and loss on investments	–	–	–	–
Net profit	**4,318**	**2,996**	**2,812**	**323**
Less: Minority interests	3,064	2,620	2,491	981
Net profits attributable to the parent company's owners	**1,253**	**377**	**321**	**(658)**
Net value after tax on other comprehensive income	**1,754**	**(1,511)**	**(1,530)**	**1,185**
Net value after tax on other comprehensive income attributable to the parent company	1,053	(260)	(414)	676
Net value after tax on other comprehensive income attributable to the minority shareholders	701	(1,251)	(1,116)	509
Total comprehensive income	**6,072**	**1,485**	**1,282**	**1,508**

Consolidated Balance Sheet of the Company

	As at 31 December		As at 30 September	
	2015	2016	2016	2017
			(Unaudited)	
		(CNY in millions)		
Assets				
Current Assets:				
Monetary funds	29,455	26,143	27,756	21,078
Measured at fair value and the changes are recorded into the profits and losses of the current financial assets	25,061	35,988	36,535	46,143
Derivative financial assets	35	0.4	–	8
Notes receivable	823	490	613	404
Dividend receivable	4	–	–	–
Interest receivable	1,592	1,567	1,866	2,085
Accounts receivable	5,536	7,103	5,310	6,957
Other receivables	55,682	72,630	54,376	67,262
Advances to suppliers	4,135	3,369	4,627	3,890
Inventories	4,845	5,741	6,049	7,465
Including: raw materials	358	430	411	508
Finished goods	3,463	4,613	4,784	6,086
Long-term debt investment	–	9	–	1
Other current assets	6,624	13,570	11,580	16,194
Including: partition hold-for-sale assets	46	–	–	–
Total current assets	**133,789**	**166,612**	**148,713**	**171,487**
Non-current assets:				
Available-for-sale financial assets	22,228	33,738	29,474	32,387
Held-to-maturity investment	2,238	1,496	2,094	1,380
Long-term receivables	–	–	4,454	–
Long-term equity investment	4,489	5,417	4,454	5,780
Investment property	8,467	6,742	12,752	15,898
Fixed assets-cost	14,948	19,452	14,931	16,247
Less: Accumulated depreciation	5,893	6,665	6,357	7,178
Fixed assets-net value	9,055	12,787	8,574	9,069
Less: Impairment of fixed assets	33	897	33	897
Net value of fixed assets	9,022	11,890	8,541	8,172
Construction in progress	6,005	1,750	6,745	2,400
Project material	41	86	81	61
Disposal of fixed assets	6	8	6	8
Productive biological assets	–	–	–	–
Oil-and-gas assets	–	–	–	–
Intangible assets	797	1,364	748	1,356
Including: land use rights	325	873	319	736
Development expenditure	182	228	250	282
Goodwill	6,904	6,904	6,929	6,724
Long-term prepayments	435	364	453	427
Deferred income tax assets	134	394	388	186
Other non-current assets (Other long-term assets)	1,824	2,281	1,955	3,593
Among it: Specially approved reserving materials	–	–	–	–
Total non-current assets	**62,772**	**72,661**	**74,871**	**78,653**

Liabilities and Shareholders' Equity

	As at 31 December		As at 30 September	
	2015	**2016**	**2016**	**2017**
			(Unaudited)	
		(CNY in millions)		
Current Liabilities:				
Short-term loans	14,690	18,961	15,998	20,227
Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities	1,669	10,109	6,010	20,593
Derivative financial liabilities	17	10	19	21
Notes payable	5,724	1,329	1,677	1,300
Accounts payable	1,684	2,665	1,727	2,458
Advances from customers	949	1,773	930	2,708
Accrued wages	2,249	1,564	911	922
Including: Accrued payroll	2,127	1,446	812	835
Including: Welfare expenses payable	53	37	41	31
Taxes and dues Payable	274	2,044	601	267
Including: Taxes payable	265	2,037	598	266
Accrued interest payable	1,882	1,547	1,393	1,032
Dividends payable	9	15	15	15
Other amounts payables	21,689	22,675	20,733	25,108
Partition hold-for-sale liabilities	–	–	–	–
Long-term liabilities due within a year	705	3,935	315	3,719
Other current liabilities	22,645	19,689	25,341	28,605
Total current liabilities	**74,185**	**86,318**	**75,669**	**106,975**
Noncurrent liabilities:				
Long-term borrowings	6,848	9,091	9,997	10,258
Bonds payable	54,668	79,019	73,784	65,435
Long-term payables	763	792	765	1,445
Long-term accrued wages	13	12	11	11
Special payable	1,909	2,568	2,716	2,095
Estimated liabilities	306	294	306	51
Deferred revenue	126	300	152	269
Deferred income tax liabilities	1,722	2,035	2,168	2,451
Other noncurrent liabilities	2,315	3,392	2,813	4,588
Including: Special reserve fund	–	–	–	–
Total noncurrent liabilities	68,671	97,502	92,691	86,604
Total liabilities	**142,856**	**183,820**	**168,361**	**193,579**
Owner's equity (or stockholder's equity):				
Paid-in capital (or stock)	1,103	1,103	1,103	1,103
Including: National capital	772	772	772	772
Collective capital	–	–	–	–
Legal person's capital	331	331	331	331
Including: State-owned legal person's capital	–	–	–	–
Collective legal person's capital	–	–	–	–
Personal capital	–	–	–	–
Foreign businessmen's capital	–	–	–	–
Other equity instruments	–	–	–	–
Capital surplus	2,535	2,548	2,534	2,362
Less: treasury stock	–	–	–	–
Other comprehensive income	6,239	5,979	5,825	6,655
Including: translation reserve	30	62	44	33
Surplus reserve	391	391	391	391
Generic Risk Reserve	–	–	–	–
Undistributed profit	10,275	10,913	10,951	10,256
Including: cash dividends	–	–	–	–
Total owners' equity attributable to the parent company	**20,542**	**20,934**	**20,803**	**20,766**
Minority interests	33,163	34,519	34,420	35,795
Total shareholder's equity	**53,705**	**55,453**	**55,223**	**56,561**
Less: assets loss	–	–	–	–
Total owners' equity (excluding the asset loss)	**53,705**	**55,453**	**55,223**	**56,561**
Total liabilities and owners' equity	**196,560**	**239,273**	**223,584**	**250,140**

Other Financial Data

	Year ended 31 December		Nine months ended 30 September	
	2015	2016	2016	2017
			(Unaudited)	
	(CNY in millions)[1]			
EBITDA[2]	12,940.6	13,826.8	9,632.8	6,678.3
Total debt[3]/EBITDA	6.4	8.1	7.9	15.1
Net debt[4]/EBITDA	4.1	6.2	5.8	9.0
EBITDA/Interest expense	2.2	2.2	2.1	1.4

Notes:

(1) Except for ratios.

(2) EBITDA consists of profit before tax plus interest expenses included in finance costs, depreciation, amortisation of intangible assets and amortisation of long-term pre-paid expenses. EBITDA is not a standard measure under PRC GAAP. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or constructed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities.

(3) Total debt consists of short-term loans and borrowings plus non-current liabilities due within one year plus long-term loans and borrowings plus notes payable and bonds payable.

(4) Net debt equals to total debt minus monetary funds.

SELECTED FINANCIAL INFORMATION OF THE GUARANTOR

The following tables set forth the Guarantor's summary financial information as at and for the periods indicated.

The summary financial information as at and for the years ended 31 December 2015 and 2016 and as at and for the six months ended 30 June 2017 set forth below has been extracted from the Guarantor's audited financial statements as at and for the year ended 31 December 2015 and 2016 and unaudited but reviewed interim financial statements as at and for the six months ended 30 June 2017.

The Guarantor's audited financial statements as at and for the year ended 31 December 2016 have been prepared and presented in accordance with HKFRS and have been audited by Global CPA(HK) Limited.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, such audited financial statements of the Guarantor, including the notes thereto, included elsewhere in this Offering Circular. Historical results of the Guarantor are not necessarily indicative of results that may be achieved for any future period.

Statement of Profit or Loss and Other Comprehensive Income of the Guarantor

	For the year ended 31 December		For the six months ended 30 June
	2015	**2016**	**2017**
		(U.S.$)	
Revenue	869,601,852	1,495,943,633	774,992,631
Cost of sales	(881,308,283)	(1,482,261,250)	(766,556,929)
Gross profit/(loss)	(11,706,431)	13,682,383	8,435,702
Other Income	26,269	2,204,029	1,121,433
(Loss)/gain from settlement of derivative financial instruments	5,093,793	(14,555,598)	(9,954,104)
Gain from change in fair value of derivative financial instruments	9,817,055	5,551,148	17,563,444
Administrative expenses	(393,951)	(908,936)	(467,158)
Financial costs	(1,881,352)	(3,578,255)	(1,715,405)
Profit before tax	955,383	2,394,771	14,983,912
Income tax expense	–	2,590	–
Profit for the year	955,383	2,397,361	14,983,912
Other comprehensive income for the year	–	–	–
Total comprehensive income for the year	955,383	2,397,361	14,983,912
Profit for the year attributable to:			
Owners of the Guarantor	955,383	2,397,361	14,983,912
Total comprehensive income for the year attributable to:			
Owners of the Guarantor	955,383	2,397,361	14,983,912

Statement of Financial Position

	For the year ended 31 December		For the six months ended 30 June
	2015	2016	2017
		(U.S.$)	
Assets			
Non-current assets			
Amount due from a fellow subsidiary	–	–	300,000,000
Investment in a subsidiary	–	–	1
Total non-current assets	–	–	300,000,001
Current Assets			
Amounts due from fellow subsidiaries	32,009,238	43,025,477	28,246,853
Inventories	2,003,859	11,692,166	165,554,020
Accounts receivable	107,653,118	230,300,883	214,087,567
Other receivable	5,571,795	13,902,912	25,331,759
Trade deposits paid	29,425,881	34,249,640	35,284,596
Derivative financial instruments	16,731,940	56,317,551	33,027,850
Pledged time deposits	8,000,000	80,493,152	15,051,718
Bank balances and cash	64,396,037	35,695,374	39,624,741
Total current assets	265,791,868	505,677,155	556,209,104
Total assets	265,791,868	505,677,155	856,209,105
Equity and liabilities			
Equity attributable to owners of the guarantor			
Share capital	9,980,000	9,980,000	9,980,000
Retained profits carried forward	1,183,083	3,580,444	18,564,356
Total equity	11,163,083	13,560,444	28,544,356
Non-current liabilities			
Amount due to a subsidiary	–	–	298,382,672
Total non-current liabilities	–	–	298,382,672
Current liabilities			
Amounts due to fellow subsidiaries	78,462,733	152,194,684	154,980,227
Amount due to immediate holding company	2,929,791	–	–
Accounts payable	34,125,535	87,263,014	7,168,759
Other payable	–	–	11,424,609
Trade deposits received	55,100,554	151,866,579	270,509,018
Accrued expenses	48,736	26,031	15,058
Inward cargoes loans	77,040,303	50,000,000	69,720,000
Derivative financial instruments	6,914,885	50,766,403	15,464,406
Tax payable	6,248	–	–
Total current liabilities	254,628,785	492,116,711	529,282,077
Total liabilities	254,628,785	492,116,711	827,664,749
Total equity and liabilities	265,791,868	505,677,155	856,209,105

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including but not limited to the risks and uncertainties described below. The following factors are contingencies which may or may not occur and none of the Issuer, the Guarantor and the Company is in a position to express a view on the likelihood of any of such contingencies occurring. Any of the risks or uncertainties described below, as well as additional risks or uncertainties, including those which are not currently known to the Issuer, the Guarantor or the Company or which the Issuer, the Guarantor or the Company currently deems to be immaterial, may affect the Issuer's, the Guarantor's, the Company's or the Group's business, financial condition or results of operations or the ability to fulfil their respective obligations under the Bonds, the Guarantee, the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking.

GENERAL RISKS RELATING TO THE GROUP AND ITS BUSINESSES

Some of the Group's businesses, conducted through its subsidiaries, are operated in sectors facing increasing competition and consolidation in the PRC

The Group's businesses operate in highly fragmented and competitive markets, and face increasing competition for capital, labour, location, facilities and supporting infrastructure, services, pricing, raw materials as well as acquisition opportunities and new business opportunities. Certain of the Group's competitors in their respective businesses may have longer operating track records, stronger government or customer relationships and parent companies' support and have access to greater financial, technical, infrastructure, marketing or other capabilities or resources and/or have better name recognition than the Group. A number of the Group's competitors have, as a result of consolidation in their respective markets, become larger and are able to capitalise upon the extensive local knowledge, business relationships and longer operational track records of their newly-acquired subsidiaries so as to enjoy greater economies of scale and operating efficiencies. There can be no assurance that the Group will be able to compete successfully in the future against its existing or potential competitors or that increased competition with respect to the Group's activities will not have a material adverse effect on the Group's financial condition and results of operations. If the Group cannot respond to changes in market conditions or changes in customer preferences more swiftly or more effectively than its competitors, the Group's businesses, results of operations and financial condition could be materially and adversely affected. See also "*The Group's information technology business operates in a competitive industry*", "*The healthcare and pharmaceuticals industry in the PRC is competitive*", "*The Group faces intense competition and its business in finance and securities could be materially and adversely affected if it is unable to compete effectively*" and "*The commodities industry is very competitive and the Group may have difficulty effectively competing with other commodity marketing and industrial companies*".

The Group's businesses are subject to various laws, regulations and government policies

The Group's businesses are primarily based in the PRC and therefore are subject to the laws, regulations and policies of the PRC, which may be subject to changes of substance or interpretation that could adversely affect the Group's businesses. These may include tariffs, trade barriers, licences, approvals, health and safety and environmental regulations, regulations relating to the registered capital of a company, emission controls, taxation, exchange controls, employment legislation, and other matters, which may be imposed at both national and local government levels. Compliance with such laws and regulations may require the Group to incur significant capital expenditure or may impose other obligations or liabilities which could create a substantial financial burden on it. Control by the authorities over various aspects of the Group's businesses may impose significant constraints on the Group's ability to implement its business strategies, to develop or expand the Group's business operations or to maximise the Group's profitability.

The Group's businesses are required to comply with health and safety regulations with respect to employees in the jurisdictions in which they operate

Some of the Group's businesses, in particular its information technology business and healthcare and pharmaceuticals business, are required to comply with the applicable health and production safety standards in relation to its production processes. The Group's production facilities are subject to regular inspections by the regulatory authorities for compliance with the Safe Production Law of the PRC (《中華人民共和國安全生產法》). Furthermore, under the PRC Labour Law (《中華人民共和國勞動法》) and the PRC Law on the Prevention and Treatment of Occupational Diseases (《中華人民共和國職業病防治法》), the Group must ensure that its facilities comply with PRC standards and requirements on occupational safety and health conditions for employees. The Group also provides its employees with labour safety education, necessary protective tools and facilities, and regular health examinations for those who are engaged in work involving risks of occupational hazards. Failure to meet the relevant legal requirements on production safety and labour safety could subject the Group to warnings from the relevant governmental authorities, governmental orders to rectify such noncompliance within a specified time frame and fines according to the Safe Production Law, the PRC Labour Law and the PRC Law on the Prevention and Treatment of Occupational Diseases. The Group may also be required to suspend its production temporarily or cease its operation permanently for significant non-compliance, which would have a material adverse effect on its business, results of operations and financial condition.

The Group's businesses are required to comply with the environmental protection regimes in the jurisdictions in which they operate

The Group is subject to certain environmental laws and regulations relating to its businesses, and the compliance with these laws and regulations may cause an increase in its compliance cost. The Group's healthcare and pharmaceuticals business and PCB production can have a significant environmental impact. For example, the Group produces hazardous substances, discharges waste water and pollutes the air during its PCB production processes. Therefore, the Group is subject to stringent environmental laws and regulations.

Given the magnitude, complexity and that there are continuous amendments to these laws and regulations, compliance therewith of the relevant laws and regulations may be onerous or may involve the Group dedicating substantial financial resources and other resources to establish effective compliance and monitoring systems. The liabilities, costs, obligations and requirements associated with these laws and regulations may therefore be substantial and may delay the commencement of or cause interruptions to the Group's operations. Non-compliance with the relevant laws and regulations applicable to the Group's operations may result in substantial penalties or fines, suspension or revocation of the Group's relevant licences or permits, termination of government contracts or suspension of the Group's operations. Such events could materially and adversely affect the Group's businesses, financial condition, results of operations and reputation, all of which could materially and adversely affect the Group's ability to be profitable and attract new customers.

In addition, the environmental laws and regulations in the PRC and other jurisdictions in which the Group operates continue to evolve. Any changes or amendments to such laws or regulations may cause the Group to incur additional capital expenditures, or other obligations or liabilities, which would leave it with less capital to pursue development in other areas. For any of these reasons, the Group's business, financial condition and results of operations may be adversely affected.

The Group operates in highly regulated industries

The Group's businesses are also subject to laws and regulations in relation to certificates, licences and approvals in the industries in which they operate. The Group's businesses may be materially and adversely affected if the Group fails to comply with the applicable regulations, in particular, if it fails to obtain, or renew, or if there are material delays in obtaining or renewing, the requisite certificates, licences and approvals.

In addition, changes in such regulations, sanctions and policies in countries around the world could have a material adverse effect on the Group's business and results of operations. The Group develops many of its products and solutions based on existing regulations and technical standards, its interpretation of unfinished technical standards or there may be an absence of applicable regulations and standards. As a result, changes in various types of regulations in any of those countries, and enforcement of new regulations and policies applicable to current or new technologies or products may have a material adverse effect on the Group's local business and results of operations, which in turn may adversely affect the Group's business and results of operations. Any new or increased levies and duties could result in costs which lead to higher prices for the Group's products, which may in turn impair demand for them.

In some of the evolving industries in the PRC, most of the newly-introduced businesses of the Group, for example the securities industry, require further development and improvement and there are some uncertainties regarding the enforcement of existing rules and regulations in relation to such new businesses. Changes in the interpretation or enforcement of rules and regulations for such new businesses may result in changes in, or the suspension of, certain of the Group's new businesses, which could have a material adverse effect on its business and prospects. See also "*The telecommunications industry is subject to extensive government regulation which is still evolving*", "*The healthcare and pharmaceutical industry in the PRC is highly regulated*" and "*The Group's finance and securities business is subject to extensive regulatory requirements, the non-compliance with which could cause it to incur penalties*".

The Group may be subject to litigation and regulatory investigations proceedings and may not be successful in defending itself against such proceedings or claims

The Group or any of its subsidiaries face risks of lawsuits and arbitration claims in the ordinary course of its respective business. The Group or any of its subsidiaries may also be subject to inquiries, investigations and proceedings by regulatory and other governmental agencies in the ordinary course of its business. For example, in May 2017, the Company and four of its subsidiaries received formal penalty from the CSRC for their failure to comply with certain rules and regulations. As a result, the Group was fined and certain former members of the senior management and responsible officers of the relevant entities were reprimanded and fined respectively. For further details of past and ongoing legal proceedings and regulatory investigations of the Group, please refer to the section headed "*Description of the Group – Legal Proceedings and Regulatory Investigations*".

The Group or any of its subsidiaries, takes an active approach in defending claims and investigation, yet, such investigations and litigations may have or will cause serious damage to the Group's reputation, which may further affect the Group's business, results of operations and financial condition. There is no assurance that the Group could successfully defend such claims and investigations, and there is no assurance that such incidents will not occur in the future. Meanwhile, adverse publicity about these types of concerns relating to our brand, whether or not legitimate, may decrease the customers' confidence in the Group's brand, even may result in losses which we may not be able to recover. Actions brought against the Group or any of its subsidiaries may result in settlements, injunctions, fines, penalties, stock delisting or other results adverse to it that could harm its reputation. Even if the Group or any such subsidiary is successful in defending itself against these actions, the costs of such defence may be significant. In market downturns, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase. A significant judgement or regulatory action against the Group or any of its subsidiaries, or a disruption in its business arising from adverse adjudications in proceedings against its directors, officers or employees, would have a material adverse effect on the liquidity, business, financial condition, results of operations and prospects of the Group.

The Group has taken prudent measures within its control to minimise any potential litigation and regulatory investigations proceedings. However, the risk management and internal control policies and procedures may not be effective to manage all of the Group's risks. For further details, please refer to "– *The Group may not effectively implement enhanced risk management and internal control policies and procedures to manage its financial and operational risks*".

Some of the Group's former members of senior management and responsible officers were sanctioned and/or are under investigation by the relevant authorities and there can be no assurance that the Group will not also be subject to further regulatory investigations or to civil claims.

Some of the Group's former members of senior management and responsible officers had been sanctioned by relevant regulatory authorities for various non-compliances. For example, the former director and chief executive officer of the Group, Mr Li You, was convicted of insider dealing, obstruction of official duties and concealing accounting vouchers, books and accounting reports by the Dalian Intermediate People's Court in November 2016. Some former members of senior management and/or some former employees of the Group's subsidiaries have also been sanctioned by the CSRC.

These investigation and legal proceedings may have adverse effect to the Group's reputation and may cause negative publicity and/or media speculation, which may further affect the Group's business, results of operations and financial condition. There is also no certainty as to the extent of the investigations, when they will be completed and what are their outcome, including whether the investigations would be expanded to any of the Group's subsidiaries, other former or existing members of the Group's senior management or responsible officer and business and/or assets of the Group.

If the investigations and/or the legal proceedings develop or expand in such a way that they are extended to any current board member, members of the senior management or responsible officer or business or assets of the Group, such development/expansion and any negative publicity and/or media speculation resulting from such development/expansion may, independently or in aggregate, negatively affect the Group's legal rights (including its contractual rights and rights or concession under any licences, permits or otherwise), result in charges, fines and fees imposed on the Group and increase the costs of business and operations for the Group. This may also lead to damage to the Group's brand name and hence customers' and suppliers' loyalty to the Group. Any such development shall have a material and adverse effect on the business performance of the Group as well as the value of the Bonds.

For further details of past and ongoing legal proceedings and regulatory investigations of the Group, please refer to the section headed "*Description of the Group – Legal Proceedings and Regulatory Investigations*".

The Group's businesses require substantial capital investment and liquidity risk and a failure to obtain funds could limit the Group's ability to engage in desired activities and grow its business

Certain of the Group's businesses are capital intensive. For example, the Group's information technology business, finance and securities business and bulk commodities trading business are capital intensive and require significant amounts of working capital to support their respective operations, service their debt and continue research and development activities. Continued funding of, and access to, working capital is critical for the Group to maintain its historic levels of business activities, to increase production levels in the future in accordance with its business plan and to grow its business through the acquisition of new assets.

Liquidity, or ready access to funds, is also essential to the Group's business. Liquidity risk is the risk that the Group is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured or secured basis at an acceptable price to fund actual or proposed commitments. A lack of liquidity may mean that the Group will not have funds available to maintain or increase its marketing activities, grow its industrial production output as planned or take advantage of other opportunities that may arise in its marketing or industrial activities. Prudent liquidity risk management requires the Group to maintain sufficient cash and cash equivalents through the accumulation of retained earnings and to have ready sources of committed funding available to meet anticipated and unanticipated funding needs. While the Group adjusts its minimum internal liquidity targets in response to changes in market conditions, its liquidity may be impaired due to circumstances it is unable to control, such as general market disruptions, increases in the prices of commodities or an operational problem that affects its suppliers or customers or the Group itself.

In addition to maintaining a positive cash position, the Group relies on two other principal sources of liquidity: borrowings under various short-term and long-term bank loans and issuance of notes in the debt capital markets. An inability to raise money in the debt markets or directly from banks and other financial institutions could have a material adverse effect on the Group's liquidity. The Group's ability to access debt in amounts adequate to finance its activities could be impaired by factors that affect the Group in particular or the industries or geographies in which it operates.

Future debt financing, even if accessible, may result in increased borrowing costs, increased financial leverage, decreased income available to fund further acquisitions and expansions and the imposition of restrictive covenants on the Group's businesses and operations. In addition, future debt financing may limit the Group's ability to withstand competitive pressures and render its businesses more vulnerable to economic downturns by exposing it to volatile interest rates, tighter credit markets and potentially reduced access to funding that may be needed to take advantage of future business opportunities. Although the Group expects the continued support of financial institutions, there can be no assurance that additional credit or funding will be made available in the future or at similar costs.

A number of the Group's businesses are dependent on the stable supply of raw materials and construction materials and such raw materials and construction materials are subject to price volatility

The Group's businesses in the information technology and healthcare and pharmaceutical production sectors depend on reliable sources of large quantities of raw materials and/or construction materials, the cost of which is subject to factors such as fluctuations in supply, market conditions and cost of transportation. In certain markets, the Group has entered into long-term arrangements or annual strategic co-operation agreements for the supply of construction materials and raw materials. There is no assurance, however, that there will not be any interruption or disruption in, or change in terms of, the Group's raw materials and construction materials supplies, or that the Group will receive its raw materials and construction materials in a timely manner or on acceptable terms or of an acceptable quality. If there is any interruption or disruption in the Group's supply of raw materials or construction materials and the Group is unable to obtain suitable substitutes from alternative sources in a timely manner, the Group's business, financial condition and results of operations may be adversely affected.

Further, such supply is subject to price volatility caused by external conditions, including price fluctuations in commodities, fuel, food and chemicals and changes in governmental policies. There can be no assurance that the Group's key suppliers will continue to provide it with raw materials and construction materials on reasonable terms, or at all, or that the prices of its raw materials and construction materials will remain stable in the future. In addition, the Group may not be able to transfer some or all of the cost increases in its raw materials or construction materials to its customers. As a result, any increase or material fluctuation in prices could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's businesses may be affected by global economic developments

Since the second half of 2008, the global credit markets have experienced, and may continue to experience, significant dislocations and liquidity disruptions which originated from liquidity disruptions in the United States and the European Union credit and sub-prime residential mortgage markets. In 2010 and 2011, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these European Union nations to service their own debt obligations, which resulted in varying degrees of financial stress and uncertainty over the European economy. In June 2016, the United Kingdom voted to withdraw from the European Union, which brought volatility to the capital markets worldwide, increased foreign exchange volatility and may have negative impact to the growth of global economy. In January 2017, Donald J. Trump took office as the president of the United States. The global financial markets, in particular, the U.S. financial market, have concerns over his controversial speeches, policy and administration, the effect of which remained to be seen.

These and other related events, such as the collapse of a number of financial institutions, have had and continue to have a significant adverse impact on the global credit and financial markets. There continues to be uncertainty as to the potential and severity of the downturn in the United States and the European Union and the global economy in general, the decrease in consumer demand and the impact of such downturns on the PRC economies. The deterioration in the financial markets contributed to recessions in the United States and the global economy, which resulted in declines in employment, household wealth, consumer demand and lending and as a result may adversely affect economic growth in the PRC.

The Group's business activities are primarily concentrated in the PRC. The Group's operations, revenue, performance and future growth depend, to a large extent, on the continued growth of the various markets in the PRC in which it operates. The reduced demand for exports produced in the PRC, reduced levels of foreign and domestic investment in the PRC and decreased consumer confidence may result in a slowdown in growth in the economy of the PRC. This may lead to reduced demand for certain of the Group's products and services, such as PCB products, which could in turn have an adverse effect on the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

The risks that some of the Group's business segments are exposed to may be exacerbated in adverse conditions in the relevant markets. See also "*Demand for information technology products and services is difficult to predict*", "*The Group faces intense competition and its business in finance and securities could be materially and adversely affected if it is unable to compete effectively*" and "*The Group is exposed to declines in the current and expected volumes of supply or demand for commodities, commodity prices and deterioration in economic and financial conditions*".

The Group faces risks relating to its diversified business operations

The Group has a portfolio of multiple businesses, and it primarily engages in information technology, healthcare and pharmaceuticals, finance and securities and bulk commodities trading businesses. The Group also engages in other businesses such as training and education businesses. The Group's management may experience difficulty ensuring sufficient attention and support are provided to each of its businesses. In addition, it may be difficult for the Group to concentrate on the in-depth development of the non-core businesses, which by extension may prevent the Group from pursuing leading positions in the respective markets.

Some of the Group's core businesses are less profitable, and there is no assurance that such conditions may be improved in the near term or that the Group may be able to develop new businesses with higher levels of profit in the future

Some of the Group's core businesses, such as information technology and bulk commodities trading businesses, are less profitable than the Group's other core businesses. For the years ended 31 December 2015 and 2016, the Group generated its gross profit mainly from its finance and securities businesses. The Group expects to continue to conduct such less profitable businesses for strategic and other business reasons, such as enhancing the Group's comprehensive leadership and brand name, keeping up with prospective industry-friendly government policies, or maximising its utilisation rates. The undertaking of such businesses may expose the Group to short-term losses and could adversely affect its profit-generating abilities and cash flows. Even though the Group intends to continue its efforts to strengthen cost control and enhance overall productivity, efficiency and profitability, there is no assurance that these efforts will be successful or that the Group can improve its margins with respect to the foregoing types of operations or projects or its overall profitability.

The Group and certain of its subsidiaries have substantial indebtedness as well as contingent liabilities and may incur additional indebtedness and contingent liabilities in the future

The Group and certain of its subsidiaries now have, and will continue to have, a substantial amount of indebtedness and incur contingent liabilities. Such indebtedness and contingent liabilities could have important consequences, including the following:

- adversely affecting the relevant corporate credit rating;
- limiting the Company's and the Guarantor's ability to satisfy their respective obligations under the Bonds, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking and their respective debts;
- increasing the Group's vulnerability to adverse general economic and industry conditions;
- requiring the Group and the relevant subsidiary to dedicate a substantial portion of its cash flow from operations to servicing and repaying its indebtedness, thereby reducing the availability of its cash flow to fund working capital, marketing activities, capital expenditures and other general corporate purposes;
- limiting the Group's flexibility in planning for, or reacting to, changes in its businesses and the industries in which it operates;
- placing the Group at a competitive disadvantage compared to its competitors that have less debt;
- limiting, among other things, its ability to borrow additional funds; and
- increasing the cost of additional financing.

In the future, the Group and certain of its subsidiaries may from time to time incur additional indebtedness and contingent liabilities. The relevant subsidiary continually reviews its current and expected future funding requirements and evaluates and engages in discussions with financial institutions and other market participants, from time to time, on proposals regarding different sources of funding. None of the Bonds, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking restricts the Group or any of its subsidiaries from incurring additional debt and contingent liabilities. If the Group or any of its subsidiaries incur additional debt, the risks that the Group faces as a result of its current substantial indebtedness and leverage could intensify. In particular, any negative change in one or more of the relevant credit ratings could, notwithstanding that it is not a rating of the Bonds, adversely impact the market price and the liquidity of the Bonds.

In addition, certain financing arrangements entered into by the Group or any of its subsidiaries from time to time may impose operating and financial restrictions on the Group's ability or, as the case may be, the ability of the relevant subsidiary to incur additional indebtedness unless it is able to satisfy certain financial ratios, or require the Group or, as the case may be, the relevant subsidiary, to create security or grant guarantees or not to change its business and corporate structure without the lender's prior approval. There is no assurance that such ratios can be met and the existing security may restrict the Group or the relevant subsidiary to dispose of its assets. Such restrictions may also negatively affect the Group's ability to react to changes in market conditions, take advantage of business opportunities the Group believes to be desirable, obtain future financing, fund needed capital expenditures, or withstand a continuing downturn in its businesses.

Furthermore, if the Group or the relevant subsidiary is unable to comply with the restrictions and covenants in its current or future debt and other agreements, there could be a default under the terms of such agreements. In the event of a default under such agreements, the holders of the debt could terminate their commitments to lend to the Group or the relevant subsidiaries, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Some of the financing arrangements entered into by the Group or its subsidiaries contain cross-acceleration or cross-default provisions. As a result, a default under one debt agreement may cause the acceleration of debt or result in a default under other debt agreements. If any of these events occur, there is no assurance that the Group's assets and cash flow would be sufficient to repay in full all of such indebtedness, or that the Group would be able to find alternative financing sources. Even if the Group could obtain alternative financing sources, there is no assurance that it would be on terms that are favourable or acceptable to the Group.

Any of the aforementioned factors could materially and adversely affect the Company's or the Guarantor's ability to satisfy their respective obligations under the Bonds, the Keepwell Deed and/or the Deed of Equity Interest Purchase Undertaking.

The Company has pledged some of its equity interests in certain subsidiaries and affiliates.

The Company has pledged some of its equity interests in certain subsidiaries as credit support for some of the Group's loans, including its equity interests in Founder Securities, Founder Industry Holdings and Founder Information Group. The Company and Founder Information Group have also transferred some of their equity interests in Founder Securities and Founder Technology into their collateral securities accounts opened in the securities companies respectively as credit support for their participation of margin trading and short selling.

Should there be a default under the terms of the loans or the margin trading and short selling for which the Company or Founder Information Group has pledged such equity interests as credit support, the relevant creditors may be entitled to enforce such pledges and the Company or Founder Information Group could lose such equity interests. In such an event, there could be a material adverse impact on the Group's business, assets, revenue and financial condition.

The Group is subject to inventory risks in certain of its businesses

The Group engages in the information technology business in which product lifecycles are short. Due to the high rate of obsolescence, it is essential for the Group to monitor the inventory levels to avoid excessive inventory on one hand and shortage of products and components on the other. The Group also engages in bulk commodities trading business, and its business and financial performance depends on its ability to maintain a reasonable level of inventory for its portfolio of commodities. The Group aims to manage its bulk commodities inventory more efficiently, as slow-moving inventories would result in capital constraint and reduce its liquidity, increase its overall operating costs, reduce its profit margins of such business segment. Should the Group fail to manage the inventory risks effectively, its business, financial condition and results of operations could be materially and adversely affected.

The Group may not successfully manage its growth

As the Group continues to grow, the Group will need to improve its managerial, technical and operational knowledge and allocation of resources, and to implement an effective information management system and strengthen management control across its businesses. In order to fund the Group's ongoing operations and future growth, the Group will need to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, the Group will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. The Group may develop or invest in new businesses ancillary to or related to the Group's existing businesses and such diversification may place significant demands on the Group's management and resources as the Group may not have the experience or expertise necessary for the successful development of such new businesses.

As part of the Group's strategy to grow organically as well as through mergers and acquisitions, the Group may undertake potential acquisitions or enter into new strategic alliances and partnerships as part of its future business expansion plans, if suitable opportunities in the market arise. However, the Group may not successfully identify new acquisition opportunities or opportunities on favourable or acceptable terms to the Group, or may make strategic mistakes otherwise. It may not be able to integrate successfully the acquired business into the Group or face difficulties such as loss of key employees and failure to detect and rectify business, operational or financial issues of the acquired business, and may not be able to derive any synergies from such acquisitions, leading to increases in costs, time and resources. There can be no assurance that the Group will be able to manage its growth successfully or that its expansion plans will not adversely affect the Group's existing operations and thereby have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is reliant on independent contractors and sub-contractors

The Group engages independent third-party contractors and sub-contractors to provide various services including construction, transportation and other servicing. There is no assurance that such independent third-party contractors or sub-contractors will meet the required delivery schedule under the respective contracts. Delivery delays may result in significant losses of revenue and increases in costs. Furthermore, there is no assurance that the services rendered by any independent third-party contractor or sub-contractor engaged by the Group will be satisfactory. The Group is also exposed to the risk that its contractors and sub-contractors may require additional capital to complete an engagement in excess of the price originally tendered and the Group may have to bear additional costs as a result. Furthermore, there is a risk that the Group's major contractors and sub-contractors may experience financial or other difficulties which may affect their ability to discharge their obligations, thus delaying the Group's production or operation schedule, impacting the operation of certain businesses or resulting in additional costs for the Group. The timely performance by these contractors and sub-contractors may also be affected by natural and human factors such as natural disasters, strikes and other industrial or labour disturbances, terrorism, restraints of government, civil disturbances, accidents or breakages of machinery or equipment, failure of suppliers, interruption or delays in transportation, all of which are beyond the control of the Group. Any of these factors could materially and adversely affect the business, financial condition and results of operations of the Group.

The Group's operations are subject to natural disasters and outbreaks of contagious diseases

Natural disasters, catastrophe or other events could result in severe personal injury, property damage and environmental damage, which may curtail the Group's operations, cause delays in estimated completion dates for projects and materially and adversely affect its cash flows and, accordingly, adversely affect its ability to service debt. The Group's operations are based in jurisdictions which are exposed to potential natural disasters including, but not limited to, typhoons, storms, floods and earthquakes. If any of the Group's developments are damaged by severe weather or any other disaster, accident, catastrophe or other event, the Group's operations may be significantly interrupted. The occurrence or continuance of any of these or similar events could increase the costs associated with the Group's operations and reduce its ability to operate its businesses effectively, thereby reducing its revenue. Risks of substantial costs and liabilities are inherent in the Group's principal operations and there can be no assurance that significant costs and liabilities will not be incurred, including those relating to claims for damages to property or persons.

In particular, the Group's operations are subject to outbreaks of contagious diseases. For example, the outbreak of SARS that began in the PRC and Hong Kong in early 2003 had an adverse effect on all levels of business in Hong Kong and the PRC. There have been sporadic outbreaks of the H5N1 virus or "Avian Influenza A" among birds, in particular poultry, as well as some isolated cases of transmission of the virus to humans. There have also been recent outbreaks among humans of the influenza A/H1N1 virus globally. On 11 June 2009, the World Health Organisation raised its global pandemic alert to Phase 6 after considering data confirming the outbreak. In 2014, the Ebola virus disease outbreak in East Africa and cases of infection were reported in other continents. The outbreak of SARS and the influenza A/H1N1 virus led to a significant decline in travel volumes and business activities throughout most of the Asian region. The occurrence of another outbreak of SARS, the influenza A/H1N1 virus or of any other highly contagious disease, such as Ebola, may result in another economic downturn and may have an adverse effect on the overall level of business and travel in the affected areas. It may also disrupt the Group's business operations and consequently have an adverse effect on its financial condition and operating results.

The Group is subject to risks relating to accidents or other hazards which may not be covered by insurance

The Group maintains insurance coverage for risks in most of its businesses, including damage to property and assets, employee insurance and third-party liability, where insurance is available on what it considers to be reasonable commercial terms. The level of coverage and types of insurance obtained by the management of each business differ depending on the characteristics of each business and the regulations of the jurisdictions in which it operates. The insurance coverage maintained by the Group may not fully indemnify it for all potential losses, damages or liabilities relating to property or business operations, particularly those arising from or as a result of war, civil unrest, terrorism, pollution, fraud, professional negligence and acts of God. If the Group suffers any losses, damage or liabilities in the course of its operations arising from events for which it does not have any or adequate insurance cover, it may not have sufficient funds to cover any such losses, damage or liabilities or to replace any property that has been destroyed.

There may not be any insurance coverage available for certain accidents or liabilities incurred in the course of hazardous operations such as the Group's PCB production operations. In addition, the Group's insurers may become impaired and become unable to meet claims. The occurrence of any of the above events and the resulting payment the Group makes to cover any losses, damage or liabilities may have a material adverse effect on its reputation, business, results of operations and financial position. Further, notwithstanding the Group's insurance coverage, any damage to the Group's buildings, facilities, equipment, or other properties as a result of occurrences such as fires, floods, water damage, explosions, power losses, typhoons and other natural disasters may have a material adverse effect on the Group's business, financial condition and results of operations.

Furthermore, while every care is taken by the Group and its employees in the selection and supervision of its independent contractors, accidents and other incidents, such as theft, may occur from time to time. Such accidents or incidents may expose the Group to liability or other claims by its customers and other third parties. Although the Group believes that it has adequate insurance arrangements to cover such eventualities, it is possible that certain accidents or incidents are not covered by these arrangements, which could adversely affect the business, financial condition and results of operations of the Group. It is also possible that litigants may seek to hold the Group responsible for the actions of its independent contractors.

Deterioration of the Group's brand image and Peking University's reputation could adversely affect the Group's business

The Group has received numerous awards for its strong brand recognition in various industries. See "*Description of the Group – Awards and Initiatives*" for details. The Group places great emphasis on managing and maintaining its brand image which represents the quality of its products and services. However, brand value is largely based on customer perceptions with a variety of subjective qualities and can be damaged even by isolated business incidents that degrade customer trust. Customer demand for the Group's products and the Group's brand value could diminish significantly if the Group fails to preserve the quality of its products, or fails to deliver consistently positive customer experiences in its commercial operations, or if the Group is perceived to act in an unethical or socially irresponsible manner. Any deterioration of the Group's brand image could materially and adversely affect its business, financial condition, results of operations and prospects.

In addition, the Group leverages its strong relationship with Peking University and capitalises on Peking University's resources and strong research and development capabilities to improve its own research and development capabilities and gain access to comprehensive technological know-how for commercialisation. The Group has close affiliation with Peking University and has benefited, and expects to continue to benefit from such affiliation. Any deterioration of Peking University's reputation could materially and adversely affect its business, financial condition, results of operations and prospects.

The Group's sustainable success largely depends on its senior management

The Group's sustainable success depends heavily on its current senior management team. The Group depends on the continued service of its executive officers and other skilled managerial and technical personnel. Competition for qualified personnel in the industries where the Group operates is intense. The Group's businesses and financial condition may suffer if it loses the services of a number of key personnel and is not able to recruit quality replacements. Furthermore, as the Group's businesses continue to grow, it will need to recruit and train additional qualified personnel. If the Group fails to attract and retain qualified personnel, the Group's businesses and financial condition may also be adversely affected.

The Group may not effectively implement enhanced risk management and internal control policies and procedures to manage its financial and operational risks

Financial and operational risks are inherent in the Group's businesses. Although systems and procedures are in place to identify and report on a timely basis the liquidity, foreign exchange, interest rate, credit, management and operational risks arising from the activities of its existing and proposed businesses, there can be no assurance that these systems and procedures will prevent a loss that could negatively affect the Group's financial condition and results of operation. In addition, many of the Group's current systems have a significant manual component. There are additional risks inherent in any manual risk management system, including human error. For example, in 2015, Global CPA (HK) Limited, auditor of the Guarantor, found that the Guarantor had several sets of sale invoices and they were not issued in a sequential order. As a result, the auditor was not able to determine whether any adjustment to the Guarantor's revenue in 2014 was necessary and hence the auditor did not express an opinion on the financial statements of the Guarantor as at and for the year ended 31 December 2014. The reliability of the systems and the information generated from them depends on, *inter alia*, the configuration and design of the systems, the built-in system control features and the internal control measures surrounding them. Any failure of internal controls could have a material adverse effect on the Group's businesses, results of operations and financial condition.

The Group may have difficulty implementing and monitoring corporate policies across its subsidiaries

As of 30 September 2017, the Group had over 90 subsidiaries. The Group strives to implement its corporate governance and operational and safety standards across its subsidiaries in the PRC in a uniform manner. Implementing and monitoring these standards in each of its subsidiaries may prove difficult and failure to do so may result in violations of local regulations or the Group's own internal policies. There can be no assurance that the Group can effectively monitor each subsidiary and prevent non-compliance. Any violation or non-compliance could affect the Group's reputation and business prospects in the PRC, which could materially and adversely affect its financial condition and results of operations.

The Group is exposed to interest rate risk

The Group has cash balances placed with reputable banks and financial institutions. The Group manages its interest rate risk by placing such balances on varying maturities and interest rate terms. The Group has incurred indebtedness to finance its operations. Where appropriate, the Group seeks to minimise its cash flow interest rate risk exposure by entering into interest rate swap contracts to swap floating interest rates for fixed interest rates over the duration of its borrowings. However, its hedging policy may not adequately cover the Group's exposure to interest rate fluctuations and this may result in a large interest expense and an adverse effect on the Group's financial condition and results of operations.

The Group is exposed to counter-party risk

The Group may enter into various transactions which will expose it to the credit of its counter-parties and their ability to satisfy the terms of such contracts. For example, the Group may enter into swap arrangements, including multi-years swap arrangements, which exposes it to the risk that the counterparty may default on its obligations to perform under the relevant contract and the Group's surplus funds are invested in interest-bearing deposits with financial institutions. In the event a counter-party, including a financial institution, is declared bankrupt or becomes insolvent, this may result in delays in obtaining funds or the Group having to liquidate the position, potentially leading to losses.

The Group is subject to fluctuations in exchange rates

Most of the transactions of the Group are denominated in Renminbi or Hong Kong dollars. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditures and expenses that are denominated in a currency other than the functional currency of the relevant company in the Group. The Group considers that its foreign currency exposure mainly arises from the exposure of Renminbi against the Hong Kong dollar and the U.S. dollar.

As the Hong Kong dollar is pegged to the U.S. dollar, the Group has a limited exposure to transactions denominated in U.S. dollars, which are entered into by the Group companies with Hong Kong dollars as their functional currency. Since 1983, the Hong Kong dollar has been officially linked to the U.S. dollar at the rate of HK$7.80 to U.S.$1.00 through the operation of a strict currency board system. Since then, the market exchange rates have stayed close to HK$7.80 to U.S.$1.00.

On 21 July 2005, the PBOC announced changes to the Renminbi exchange rate regime. Subsequent to that date, the PRC moved into a managed floating exchange rate regime based on market supply and demand of Renminbi with reference to a basket of currencies so that Renminbi would no longer be pegged specifically to the U.S. dollar. The current exchange rate regime does not constitute a strict peg of Renminbi to the basket of currencies, but instead Renminbi is allowed to fluctuate within a narrow +/-1 per cent. range around a central parity rate defined as the previous day's closing CNY/U.S.$ rate. The reference basket will be used as a guide as to whether the CNY/U.S.$ rate should rise or fall.

As the Renminbi exchange rate is no longer fixed and is now allowed to fluctuate within a range around a central parity rate, any volatility of the Renminbi exchange rate in the future may materially affect the Group's businesses, financial condition, operating results and future prospects and any devaluation of Renminbi against the Hong Kong dollar and U.S. dollar will increase the amount of Renminbi the Group would need to service its obligations denominated in Hong Kong dollars or U.S. dollars.

The Group may not be able to detect and prevent fraud, corruption or other misconduct committed by its employees or third parties.

The Group is exposed to fraud, corruption or other misconduct committed by its employees, agents, customers or other third parties that could subject it to financial losses and sanctions imposed by governmental authorities as well as seriously harm its reputation. In addition, the Group's employees, agents, customers or other third parties may be subject to investigations by PRC authorities, the occurrence or the outcome of which may be difficult to predict. The Group's management information systems and internal control procedures are designed to monitor the Group's operations and overall compliance, and the Group, from time to time, examines its internal control and corporate governance policies and procedures in order to strengthen their ability to detect and prevent similar and other misconduct. Nevertheless, the Group may be unable to identify non-compliance and/or suspicious transactions in a timely manner or at all. Further, it is not always possible to detect and prevent fraud, corruption and other misconduct.

Historical consolidated financial information of the Group may not be indicative of its current or future results of operations.

The historical financial information of the Group included in this Offering Circular is not indicative of its future financial results. For example, the Group recorded a significant gain as a result of its disposal of some investment assets in 2015 and 2016 respectively. See "*The Company's Audited Consolidated Financial Statements as at and for the year ended 31 December 2015*" beginning on page F-2 and "*The Company's Audited Consolidated Financial Statements as at and for the year ended 31 December 2015*" beginning on page F-63 for further details. Such gains were not made in the Group's ordinary course of business and may not be recurring in the future. In the absence of such significant gains from disposal of investment assets, as well as due to market volatility and especially the fluctuation in the financial market in the PRC, the Group's net profit dropped significantly for the nine months ended 30 September 2017, as compared to the corresponding period in 2016. See "*Selected Financial Information of the Company – Consolidated Income Statement of the Company*" and "*The Company's Unaudited But Reviewed Consolidated Interim Financial Statements as at and for the nine months ended 30 September 2016 and 2017*" beginning on page F-130. The Group also recorded a significant drop of its net profits for the year ended 31 December 2017 as compared to the year ended 31 December 2016. The Group is still finalising its financial statements for the year ended 31 December 2017.

Investors should note that the Group's financial information is not intended to represent or predict the results of operations of any future periods. The Group's future results of operations may change materially if its future growth does not follow the historical trends for various reasons, including changes of the Group's business operation and direction as well as factors beyond its control, such as changes in economic environment, rules and regulations in the PRC and the domestic and international competitive landscape of the industries in which the Group operates its business.

RISKS RELATING TO THE GROUP'S INFORMATION TECHNOLOGY BUSINESS

Demand for information technology products and services is difficult to predict

Adverse economic conditions could cause telecommunications carriers to postpone investments or initiate other cost-cutting initiatives to improve their financial position. This could result in significantly reduced expenditures for network infrastructure and services, in which case the Group's operating results in its information technology business would suffer.

The Group believes that it has the flexibility to accommodate fluctuations in demand in a cost-effective manner. However, a significant and unexpected decrease in demand for its information technology products and services may materially and adversely affect its financial condition and results of operations.

Spending trends in the global telecommunications industry were negatively impacted by the global macroeconomic environment in 2009 and early 2010, and there has only been moderate improvement in the global economy since 2011. Most of the Group's customers in its information technology business are financially stable and have networks with good utilisation. However, some operators, particularly those in markets with weak currencies, may incur borrowing difficulties and experience lower user traffic than expected, which may affect their investment plans.

The potential adverse effects of an economic downturn include:

- reduced demand for products and services, resulting in increased price competition or deferrals of purchases, with lower revenue not being sufficient to fully compensate its reduced costs;
- risks of excess and obsolete inventories and excess manufacturing capacity;

- risks of financial difficulties or failures among the Group's suppliers in its information technology business;

- increased demand for customer finance, difficulties in collection of accounts receivable and increased risk of counterparty failures;

- risk of impairment losses related to the Group's intangible assets in its information technology business as a result of lower than forecasted sales of certain products; and

- increased difficulties in forecasting sales and financial results as well as increased volatility in the Group's reported results in its information technology business.

The Group's information technology business operates in a competitive industry

The Group competes in the information technology market, which is characterised by globalisation, rapid changes, converging technologies, and a migration to networking and communications solutions. These market factors represent both an opportunity and a competitive threat to the Group's information technology business. The Group competes with numerous vendors in each product category. The overall number of its competitors providing niche product solutions may increase. Also, the identities and composition of competitors may change as it enters into new markets or businesses. As the Group continues to expand globally, it may experience new competition in different geographic regions.

The principal competitive factors in the markets in which the Group presently competes and may compete in the future include technology leadership, market share and business scale, long-term relationships with and deep knowledge of its customers, participation and influence in setting industry standards, end-to-end solution capabilities that meet telecommunications carriers' comprehensive technical, financial and other requirements, breadth and depth of products and services, product performance and quality, price, the ability to lead through critical technological cycles with new products, including products with technical and price-performance advantages, effective end-to-end cost management, including research and development, production, service delivery, procurement, functional and operational support, and brand name.

The Group's intellectual property rights may be infringed or challenged by third parties

The Group's products include increasingly complex technologies on which the Group's information technology business depends, some of which have been developed by the Group and some by third parties. The amount of such proprietary technologies and the number of parties claiming intellectual property rights continue to increase, even within individual products. Although the Group has a large number of patents, there can be no assurance that they will not be challenged, invalidated or circumvented, or that any rights granted in relation to the patents will in fact provide competitive advantages to the Group.

Failure by the Group to develop and introduce new products in a timely manner may impair its competitiveness in the market

The markets for the Group's products and services in its information technology business are characterised by rapidly changing technology, evolving industry standards, new product and solutions introductions, and evolving methods of building and operating networks. The Group needs to identify and understand the key market trends and user segments in order to address consumers' expanding needs and to bring new, innovative and competitive products and services to the market in a timely manner. In the process, the Group will need to identify and invest in different technologies. It also needs to develop competitive products and bring its products to market in a timely manner with compelling marketing messages in order to succeed in retaining and engaging its current, and attracting new, customers and consumers.

The rapid development of new technologies and the rapidly changing customer market remain a challenge to the Group's information technology business. Any failure to bring new products and solutions to market in a timely manner could result in a loss of market share or opportunity to capitalise on emerging markets, and could reflect poorly on the Group's corporate image and may have a material adverse impact on the branding, reputation, business and operating results of the Group's information technology business.

Success of the Group's research and development investments in its information technology business is uncertain

The Group makes large investments in technology in order to respond to rapid technological and market changes. It allocates significant amounts of capital expenditure and resources to research and development for new technology, products and solutions. In order for the Group's information technology business to be successful, those technologies, products and solutions must be accepted by relevant standardisation bodies and by the industry as a whole. If the Group invests in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time or are not successful in the marketplace, the Group's operating results may suffer.

The telecommunications industry is subject to extensive government regulation which is still evolving

Telecommunications is an industry subject to specific regulation in most jurisdictions. Regulatory changes affect both the Group's customers' and its own operations. In certain countries where the Group's information technology business operates, the authorities have broad discretion and authority to regulate all aspects of the telecommunications and information technology industries, including arranging the setting of network equipment specifications and standards, approving equipment for access to telecommunications networks, supervising the tender process for telecommunications infrastructure projects and formulating policies and regulations related to the telecommunications industry. In addition, the telecommunications regulatory framework in certain countries is still in the process of being developed. Changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls or other governmental policies in the countries where the Group's information technology business operates could also limit its operations and make the repatriation of profits difficult. Although the Group seeks to comply with all such regulations in the jurisdictions where it operates, even unintentional violations could have a material adverse effect on its business, operational results and brand.

RISKS RELATING TO THE GROUP'S HEALTHCARE AND PHARMACEUTICAL BUSINESS

A substantial portion of the pharmaceutical products manufactured by the Group is subject to government price controls in the PRC

On 4 May 2015, NDRC, the National Health and Family Planning Commission and the Ministry of Human Resources and Social Security issued the Notice of Opinions on Pushing Forward the Pharmaceutical Pricing Reform (《關於印發推進藥品價格改革意見的通知》) (the "Price Reform Notice"), which abolished the government-prescribed price for all drugs other than narcotic drugs and category one psychotropic drugs. The Price Reform Notice has come into effect on 1 June 2015. Notwithstanding, a substantial portion of the pharmaceutical products manufactured by the Group is still subject to government price controls in the form of fixed retail prices or retail price ceilings. As a result, the Group's ability to set or raise the prices of these products is significantly limited. Any downward adjustment to the maximum retail prices of these products may materially reduce the Group's revenue in its healthcare and pharmaceutical business.

Although there is no control over the prices at which pharmaceutical manufacturers in the PRC must sell their products to distributors or hospitals, should the PRC government significantly reduce the fixed retail prices or the retail price ceilings applicable to its products, the Group may have to reduce the prices at which it sells these products. Moreover, although the Group has not discontinued the manufacturing of any pharmaceutical product due to its fixed or maximum retail price set by the government preventing it from gaining an appropriate margin, there can be no assurance that such event will not occur in the future. Furthermore, if additional products manufactured by the Group were to become subject to price controls in the future, its business, financial condition and results of operations could also be materially and adversely affected.

The healthcare and pharmaceuticals industry in the PRC is competitive

The PRC healthcare and pharmaceuticals industry is competitive. The Group faces competition from other pharmaceutical companies, including multinational companies as well as manufacturers of traditional Chinese medicines with similar curative effects that can be used as substitutes for the Group's products. The Group's competitors may have greater financial, technical and research and development, manufacturing, marketing and other resources than the Group does. The Group's competitors may develop products that are similar or superior to the Group's. Furthermore, industry reforms aimed to meet World Trade Organisation or other international requirements have fostered increased competition from multinational pharmaceutical companies. Such competitors may have greater brand name recognition, more established distribution networks, larger customer bases or more extensive knowledge of the Group's target markets. The Group's competitors' greater size in some cases provides them with a competitive advantage with respect to manufacturing costs because they are able to achieve greater economies of scale and purchase raw materials at lower prices. As a result, they may be able to devote greater resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than the Group can. In addition, certain of the Group's competitors may adopt low-margin sales strategies and compete against the Group with lower prices. There is no assurance that hospitals and medical institutions will continue to stock and prescribe the Group's products instead of those of the Group's competitors. If the Group fails to adapt to changing market conditions and to compete successfully with existing or new competitors, its business, financial condition and results of operations would be materially and adversely affected.

The healthcare and pharmaceutical industry in the PRC is highly regulated

The healthcare and pharmaceutical industry in the PRC is subject to extensive government regulation and supervision. In particular, the regulatory framework addresses all aspects of a pharmaceutical company's operations, including approval, production, licensing and certification requirements and procedures, periodic renewal and reassessment processes, registration of new drugs, quality control, pricing of pharmaceutical products and environmental protection. Violation of these laws, rules and regulations may also constitute a criminal offence under certain circumstances, and could have a material adverse effect on the Group's business and reputation, as well as its financial condition, results of operations and prospects. Certain other laws, rules and regulations may also affect the pricing, demand and distribution of pharmaceutical products, such as those relating to pricing, procurement, prescription and dispensing of essential and other drugs by public hospitals and other medical institutions, and government funding for individual healthcare and pharmaceutical services. Furthermore, PRC governmental authorities have introduced certain new regulatory measures in recent years, and have announced plans to implement additional rules and regulations with respect to the pharmaceutical industry. For example, a set of new PRC GMP standards came into effect in 2011. These new regulatory measures and future government regulations may lead to significant changes in the PRC healthcare and pharmaceutical industry, and could result in additional costs and lower profit margins for pharmaceutical manufacturers, distributors and retail pharmacies, as well as materially decrease the demand and reduce the pricing of pharmaceutical products and services.

In addition, many initiatives taken, or to be taken, by the PRC government under the ongoing healthcare reform plan are expected to contribute significantly to the growth of the healthcare and pharmaceutical industry. For example, a significant portion of the government investment under the ongoing healthcare reform plan will be applied towards subsidising patients' purchase of drugs. However, there can be no assurance that the relevant PRC governmental authorities will continue to introduce similar favourable policies. On the other hand, the relevant PRC government authorities may also introduce policies that are unfavourable to the industry. Termination of, or material alterations to, any existing favourable policies, or introduction of any unfavourable policies, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is required to comply with applicable GMP, GSP or other regulatory requirements or renew its GMP and GSP certifications and other relevant permits and licences

All pharmaceutical manufacturing, distribution and retail companies in the PRC are required to obtain certain permits and licences from various PRC governmental authorities, including GMP certifications for manufacturing, GSP certifications for wholesale and retail distribution and certain other permits and licences which enable them to conduct their business. The Group has obtained permits, licences and GMP certifications required for the manufacture of its pharmaceutical products as well as permits, licences and GSP certifications for the wholesale and retail distribution of pharmaceutical products. These permits and licences are generally valid for a maximum period of five years and are subject to periodic renewal and/or reassessment by the relevant PRC government authorities. The Group intends to apply for the renewal of these permits, licences and certifications when required by applicable laws, rules and regulations. However, the standards of such renewal or reassessment may change from time to time and there can be no assurance that the Group will be able to renew successfully all of these permits, licences and certifications. Any inability to renew any permits, licences or certifications that are material to the Group's production and distribution operations could severely disrupt, as well as prevent it from conducting, its production and distribution business. Furthermore, if any interpretation or implementation of the relevant regulations or new regulations requires the Group to obtain additional permits, licences or certifications, there can be no assurance that it will successfully obtain them. In addition, the Group may be required to upgrade its manufacturing equipment, production facilities or waste treatment systems or to hire additional operational staff or management or carry out additional staff training. Even if it obtains such permits, licences or certifications or if it is required to carry out such activities, there may be significant additional costs and expenses involved, which may adversely affect its results of operations.

If the Group fails to comply with applicable regulatory requirements, including manufacturing and transportation processes or product quality and health and safety standards, at any stage during the manufacturing and transportation process, it may be subject to sanctions by both the PRC regulators and regulators in other countries where it conducts manufacturing business or sells its pharmaceutical products, ranging from monetary penalties to criminal prosecution.

Moreover, the Group is subject to regular inspections, examinations, inquiries and audits by the regulatory authorities as part of the process of maintaining or renewing the various permits, licences and certificates required for manufacturing and distributing pharmaceutical products and providing related logistics services. Its pharmaceutical distribution and supply chain solutions business is also subject to periodic on-site inspections conducted by the relevant regulatory authorities in order to maintain its logistics operation permits. In the event that any of the Group's pharmaceutical products or facilities fails such inspections, its business, reputation and prospects could be materially and adversely affected.

The Group may not be able to maintain proper inventory levels for its pharmaceutical sales and distribution operations

The Group considers a number of factors when it manages the inventory levels for its pharmaceutical sales and distribution operations, including inventory holding costs, its product portfolio, the preferences and purchasing trends of its customers and prompt delivery and sufficiency of its products in response to customers' requests. The structure of the Group's business operations and customer demand require it to provide odd-lot deliveries which are products that are not regularly stocked and may or may not be distributed by the Group again when they are sold out. If it is unable to sell its products efficiently or fails to manage its odd-lot inventory, it may be subject to inventory write-downs, expiration of products or increase in inventory holding costs. In addition, if the Group underestimates consumer demand for its products or if its suppliers fail to provide products in a timely manner, it may experience inventory shortages. Such inventory shortages might result in unfilled customer orders and have a negative impact on customer relationships. There can be no assurance that the Group will be able to maintain proper inventory levels and such failure may have an adverse effect on its business, financial condition and results of operations.

The Group may be subject to product liability, personal injury or wrongful death claims or product recalls in connection with its products and services in its healthcare and pharmaceutical business

The Group's healthcare and pharmaceutical business is exposed to risks inherent in the manufacturing, packaging, marketing and distribution of pharmaceutical products, such as unsafe, ineffective, defective or contaminated products, improper filling of prescriptions, insufficient or improper labelling of products, including inadequate warnings or insufficient or misleading disclosures of side effects, and unintentional distribution of counterfeit medicines. In the event that any use or misuse of its products results in personal injury or death, product liability claims may be brought against the Group for damages, it may be subject to product recalls, fines, reputational damage and the PRC government may even close down its operations in the healthcare and pharmaceutical business.

A substantial claim or a substantial number of claims against the Group, if successful, would have a material adverse effect on its business, financial condition and results of operations. In this regard, liability insurance for pharmaceutical products is currently not available in the PRC. In the event of claims against any of the Group's pharmaceutical products, it may experience reduced consumer demand for products distributed or manufactured by it or these products may be recalled from the market. Any claims against the Group or product recalls, regardless of merit, could strain its financial resources as well as consume the time and attention of its management. If any claims against the Group were to prevail, it may incur monetary liabilities, and its reputation would be severely damaged. Although the Group has not been the subject of any substantial claim or a substantial number of claims based on product liability, personal injury, wrongful death or product recalls, there can be no assurance that any such claim would not occur in the future which may have a material adverse effect on its business, financial condition and results of operations.

Moreover, the Group is subject to PRC laws, rules and regulations in relation to the sale and distribution of drugs. According to Regulations for Implementation of The Drug Administration Law of the PRC (《中華人民共和國藥品管理法實施條例》), any drug retailer distributing prescription drugs or Class A non-prescription drugs shall have licensed pharmacists or other pharmaceutical technicians whose qualifications are legally recognised and any retailer distributing Class B non-prescription drugs shall have pharmacy staff members who have passed the examination organised by the relevant drug regulatory institutions. In addition, The Drug Administration Law of the PRC (《中華人民共和國藥品管理法》) requires that (i) drug distributors shall sell drugs properly and describe usage, dosage and cautions correctly; (ii) prescriptions for dispensing shall be checked and no drugs listed in the prescription may be changed or substituted without authorisation; (iii) drug distributors shall refuse to dispense incompatible or over-dose prescriptions and, when necessary, they may dispense only after correction or re-signing has been made by the prescribing physician; and (iv) drug distributors shall indicate the origin of the Chinese crude drugs to be sold. There can be no assurance that the Group will be able to comply at all times with these requirements. Failure to comply with such requirements may result in rectification instructions and a disciplinary warning and, if the circumstances are serious, the drug distribution certificate of the Group may be revoked. In such an event, the Group's business, financial condition and results of operations, as well as reputation, in its healthcare and pharmaceutical business, could be materially and adversely affected.

The existence of counterfeit products in the pharmaceutical retail market in the PRC may damage the Group's brand and reputation and have a material adverse effect on its business, financial condition, results of operations and prospects

Certain products distributed or sold in the pharmaceutical retail market in the PRC may be manufactured without proper licences or approvals and/or fraudulently mislabelled with respect to their content and/or manufacturer. Such products are generally referred to as counterfeit pharmaceutical products. These products are generally sold at lower prices than authentic products due to their lower production costs, but are very similar in appearance to the authentic products. Furthermore, counterfeit products may or may not have the same chemical content as their authentic counterparts. The counterfeit product control regulation and enforcement system in the PRC is not sufficiently developed to eliminate production and sale of such products completely. The sale of counterfeit products by others illegally using the Group's brand names, may result in negative publicity, fines and other administrative penalties or even result in litigation against the Group. Moreover, the continued proliferation of counterfeit products may damage the image of distributors and retailers among consumers, and may severely harm the reputation and brand names of companies like the Group. Furthermore, consumers may buy counterfeit products that are in direct competition with the products of suppliers to the Group's pharmaceutical distribution and supply chain solutions or its pharmaceutical retail business or with products manufactured by the Group. As a result, the existence of counterfeit pharmaceutical products in the PRC could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

RISKS RELATING TO THE GROUP'S FINANCE AND SECURITIES BUSINESS

The Group faces intense competition in the finance and securities industry and its results of operations could be materially and adversely affected if it is unable to compete effectively

The Group's finance and securities business is highly dependent on the general economic and market conditions in China and its results of operations in finance and securities business could be materially and adversely affected by downturns in China's capital markets, which, in turn, may be affected by volatility and downturns in the global capital markets. For example, it is subject to China's macro-economic and monetary policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term market funding sources, cost of funding and the level and volatility of interest rates.

The Group's finance and securities business is also directly affected by the inherent risks associated with the securities markets, such as market volatility, fluctuations in the trading volume and investor confidence. As China's capital markets are still at an early stage of development, market conditions may change suddenly and dramatically, which could materially and adversely affect the Group's business, financial condition and results of operations. For example:

- adverse financial or economic conditions, and securities market volatility, could discourage investor confidence and reduce securities trading and corporate finance activities, which may adversely affect the income of the Group's brokerage and investment banking business;

- unfavourable financial or economic conditions would adversely affect the value of the Group's asset management portfolio, therefore reduce the management fees the Group earns from its asset management business, and the Group may be faced with an influx of client redemptions in its asset management portfolio, which, in turn, could also adversely affect the revenue from its asset management business;

- unfavourable financial or economic conditions and market volatility could increase the risk of default in the margin financing and securities lending the Group provides to its clients; and

- reduction in the value of the Group's trading and investment portfolios may adversely affect the Group's proprietary trading business.

The Group faces intense competition and its business in finance and securities could be materially and adversely affected if it is unable to compete effectively. The PRC securities industry is highly competitive and the Group faces intense competition in most of its finance and securities business lines. For the securities brokerage business, the Group competes primarily with other PRC securities firms in terms of pricing and the range of products and services offered. Currently, there are more than 100 registered securities firms in the PRC and intense price competition in recent years has lowered commission rates for the Group's securities brokerage business. See also "*The Group's securities and futures brokerage business is subject to various risks and there is no assurance that its brokerage commission and fee income can be sustained*".

For the investment banking business, the Group competes primarily with other PRC and Sino-foreign joint venture securities firms as well as PRC commercial banks in terms of brand recognition, marketing and distribution capabilities, service quality, financial strength and pricing. Intense competition may result in lower underwriting and advisory fees for its investment banking business.

For the asset management business, the Group competes primarily with fund management companies, banks, insurance companies and other financial institutions in the PRC in terms of the range of products and services offered, pricing and quality of customer service.

For the direct investment business, the Group competes primarily with other PRC securities firms that are qualified to conduct direct investment business and private equity firms in the PRC.

Some of the Group's competitors in the finance and securities business may have certain competitive advantages over the Group, including greater financial resources, stronger brand recognition, broader product and service offerings, more advanced IT systems and a branch network with wider geographic coverage. They may also have more experience with a broader range of services and more complex financial products than the Group does.

In addition, with regulatory changes and other factors that contribute to the gradual relaxation of the PRC securities regulations, more competitors are seeking to enter, or expand in, the finance and securities industry. The Group believes that the PRC securities industry is becoming increasingly competitive. Its failure to remain competitive will have a material and adverse effect on the business, financial condition, results of operations and prospects in the Group's finance and securities business segment.

The Group's securities and futures brokerage business is subject to various risks and there is no assurance that its brokerage commission and fee income can be sustained

Brokerage commission and fee income represent a significant portion of the Group's revenue in its finance and securities business. The securities and futures brokerage business of the Group is affected by external factors such as general economic conditions, macroeconomic and monetary policies, market conditions and fluctuations in interest rates, all of which are beyond the Group's control. Unfavourable market conditions may cause a decline in the Group's stocks and funds brokerage trading volume, which, in turn, will reduce the brokerage commission and fee income of the Group. There is no assurance that the market conditions will improve for 2017 or beyond.

With the gradual relaxation of the PRC securities regulations, the Group believes that the PRC securities industry will become increasingly competitive. If the PRC regulatory authorities further relax the restrictions on the opening of brokerage branches, competition may increase and there is no assurance that the Group would not further lower its brokerage commission rates in order to stay competitive. As a result, there is no assurance that its brokerage commission and fee income can be sustained at current levels.

Fluctuations in the securities market conditions in the PRC could materially and adversely affect the Group's securities and futures brokerage business.

The Group's securities and futures brokerage business is directly affected by the inherent risks associated with the financial market, such as market volatility, overall investment sentiments, fluctuations in market capitalisation and trading volumes, the supply of liquidity and perceived credit worthiness of the finance industry in the marketplace. The Group's securities and futures brokerage business is also subject to changes in general economic and political conditions, such as monetary policy, fiscal policy, foreign exchange policy, taxation policy and other policies, legislation and regulations affecting the financial and securities industries, fluctuations in interest rates, trading volumes and the availability of short-term and long-term funding sources, inflation, as well as upward and downward trends in the business and financial sectors and the securities markets in the PRC.

From 2014 to 2016, the securities markets in the PRC experienced high volatility. For example, according to the data from the China Securities Regulatory Commission:

- from July 2014 to June 2015, the price of the two major stock indices, namely, the SSE and the SZSE, increased by 152 per cent. and 146 per cent., respectively;

- from 15 June 2015 to 8 July 2015, the SSE index dropped by 32 per cent., while from 15 June 2015 to 15 September 2015, the SZSE index dropped by more than 50 per cent.; and

- on 26 January 2016, the SSE and SZSE indices dropped by 6.42 per cent. and 6.96 per cent., respectively, reaching the lowest market level in the past 13 months.

The turmoil in the PRC securities markets were caused by a number of factors beyond the Group's control, such as the overall economic conditions of the PRC, the introduction and suspension of the "circuit-breaker" system and the fluctuations in the exchange rate of Renminbi. Poor market conditions and increase in credit risks could affect the value of the Group's financial assets may have an adverse effect on the Group's securities and futures brokerage business while favourable market conditions may not be sustainable.

A significant decline in the size of the Group's assets under management in its finance and securities business, fee rate or poor management performance may materially and adversely affect its asset management business

The Group conducts its asset management business through a number of subsidiaries and principally through Founder Securities. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, segment revenue from the asset management business of Founder Securities amounted to CNY116. 1 million, CNY200.5 million, CNY67.8 million and CNY178.1 million, respectively, representing 1.1 per cent., 2.6 per cent., 1.5 per cent. and 6.0 per cent. of Founder Securities' total revenue, respectively.

The Group receives asset management fees based on the value of its customer portfolios or investment in funds managed by it. In addition, the Group also provides private equity fund management, collective asset management and targeted asset management schemes in which it may also earn performance fees. Market volatility, adverse economic conditions or the failure to outperform the Group's competitors in the market may reduce its assets under management or affect the performance of the assets or funds the Group manages, which could adversely affect the amount of management fees or performance fees the Group receives.

The Group's proprietary trading business is subject to market volatility and its investment decisions

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, segment revenue from the proprietary trading business of Founder Securities amounted to CNY1,690.0 million, CNY1,095.2 million, CNY622.4 million and CNY509.2 million, respectively, representing 15.5 per cent., 14.1 per cent., 13.9 per cent. and 17.2 per cent. of Founder Securities' total revenue, respectively. The Group trades equity and fixed income securities as well as derivative products for its own account. Its equity and fixed income securities are subject to market volatility and, therefore, the results of its securities trading activities generally correlate with the performance of the PRC securities markets. The Group also engages in derivative transactions. It uses derivative instruments to reduce the impact of price volatility on its investment portfolio. However, the PRC derivatives market currently does not provide sufficient means for the Group to hedge against volatile trading markets, which may make it difficult for the Group to reduce its exposure to fluctuations in price volatility on its investment portfolio, and the derivatives it uses may not be as effective as it expects. In addition, derivatives contracts it enters into expose the Group to the risks associated with these instruments and their underlying assets, which could result in substantial losses. The secondary market for derivatives is volatile and the Group may be inexperienced in managing new products or trading derivative products.

The performance of the Group's proprietary trading business is determined by its investment decisions and judgements based on its assessment of existing and future market conditions. The Group closely monitors the market value and financial performance of its proprietary trading portfolio, and actively adjusts such portfolio and allocates assets based on market conditions and internal risk management guidelines. However, the Group's investment decisions are a matter of judgement, which involves management discretion and assumptions. If the Group's decision-making process fails to minimise losses effectively while capturing gains, or its forecasts do not conform to actual changes in market conditions, its proprietary trading business may not achieve the investment returns it anticipates, and the Group could even suffer material losses, any of which would materially and adversely affect its business, financial condition and results of operations in its finance and securities business.

The Group's business in finance and securities is subject to concentration risks due to significant holdings of financial assets or significant capital commitments

Certain of the Group's business lines in the finance and securities sector are capital-intensive, such as its investment banking, proprietary trading, direct investment and margin financing and securities lending businesses, and may result in the Group having significant holdings of selected asset classes. Such capital commitments expose the Group to concentration risks, including market risk, in the case of its holdings of concentrated or illiquid positions in a particular asset class as part of its proprietary trading and direct investment activities, as well as credit risk, in the case of its margin financing and securities lending business. Any decline in the value of the Group's asset holdings in the finance and securities business may reduce its income or result in losses.

The Group's finance and securities business is subject to extensive regulatory requirements, the non-compliance with which could cause it to incur penalties

The Group's finance and securities business is subject to extensive PRC regulatory requirements, which are designed to ensure the integrity of the financial markets, the soundness of securities firms and other financial institutions and the protection of investors. These regulations often serve to limit the Group's activities by, among other things, imposing capital requirements, limiting the types of products and services it may offer, restricting the types of securities in which it may invest and limiting the number and location of branches it may establish. The PRC and overseas (including Hong Kong) regulatory authorities conduct periodic or ad hoc inspections, examinations and inquiries in respect of the Group's compliance with such requirements. For example, the CSRC assigns a regulatory rating to each securities firm according to the sufficiency of its internal control policies, risk management capabilities, compliance with regulatory requirements and overall market position. For further details of past and ongoing legal proceedings and regulatory investigations of the Group, please refer to the section headed "*Description of the Group – Legal Proceedings and Regulatory Investigations*".

Despite the Group's efforts to comply with applicable regulations, there are a number of associated risks, particularly in areas where applicable regulations may be unclear or where regulators subsequently revise their previous guidance. Material incidents of non-compliance may subject the Group to penalties or restrictions on its business activities. There is no assurance that the Group will be able to meet all the applicable regulatory requirements. Failure to do so could result in sanctions, fines, penalties or other disciplinary actions, including, among other things, a downgrade of its regulatory rating and limitations or prohibitions on its future business activities, which may limit its ability to conduct pilot programmes and launch new businesses and harm its reputation, and consequently materially and adversely affect its financial condition and results of operations.

RISKS RELATING TO THE GROUP'S BULK COMMODITIES TRADING BUSINESS

The Group is exposed to declines in the current and expected volumes of supply or demand for commodities, commodity prices and deterioration in economic and financial conditions

The current and expected volumes of supply and demand for the commodities markets in which the Group is active vary over time based on changes in resource availability, government policies and regulation, costs of production, global and regional economic conditions, demand in end markets for products in which the commodities are used, technological developments (including commodity substitutions), fluctuations in global production capacity, global and regional weather conditions and natural disasters. Furthermore, changes in current and expected supply and demand conditions impact the current and expected future prices (and thus the price curve) of each commodity.

Declines in the volume of each commodity produced or marketed by the Group, as well as declines in the price of commodities, could materially adversely impact the Group's business, results of operations and earnings in its bulk commodities trading business. These declines could result in a reduction in the average marketing unit margin achieved in respect of the volumes handled by the Group's marketing activities.

In addition, a decline in economic and financial conditions globally or in a specific country, region or sector may have a material adverse effect on the Group's business, results of operations or earnings. For example:

- the insolvency of key suppliers, particularly those with whom the Group has long-term supply or off-take contracts, could result in supply chain difficulties and/or unmatched commodity price exposures and/or a reduction in commodities available for the Group's marketing activities;

- although most commodities' fixed pricing periods are relatively short, a significant reduction or increase in commodity prices could result in customers or suppliers, as the case may be, being unwilling or unable to honour their contractual commitments to purchase or sell commodities on pre-agreed pricing terms;

- a tightening of available credit may make it more difficult for the Group to obtain, or may increase the cost of obtaining, financing for its marketing activities and capital expenditures at its industrial assets;

- a decline in the value of inventories may result in write-downs; and

- production at the Group's industrial assets may be curtailed or suspended as it becomes economically unviable.

The commodities industry is very competitive and the Group may have difficulty effectively competing with other commodity marketing and industrial companies.

The commodities industry is characterised by strong competition. The Group believes that the majority of its competitors tend to focus on a narrower commodity group or geographic area, or concentrate more heavily on industrial activities such as mining, smelting, processing, refining and food processing. Although the Group faces intense competition in each of its business segments, in view of the Group's diversification across different commodity groups and its global geographical presence and scale, the Group does not believe that there is a precisely comparable company or peer group that can be defined as competing directly with the Group across all of its business segments. However, some of these competitors or existing producers may, in the future, use their resources to broaden into all of the markets in which the Group operates and therefore compete further against the Group. These competitors may also expand and diversify their commodity sourcing, processing or marketing operations, or engage in pricing or other financial or operational practices that could increase competitive pressure on the Group across each of its business segments. Increased competition may result in losses of market share for the Group and could materially adversely affect the Group's business, results of operations and financial condition in its bulk commodities trading business segment.

The success of the Group's marketing activities depends in part on its ability to identify and take advantage of arbitrage opportunities

Many of the commodity markets in which the Group operates are fragmented and periodically volatile. As a result, discrepancies generally arise in respect of the prices at which the commodities can be bought or sold in different forms, geographic locations or time periods, taking into account the numerous relevant pricing factors, including freight and product quality. These pricing discrepancies can present the Group with arbitrage opportunities whereby the Group is able to generate profit by sourcing, transporting, blending, storing or otherwise processing the relevant commodities. The Group's profitability is, in large part, dependent on its ability to identify and exploit such arbitrage opportunities. A lack of such opportunities, for example due to a prolonged period of pricing stability in a particular market, or an inability to take advantage of such opportunities when they present themselves, because of, for example, a shortage of liquidity or an inability to access required logistics assets or other operational constraints, could adversely impact the Group's business, results of operations and financial condition in its bulk commodities trading business segment.

The Group's hedging strategy may not always be effective

The Group's marketing activities involve a significant number of purchase and sale transactions across multiple commodities. To the extent that the Group purchases a commodity from a supplier and does not immediately have a matching contract to sell the commodity to a customer, a downturn in the price of the commodity could result in losses to the Group. Conversely, to the extent that the Group agrees to sell a commodity to a customer and does not immediately have a matching contract to acquire the commodity from a supplier, an increase in the price of the commodity could result in losses to the Group, as it then seeks to acquire the underlying commodity in a rising market. In order for the Group to mitigate the risks in its marketing activities related to commodity price fluctuations and potential losses, the Group has a policy, at any given time, of hedging substantially all of its marketing inventory not already contracted for sale at pre-determined prices through futures and swap commodity derivative contracts, either on commodities exchanges or in the OTC market. In the event of disruptions in the commodity exchanges or markets on which the Group engages in these hedging transactions, the Group's ability to manage commodities price risk may be adversely affected and this could, in turn, materially adversely affect its business, financial condition and results of operations.

The Group is subject to counterparty risk in its marketing activities

The Group's marketing activities are subject to non-performance risk by its suppliers, customers and hedging counterparties. For example:

- a significant increase in commodity prices could result in suppliers being unwilling to honour their contractual commitments to sell commodities to the Group at pre-agreed prices;
- a significant reduction in commodity prices could result in customers being unwilling or unable to honour their contractual commitments to purchase commodities from the Group at pre-agreed prices, as occurred in 2008 and 2009 during the global economic crisis;
- customers may take delivery of commodities from the Group and then find themselves unable to honour their payment obligations due to financial distress or any other reason; and
- hedging counterparties may find themselves unable to honour their contractual commitment due to financial distress or any other reason.

There can be no assurance that the Group's financial results will not be adversely affected by the failure of a counterparty or counterparties to fulfil their contractual obligations in the future. Such failure would have an adverse impact on the Group's business, results of operations and financial condition in its bulk-commodities trading business segment, including by creating an unintended, unmatched commodity price exposure.

The Group relies on certain agreements for the sourcing of commodities and these agreements may be terminated or fail to be renewed

The Group is a party to various contracts with certain of its non-controlled industrial assets for the supply of commodities to its marketing business. The Group has various spot and long-term agreements. These agreements are an important source of commodities for the Group's marketing activities and provide certainty of regular supply for the Group. These supply agreements range from short-term spot contracts to multiple years in duration and have historically been renewed by the Group and the supplier on commercially acceptable terms. However, in general, these companies have no obligation to renew their supply agreements with the Group. The Group relies on these agreements to source many of its key commodities and any termination or failure to renew such contracts at the end of their terms could have an adverse effect on the Group's business, results of operations and financial condition in its bulk-commodities trading business segment.

The Group's marketing activities require access to significant amounts of freight, storage, infrastructure and logistics support and the Group is exposed to increases in the costs thereof

The Group's marketing activities entail shipments of commodities in large quantities, often by oceangoing transport. The Group often competes with other producers, purchasers or marketers of commodities or other products for limited storage and berthing facilities at ports and freight terminals, which can result in delays in loading or unloading the Group's products and expose the Group to significant delivery interruptions. Limitations or interruptions in rail, shipping or port capacity could impede the Group's ability to deliver its products on time. In addition, if the costs of freight increase and the Group is unable to pass such increase onto its customers, the Group's business, results of operations and financial condition may be adversely affected.

The Group also requires significant storage capacity for its commodities, which it sources both through facilities in which the Group holds equity stakes and pursuant to rental agreements with, among others, oil terminals and tank farms, metal and other warehouses and silos. Any decrease in the Group's ability to access its customary levels of capacity from these storage facilities or an increase in the price at which the Group can acquire storage capacity could have an adverse effect on the Group's business by forcing the Group to use storage facilities in less advantageous locations or at prices that make it less profitable for the Group to supply its customers.

While the Group believes that the Group's large size, global reach and longstanding relationships with third-party suppliers of freight give it an advantage in ensuring its commodity transport needs are met, there can be no assurance that the Group will continue to be able to access freight to support its operations in adequate quantities or at reasonable prices, or at all.

Risks Relating to the PRC

Substantially all of the Group's assets are located in the PRC and substantially all of the Group's revenue is sourced from the PRC. Accordingly, the Group's results of operations, financial position and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC.

PRC ECONOMIC, POLITICAL AND SOCIAL CONDITIONS, AS WELL AS GOVERNMENT POLICIES, COULD AFFECT THE GROUP'S BUSINESS

The economy of the PRC differs from the economies of most developed countries in many respects, including, but not limited to:

- political structure;
- level of government involvement;
- level of development;
- growth rate;
- foreign exchange;
- control of foreign exchange; and
- allocation of resources.

While the PRC economy has grown significantly in the past 30 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government at both the national and regional level have implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also negatively affect the Group's operations. For example, the Group's financial condition and results of operations may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to the Group. The PRC economy has been transitioning from a planned economy to a market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy. Although the Company believes these reforms will have a positive effect on the Group's overall and long-term development, it cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on the Group's current or future business, results of operations or financial condition.

Uncertainty with respect to the PRC legal system could affect the Group

As substantially all of the Group's businesses are conducted, and substantially all of the Group's assets are located, in the PRC, the Group's operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes while prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations that may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based, in part, on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, the Group may not be aware of the Group's violation of these policies and rules until sometime after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management's attention.

It may be difficult to enforce any judgments obtained from non-PRC courts against the Group or its directors and senior management who reside in the PRC

Substantially all of the Group's assets are located within the PRC. In addition, most of the Group's directors and senior management reside within China, and assets of the directors and senior management may also be located within China. As a result, it may not be possible to effect service of process outside China upon most of the Group's directors and senior management, including for matters arising under applicable securities law. A judgment of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with China or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. However, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with many countries, including Japan, the United States and the United Kingdom. Therefore, it may be difficult for investors to enforce any judgments obtained from non-PRC courts against the Group, the Company, any of their respective directors or senior management in the PRC.

The promulgation of the EIT Law may adversely impact the Group's results of operations

Pursuant to the EIT Law and its implementation rules, the enterprise income tax for both domestic and foreign-invested enterprises was unified at 25 per cent., effective from 1 January 2008. There was a transitional period for enterprises that received preferential tax treatment granted by the relevant tax authorities before the EIT Law became effective. Enterprises that were entitled to exemptions from or reductions in the standard income tax rate for a fixed term before the implementation of the EIT Law may continue to enjoy such treatment until such fixed term expires. For enterprises that did not previously enjoy any exemptions or reductions on account of not making a profit in the year before the new EIT Law was implemented, the preferential tax treatment applied immediately from 1 January 2008. According to the Circular on Issues Concerning Tax Policies for In-depth Implementation of Western Development Strategies (《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》(財稅[2011]第58號)), from 1 January 2011 to 31 December 2020, enterprise income tax may be levied at a reduced tax rate of 15 per cent. on enterprises in encouraged industries that are established in the western region. Accordingly, once the EIT Law becomes fully effective with respect to all of the Group's subsidiaries, they will no longer be entitled to preferential tax rates and tax exemptions, which is likely to result in an increase in the tax expenses of the Group and may have a material adverse effect on the Group's profitability.

Pursuant to the EIT Law and its implementation rules, a 10 per cent. withholding income tax (subject to any reduction or exemption that the foreign investors may enjoy due to the tax treaties between their jurisdictions of incorporation and the PRC) is levied on distribution of profits earned by the foreign-invested enterprises on or after 1 January 2008 by foreign-invested enterprises to their foreign enterprise investors, unless the foreign enterprise investors are deemed to be PRC tax resident enterprises and the dividend payments from the foreign-invested enterprises are deemed to be "Qualified Dividend Payments". For Hong Kong companies holding shares of PRC Subsidiaries, subject to a tax treaty between China and Hong Kong, the above withholding income tax will be reduced to 5 per cent. if that Hong Kong company directly holds at least 25 per cent. of the shares of the PRC company paying the dividends.

Pursuant to the EIT Law and its implementation rules, PRC tax resident enterprises include enterprises that are either set up under PRC laws within the territory of the PRC or set up under the laws of a foreign country or region but nevertheless have "actual management organs" within the PRC; "actual management organs" means the institutions which materially and comprehensively manage and control the enterprises' business, personnel, finance and assets; Qualified Dividend Payments include investment income received by a PRC tax resident enterprise from its direct investment in other PRC tax resident enterprises, excluding investment income from publicly listed stock issued by PRC tax resident enterprises and traded on stock exchanges where the holding period for such stock is less than 12 months.

On 22 April 2009, the PRC State Administration of Taxation issued a notice regarding the determination of the PRC tax resident enterprise status of those enterprises incorporated overseas with controlling shareholders being PRC enterprises, and provided implementation guidance on withholding income tax for non-resident enterprise shareholders. On 27 July 2011, the PRC State Administration of Taxation formulated Administrative Measures for Income Tax of Chinese-Controlled Resident Enterprises Registered Abroad (For Trial Implementation)(《境外註冊中資控股居民企業所得稅管理辦法(試行)》) and strengthened the administration of the collection of income tax of Chinese-controlled resident enterprises incorporated overseas.

There can be no assurance that no further tax reforms will be introduced by the PRC government that could further increase the Group's potential tax liability in the PRC.

RISKS RELATING TO THE BONDS, THE GUARANTEE, THE KEEPWELL DEED AND THE DEED OF EQUITY INTEREST PURCHASE UNDERTAKING

The Bonds and the Guarantee are unsecured obligations

The Bonds and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The repayment of the Bonds and payment under the Guarantee may be adversely affected if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor's assets may not be sufficient to pay amounts due on the Bonds.

Neither the Keepwell Deed nor the Deed of Equity Interest Purchase Undertaking from the Company is a guarantee of the payment obligations of the Issuer and the Guarantor under the Bonds and the Guarantee.

The Company will enter into the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking in connection with the Bonds thereunder. See "*Offer Structure – The Keepwell Deed*", "*Description of the Keepwell Deed*", "*Offer Structure – The Deed of Equity Interest Purchase Undertaking*" and "*Description of the Deed of Equity Interest Purchase Undertaking*". Upon a breach of the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking, the Trustee may take action against the Company to enforce the provisions of the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking. However, none of the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking or any actions taken by the Company thereunder can be deemed as a guarantee by the Company for the payment obligations of the Issuer under the Bonds or the Guarantor under the Guarantee. Accordingly, pursuant to the terms of the Keepwell Deed, the Company will only be obliged to make sufficient funds available to the Issuer and the Guarantor or, in the case of the Deed of Equity Interest Purchase Undertaking, undertake certain specified actions, rather than assume the payment obligation as in the case of a guarantee. Furthermore, even if the Company intends to perform its obligations under the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking, depending on the manner in which the Company arranges for sufficient funds to meet the payment obligations of the Issuer under the Bonds or the Guarantor under the Guarantee, such performance may be subject to obtaining prior consent or approvals from relevant PRC governmental authorities, including the NDRC, the MOFCOM and the SAFE and their respective local counterparts.

In addition, under the Keepwell Deed, the Company will undertake with the Issuer, the Guarantor and the Trustee, among other things, to cause the Issuer and the Guarantor to have sufficient liquidity to ensure timely payment of any amounts payable in respect of the Bonds and the Guarantee. However, any claim by the Issuer, the Guarantor and/or the Trustee against the Company in relation to the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking will be effectively subordinated to all existing and future obligations of the Company's subsidiaries (which do not provide a guarantee in respect of the Bonds), particularly the Company's subsidiaries in the PRC, and all claims by creditors of such subsidiaries in the PRC will have priority to the assets of such entities over the claims of the Issuer, the Guarantor and the Trustee under the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking.

Performance by the Company of its undertaking under the Deed of Equity Interest Purchase Undertaking is subject to approvals of the PRC governmental authorities

The Company intends to assist the Issuer and the Guarantor to meet their respective obligations by entering into the Deed of Equity Interest Purchase Undertaking on the Issue Date. Under the Deed of Equity Interest Purchase Undertaking, the Company agrees to purchase from a Relevant Transferor the equity interest in such Relevant Transferor's onshore or offshore subsidiaries at a purchase price not lower than the amount sufficient to enable the Issuer and the Guarantor to discharge their respective obligations under the Bonds and the Guarantee.

Performance by the Company of the Deed of Equity Interest Purchase Undertaking is subject to the approval of or filing with:

- the NDRC or its local office in respect of the transfer of the equity interest in offshore subsidiaries from the Relevant Transferor to the Company;
- the MOFCOM or its local office in respect of the transfer of the equity interest in the onshore or offshore subsidiaries from the Relevant Transferor to the Company;
- the PRC State Administration for Industry and Commerce or its local counterpart in respect of the transfer of the equity interest in the PRC-incorporated subsidiaries from the Relevant Transferor to the Company;
- the relevant PRC tax authorities in respect of withholding tax for the Relevant Transferor; and
- SAFE or its local counterpart or commercial banks in respect of (i) changing the SAFE registration of, or in connection with, the onshore or offshore companies being sold (where applicable), and (ii) the remittance of the purchase price, denominated in U.S. dollars, from the Company in the PRC to the Guarantor in Hong Kong (where applicable).

As the approval process is beyond the control of the Company, there can be no assurance that the Company will successfully obtain either of the requisite approvals in time, or at all. In the event that the Company fails to obtain the requisite approvals, the Issuer and the Guarantor may still have insufficient funds to discharge their outstanding payment obligations to the Bondholders.

Further, in the event of an insolvency of a Relevant Transferor, any sale proceeds received by that Relevant Transferor may be subject to the insolvency claims of third parties. The Trustee's claim against the sale proceeds will be an unsecured claim and may rank lower in priority to any claims by secured third-party creditors of such Relevant Transferor where it is the Guarantor. Where a Relevant Transferor is not the Guarantor, the Trustee will not have a direct claim against the sale proceeds received by such Relevant Transferor.

Performance by the Company of its undertaking under the Deed of Equity Interest Purchase Undertaking may be subject to consent from third-party creditors and shareholders, and may also be restricted if any of the equity interests are secured in favour of third-party creditors

Under the terms of the Deed of Equity Interest Purchase Undertaking, the Company agrees to purchase or procure a PRC-incorporated subsidiary of the Company to purchase from one or more Relevant Transferor the equity interest held by it upon the occurrence of an event of default under the Bonds. The ability of the Company to perform this undertaking may be affected by any present or future financing agreements of the Company and its subsidiaries:

- in the event that such financing agreements contain non-disposal or other restrictive covenants that would prevent the sale of an equity interest by a Relevant Transferor, the Company and its PRC-incorporated subsidiaries would need to obtain the consent from the third-party creditor before the Relevant Transferor is able to proceed with the sale of such equity interest; and

- in the event that certain equity interests have been secured in favour of third-party creditors, the Company and its PRC-incorporated subsidiaries would need to arrange for these security interests to be released before the Relevant Transferor is able to proceed with the sale of such equity interests.

Under the Terms and Conditions of the Bonds and the Keepwell Deed, there are no restrictions on any Relevant Transferor entering into financing agreements with such non-disposal or other restrictive covenants or securing the equity interests of any of the Relevant Transferor's subsidiaries in favour of its creditors. In the event the obligation to purchase under the Deed of Equity Interest Purchase Undertaking becomes effective, there is no assurance that the Relevant Transferor will be able to obtain any required consents from its creditors or that it will be able to arrange for any existing security arrangement to be released in order for the sale of the equity interest to proceed. If such consents or releases cannot be obtained, the Relevant Transferor may need to repay the indebtedness owed to its third-party creditors in order to be able to sell the relevant equity interests to the Company, failing which, the Issuer and the Guarantor may have insufficient funds to discharge their payment obligations to the Bondholders.

In the event the obligation to purchase under the Deed of Equity Interest Purchase Undertaking becomes effective, there is also no assurance that any required approvals or waivers can be obtained from third party shareholders in a timely manner or at all.

The Relevant Transferors have limited assets which can be sold to the Company pursuant to the Deed of Equity Interest Purchase Undertaking

Under the terms of the Deed of Equity Interest Purchase Undertaking, the Company agrees to purchase or procure a PRC-incorporated subsidiary of the Company to purchase from a Relevant Transferor the equity interest held by it upon the occurrence of an event of default under the Bonds.

As of the date of this Offering Circular, the Relevant Transferors have limited assets that can be sold to the Company in the event that the obligation to purchase under the Deed of Equity Interest Purchase Undertaking becomes effective.

If the Company decides to acquire any equity interest of PRC-incorporated subsidiaries of the Guarantor (or other subsidiaries of the Guarantor incorporated outside the PRC), this would require, among other things, certain approvals and registrations of the PRC governmental authorities, including the MOFCOM or its provincial department, the relevant SAFE branch or commercial banks and the PRC State Administration for Industry and Commerce since this amounts to the change of shareholders of a foreign invested company in China.

There is no assurance that such approvals can be obtained in a timely manner, or at all. In the event that such approvals cannot be obtained and there are no other future assets that the Company can purchase, the Deed of Equity Interest Purchase Undertaking may not be effective in enabling the Company to assist the Issuer and the Guarantor with their respective obligations under the Bonds, the Guarantee and the Trust Deed.

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in their respective debt agreements (if any), or the Bonds, there could be a default under the terms of these agreements, or the Bonds, which could cause repayment of the Issuer or the Guarantor's debt to be accelerated

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in the Bonds, or current or future debt obligations and other agreements (if any), there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer or the Guarantor, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of the debt agreements of the Guarantor, contain cross-acceleration or cross-default provisions. As a result, the default by the Guarantor under one debt agreement may cause the acceleration of repayment of debt, including the Bonds, or result in a default under its other debt agreements, including the Bonds. If any of these events occur, there can be no assurance that the Group's assets and cash flows would be sufficient to repay in full all of the Issuer's or the Guarantor's indebtedness, or that it would be able to find alternative financing. Even if the Issuer or the Guarantor could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Issuer or the Guarantor.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the Bondholders would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes

The Terms and Conditions of the Bonds and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》 (the "Arrangement")), judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts.

However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the Arrangement. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Bondholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Bondholders' ability to initiate a claim outside of Hong Kong will be limited.

The liquidity and price of the Bonds following this offering may be volatile

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the revenues, earnings and cash flows of the Group and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. There can be no assurance that these developments will not occur in the future.

Developments in other markets may adversely affect the market price of the Bonds

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Bonds is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the subprime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

The Bonds may not be a suitable investment for all investors

The Bonds are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with the help of a financial advisor) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;

(iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic environment, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A trading market for the Bonds may not develop

The Bonds are a new issue of securities for which there is currently no trading market. There can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. The Joint Lead Managers are not obligated to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers.

Changes in interest rates may have an adverse effect on the price of the Bonds

The Bondholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Bonds, resulting in a capital loss for the Bondholders. However, the Bondholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Bonds may rise. The Bondholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

The Issuer may be unable to redeem the Bonds

On certain dates, including but not limited to the occurrence of a Change of Control and at maturity of the Bonds, the Issuer may, and at maturity, will be required to, redeem all of the Bonds. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to redeem the Bonds by the Issuer, in such circumstances, would constitute an Event of Default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Guarantor, the Company or its subsidiaries.

The insolvency laws of British Virgin Islands and Hong Kong and other local insolvency laws may differ from those of another jurisdiction with which the Bondholders are familiar

As the Issuer and the Guarantor are incorporated under the laws of British Virgin Islands and Hong Kong respectively, any insolvency proceeding relating to the Issuer or the Guarantor would likely involve British Virgin Islands or Hong Kong insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Bondholders are familiar.

Investment in the Bonds is subject to exchange rate risks

Investment in the Bonds is subject to exchange rate risks. The value of the U.S. dollar against the Renminbi and other foreign currencies fluctuates and is affected by changes in the United States and international political and economic conditions and by many other factors. All payments of interest, premium (if any) and principal with respect to the Bonds will be made in U.S. dollars. As a result, the value of those U.S. dollar payments may vary with the prevailing exchange rates in the marketplace. If the value of the U.S. dollar depreciates against the Renminbi or other foreign currencies, the value of a Bondholder's investment in Renminbi or other applicable foreign currency terms will decline.

Each series of the Bonds will be represented by a Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the Clearing Systems

Each series of the Bonds will be represented by beneficial interests in a Global Certificate. The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream. Except in the circumstances described in the Global Certificates, investors will not be entitled to receive individual certificates. The relevant clearing system will maintain records of the beneficial interests in the Global Certificates.

While each series of the Bonds is represented by a Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems. While each series of the Bonds are represented by a Global Certificate, the Issuer will discharge its payment obligations under the Bonds by making payments to the relevant clearing system for distribution to their account holders.

A holder of a beneficial interest in the Global Certificates must rely on the procedures of the relevant clearing system to receive payments under the Bonds. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates.

Holders of beneficial interests in the Global Certificates will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system to appoint appropriate proxies.

The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the HKSE, which standards may be different from those applicable to companies in certain other countries

The Issuer will be subject to reporting obligations in respect of the Bonds to be listed on the HKSE. The disclosure standards imposed by the HKSE may be different than those imposed by securities exchanges in other countries or regions. As a result, the level of information that is available may not correspond to the level to which the Bondholders are accustomed.

The Trustee may request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction

In certain circumstances, (including without limitation giving of notice to the Issuer, the Guarantor and the Company pursuant to Condition 9 of the Terms and Conditions of the Bonds and taking enforcement steps as contemplated in Condition 13 of the Terms and Conditions of the Bonds), the Trustee may, at its discretion, request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed (as defined in the Terms and Conditions of the Bonds) or the Terms and Conditions of the Bonds and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds and the Trust Deed by the Trustee or less than all of the Bondholders

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including those Bondholders who did not attend and vote at the relevant meeting and those Bondholders who voted in a manner contrary to the majority. The Terms and Conditions of the Bonds also provide that the Trustee may, without the consent of the Bondholders, agree to any modification of the Trust Deed, the Terms and Conditions of the Bonds, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking and/or the Agency Agreement which in the opinion of the Trustee will not be materially prejudicial to the interests of the Bondholders and to any modification of the Trust Deed, the Terms and Conditions of the Bonds, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking and/or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of applicable law. In addition, the Trustee may, without the consent of the Bondholders, authorise or waive any proposed breach or breach of the Bonds, the Trust Deed, the Terms and Conditions of the Bonds, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking or the Agency Agreement if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Company

The following table sets forth the Company's consolidated capitalisation and indebtedness as at 30 September 2017 on an actual basis and have not been prepared on an adjusted basis after giving effect to the issuance of the Bonds. For further details, please refer to the reason as set forth in Note 1 to the table below. The following table should be read in conjunction with the Company's reviewed consolidated financial statements as at and for the nine months ended 30 September 2017 and related notes, the English translation of which is included in this Offering Circular.

	As at 30 September 2017	
	(CNY in millions)	*(U.S.$ in millions) (unaudited)*
Monetary capital	21,078	3,168
Short-term debt:		
Short-term borrowings	20,227	3,040
Non-current liabilities due within one year	3,719	559
Long-term debt:		
Long-term borrowings	10,258	1,542
Bonds payables	65,435	9,835
Total long-term debt	**75,693**	**11,377**
Owners' equity:		
Paid-up capital (share capital)	1,103	166
Capital reserve	2,362	355
Surplus reserve	391	59
Undistributed profit	10,256	1,541
Minority interests	35,795	5,380
Total owners' equity(1)	**56,561**	**8,501**
Total capitalisation(2)	**132,254**	**19,878**

Notes:

(1) Total owners' equity includes total equity attributable to equity shareholders of the Company and minority interests.

(2) Total capitalisation equals total long-term debt and total owners' equity.

There has been no material change in the consolidated capitalisation and indebtedness of the Company since 30 September 2017.

Capitalisation and Indebtedness of the Guarantor

The following table sets forth the Guarantor's consolidated capitalisation and indebtedness as at 30 June 2017 on an actual basis and on an adjusted basis after giving effect to the issuance of the Bonds.

	As at 30 June 2017	
	Actual	**As adjusted**
	(U.S.$ in thousands) (unaudited)	*(U.S.$ in thousands)*
Cash and cash equivalents	39,625	39,625
Short-term debt:		
Interest-bearing bank and other borrowings	69,720	69,720
Long-term debt:		
– Interest-bearing bank and other borrowings	–	–
– Bond payable	300,000	300,000
– Bonds to be issued	–	600,000
Total long-term debt	300,000	900,000
Shareholders' equity:		
Issued capital	9,980	9,980
Reserves	14,075	14,075
Non-controlling interests	–	–
Total equity[1]	24,055	24,055
Total capitalisation[2]	324,055	924,055

Notes:

(1) Shareholders' equity includes total equity attributable to equity shareholders of the Guarantor and non-controlling interests.

(2) Total capitalisation equals total long-term debt and total equity.

There has been no material change in the consolidated capitalisation and indebtedness of the Guarantor since 30 June 2017.

USE OF PROCEEDS

The Issuer estimates that the net proceeds from this offering will be approximately U.S.$597 million after deducting commissions and other expenses payable in connection with this offering. The Issuer intends to use the net proceeds of this offering for general corporate purposes.

TERMS AND CONDITIONS OF THE SERIES A BONDS

The following, subject to modification and other than the words in italics is the text of the terms and conditions of the Series A Bonds which will appear on the reverse of each of the definitive certificates evidencing the Series A Bonds:

The issue of Series A U.S.$200,000,000 4.70 per cent. guaranteed bonds due 2021 (the **Bonds**, which term shall include, unless the context requires otherwise, any additional Bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith) was authorised by a resolution of the board of directors of Nuoxi Capital Limited (the **Issuer**) passed on 29 December 2017. The Bonds are guaranteed by HongKong JHC Co., Limited (the **Guarantor**). The giving of the Guarantee (as defined in Condition 3(b)) was authorised by a resolution of the board of directors of the Guarantor on 20 December 2017. Each of the Issuer and the Guarantor is, directly or indirectly, a subsidiary of Peking University Founder Group Company Limited (the **Company**). The Bonds are constituted by a Trust Deed (the **Trust Deed**) dated on or about 24 January 2018 (the **Issue Date**) between the Issuer, the Guarantor, the Company and The Bank of New York Mellon, London Branch (the **Trustee** which expression shall, where the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. An agency agreement dated on or about 24 January 2018 (the **Agency Agreement**) has been entered into in relation to the Bonds between the Issuer, the Guarantor, the Company, the Trustee, The Bank of New York Mellon, London Branch as principal paying agent, The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar and as transfer agent and the other paying agents and transfer agents named in it. The principal paying agent, the registrar, the transfer agent and the other paying agents and transfer agents for the time being are referred to below respectively as the **Principal Paying Agent**, the **Registrar**, the **Transfer Agent**, the **Paying Agents** and the **Transfer Agents**) and together as the **Agents**. References to the **Paying Agents** include the Principal Paying Agent. Copies of (i) the Trust Deed, (ii) the Agency Agreement, (iii) the keepwell deed dated on or about 24 January 2018 (the **Keepwell Deed**) entered into by the Issuer, the Company, the Guarantor and the Trustee and (iv) the deed of equity interest purchase undertaking dated on or about 24 January 2018 (the **Deed of Equity Interest Purchase Undertaking**) entered into by the Issuer, the Guarantor, the Company and the Trustee, both deeds being executed in favour of the Trustee, are available for inspection following written request during usual business hours between 9:00 a.m. and 3:00 p.m. at the specified office of the Principal Paying Agent. The Bonds have the benefit of the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking. The entering into the Keepwell Deed was authorised by a resolution of the board of directors of each of the Company, the Guarantor and the Issuer on 6 July 2017, 20 December 2017 and 29 December 2017, respectively. The entering into the Deed of Equity Interest Purchase Undertaking was authorised by a resolution of the board of directors of each of the Company, the Guarantor and the Issuer on 6 July 2017, 20 December 2017 and 29 December 2017, respectively. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking.

1. FORM, SPECIFIED DENOMINATION AND TITLE

The Bonds are issued in the specified denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

The Bonds are represented by registered certificates (**Certificates**) and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Bonds by the same holder.

Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **Register**). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Bond shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, **Bondholder** and (in relation to a Bond) **holder** means the person in whose name a Bond is registered.

2. TRANSFERS OF BONDS

(a) **Transfer**: A holding of Bonds may, subject to Condition 2(d), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or such Transfer Agent may require. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder upon written request.

(b) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within seven business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of any Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(b), **business day** means a day, other than a Saturday or Sunday or public holiday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) **Transfer Free of Charge**: Certificates, on transfer or redemption, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment by the relevant Bondholder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or prefunding as the Registrar or the relevant Transfer Agent may require).

(d) **Closed Periods**: No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond, (ii) after a Change of Control Put Exercise Notice has been deposited in respect of such Bonds, (iii) after any such Bond has been called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)(ii)).

3. STATUS AND GUARANTEE

(a) **Status**: The Bonds constitute direct, unsubordinated, unconditional and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.

(b) **Guarantee**: The Guarantor has unconditionally and irrevocably guaranteed the due payment of the principal and interest in respect of the Bonds and all other sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor's obligations in respect of the Bonds and the Trust Deed (the **Guarantee**) are contained in the Trust Deed (and any supplement thereto). The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

4. COVENANTS

(a) **Negative Pledge**:

(i) So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and each of the Issuer and the Guarantor shall procure that none of their respective Subsidiaries (other than a Listed Subsidiary and any Subsidiary of such Listed Subsidiary) will, create or permit to subsist any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its present or future undertaking, assets or revenues to secure (a) any Relevant Indebtedness outside the PRC or (b) any guarantee or indemnity in respect of any Relevant Indebtedness outside the PRC without (i) at the same time or prior thereto securing the Bonds or guaranteeing or indemnifying the Bondholders equally and rateably therewith or (ii) providing such other security for the Bonds as the Trustee may in its absolute discretion consider to be not materially less beneficial to the Bondholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders;

(ii) So long as any Bond remains outstanding (as defined in the Trust Deed), each of the Issuer and the Guarantor undertakes to procure that the Company and its Subsidiaries (other than a Listed Subsidiary and any Subsidiary of such Listed Subsidiary) will not create or permit to subsist any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness outside the PRC without (i) at the same time or prior thereto securing the Bonds equally and rateably therewith or (ii) providing such other security for the Bonds as the Trustee may in its absolute discretion consider to be not materially less beneficial to the Bondholders or as may be approved by an Extraordinary Resolution.

(b) **Guarantor Total Equity**: The Guarantor has undertaken in the Keepwell Deed that its aggregate Total Equity will not be less than HK$9,980,000 at all times.

(c) **Notification to NDRC**: The Company undertakes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044 號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (the **NDRC Post-issue Filing**).

The Company shall complete the NDRC Post-issue Filing within the prescribed timeframe and shall comply with all applicable PRC laws and regulations in connection with the Bonds. The Company shall within five PRC Business Days after submission of such NDRC Post-issue Filing (i) provide the Trustee with a certificate signed by any authorised signatory of the Company confirming the submission of the NDRC Post-issue Filing, together with any document(s) (if any) evidencing due filing with the NDRC, and (ii) give notice to the Trustee and the Principal Paying Agent for dissemination to the Bondholders in accordance with Condition 16 of the same. The Trustee shall have no obligation to monitor and ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to the Bondholders or any other person for not doing so.

(d) **Information Rights**: Each of the Company and the Guarantor has undertaken in the Keepwell Deed and the Trust Deed that for so long as any Bond remains outstanding:

(i) the Company will furnish the Trustee with (A) a copy of the relevant Company Audited Financial Reports within 150 days of the end of each Relevant Period prepared in accordance with the Accounting Standards for Business Enterprises in China; (B) a Compliance Certificate of the Company (on which the Trustee may rely as to such compliance) within 14 days of a written request of the Trustee and at the same time as the copy of the relevant Company Audited Financial Reports is provided in accordance with Condition 4(d)(i)(A) and (C) a copy of the Company Unaudited Financial Reports within 90 days of the end of each Relevant Period prepared on a basis consistent with the audited consolidated financial statements of the Company and its subsidiaries and in each case, if such financial statements shall be in the Chinese language, together with an English translation of the same and translated by (aa) a nationally recognised firm of accountants or (bb) a professional translation service provider, together with a certificate signed by an authorised signatory of the Company certifying that such translation is complete and accurate; and

(ii) the Issuer and the Guarantor will furnish the Trustee with (A) a copy of the relevant Guarantor Audited Financial Reports within 150 days of the end of each Relevant Period; (B) a Compliance Certificate of each of the Issuer and the Guarantor (on which the Trustee may rely as to such compliance) within 14 days of a written request of the Trustee and at the same time as the copy of the relevant Guarantor Audited Financial Reports is provided in accordance with Condition 4(d)(ii)(A) and (C) a copy of the Guarantor Unaudited Financial Reports within 90 days of the end of each Relevant Period;

(e) **Disposals by the Guarantor**: The Guarantor shall not directly or indirectly sell, convey, transfer, lease or otherwise dispose any Capital Stock held by it (a **Disposal**) except:

(i) pursuant to the Deed of Equity Interest Purchase Undertaking; or

(ii) where the Disposal meets the following conditions:

(A) no Event of Default (as defined in Condition 9) or Potential Event of Default (as defined in the Trust Deed) shall have occurred at the time of or immediately after giving effect to such Disposal;

(B) the Guarantor has furnished the Trustee with a certificate signed by any of its directors that the board of directors of the Guarantor has determined in good faith that the Disposal is on arm's-length basis and is in the best interest of the Guarantor; and

(C) none of the proceeds from the Disposal may be paid as dividend or lent other than to a wholly-owned subsidiary of the Guarantor; or

(iii) where such Disposal is made pursuant to a voluntary or solvent winding-up of a Subsidiary for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation whereby the undertaking and assets of such Subsidiary are transferred or otherwise continue to be vested in the Issuer, the Guarantor or in any of their respective Subsidiaries.

(f) **Issuer and Guarantor Activities**: the Issuer shall not, and the Guarantor and the Company will procure that the Issuer will not, carry on any business activity whatsoever other than in connection with the issue of the bonds and any other activities incidental thereto (such activities in connection with the issue of the bonds shall, for the avoidance of doubt, include the on-lending of the proceeds of the issue of the bonds to the Guarantor or the Company or as either of them may direct). The Company undertakes with the Guarantor and the Trustee that it shall maintain the Guarantor as a primary overseas platform of the Company for investment holding, trading and financing.

(g) **Deed of Equity Interest Purchase Undertaking**: Upon being expressly notified in writing or becoming actually aware of the occurrence of any Event of Default (as defined under Condition 9), the Trustee shall give to the Company (with a copy to the Issuer and the Guarantor) a notice in writing in accordance with the Trust Deed notifying the Company of its obligations to purchase under the Deed of Equity Interest Purchase Undertaking. Upon the completion of any equity purchase made in accordance with the Deed of Equity Interest Purchase Undertaking, each of the Issuer and the Guarantor has undertaken in the Trust Deed to (i) direct the Company to promptly pay or procure to be paid an amount (being an amount no less than the amount set out in the Deed of Equity Interest Purchase Undertaking) from the proceeds to be received by the Guarantor and/or any other relevant Subsidiaries of the Company incorporated outside the PRC in relation to such equity purchase made in accordance with the Deed of Equity Interest Purchase Undertaking to or to the order of the Trustee and (ii) promptly do all such things (including entering into and executing any agreements or arrangements required) and take all actions necessary for the proceeds received in accordance with the Deed of Equity Interest Purchase Undertaking to be applied solely towards the payment in accordance with the Trust Deed of any amounts due and payable under the Trust Deed and the Bonds (including any interest accrued but unpaid on the Bonds) prior any other use, disposal or transfer of the proceeds received.

(h) **Irrevocable Cross-Border Standby Facility**: In the event that (i) the Issuer fails to provide a Liquidity Notice to each of the Company and the Trustee at least 30 Facility Business Days (as defined in the Keepwell Deed) prior to an Interest Payment Date in accordance with the Keepwell Deed, or (ii) an Event of Default has occurred, the Company has undertaken in the Keepwell Deed that it shall, among other things, (a) as soon as practicable grant to the Issuer a standby facility, (b) remit an amount to the Issuer that is sufficient, after conversion (if required), for the Issuer to discharge its obligations as set out in the Keepwell Deed, and (c) cause the Issuer to use the amount received to discharge its obligations under the Bonds, the Trust Deed, the Agency Agreement, the Deed of Equity Interest Undertaking and the Keepwell Deed, in each case in accordance with and as set out in the Keepwell Deed.

In these Conditions:

Business Day means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are generally open for business in the PRC and Hong Kong;

Capital Stock means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all classes of partnership interests in a partnership, any and all membership interests in a limited liability company, any and all other equivalent ownership interests and any and all warrants, rights or options to purchase any of the foregoing;

Company Audited Financial Reports means the annual audited consolidated statement of comprehensive income, statement of financial position and statement of cashflow of the Company together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

Company Unaudited Financial Reports means the semi-annual (or any other interim reporting period required by applicable law or regulations) unaudited consolidated statement of comprehensive income, statement of financial position and statement of cashflow of the Company together with, if any, any statements, reports (including any directors' and auditors' review reports) and notes attached to or intended to be read with any of them;

Compliance Certificate means a certificate of each of the Company, the Issuer and the Guarantor (as the case may be) signed by any one of their respective directors or authorised signatories that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Company, the Issuer or the Guarantor (as the case may be) as at a date (the **Certification Date**) not more than five days before the date of the certificate:

(i) no Event of Default (as defined in Condition 9) or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

(ii) each of Company, the Issuer and the Guarantor (as the case may be) has complied with all its obligations under the Trust Deed and the Bonds.

Guarantor Audited Financial Reports means the annual audited consolidated statement of comprehensive income, statement of financial position and statement of cashflow of the Guarantor together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

Guarantor Unaudited Financial Reports means the semi-annual (or any other interim reporting period required by applicable law or regulations) unaudited consolidated statement of comprehensive income, statement of financial position and statement of cashflow of the Guarantor together with, if any, statements, reports (including any directors' and auditors' review reports) and notes attached to or intended to be read with any of them;

Independent Investment Bank means an independent investment bank of international repute (acting as an expert) selected by the Issuer (at the expense of the Issuer, failing whom the Guarantor) and notified in writing to the Trustee;

Liquidity Notice means the notice to be given by the Issuer to the Company and the Trustee at least 30 Business Days before each Interest Payment Date certifying, as at the date of such notice, that it has sufficient liquidity to meet its payment obligations under the Bonds and the Trust Deed as they may fall due on the next Interest Payment Date falling immediately after the date of such Liquidity Notice (together with evidence of available funding outside the PRC) and that no Event of Default or Potential Event of Default has occurred;

Listed Subsidiary means any Subsidiary, the shares of which at the relevant time listed on The Stock Exchange of Hong Kong Limited or any other recognised stock exchange;

NDRC means the National Development and Reform Commission of the PRC or its local counterparts;

Potential Event of Default means an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 9 become an Event of Default;

PRC means the People's Republic of China which, for the purposes of these Conditions, shall not include Hong Kong, Macau and Taiwan;

PRC Business Day means a day on which commercial banks are open for business in the PRC;

Relevant Indebtedness means any present or future indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, or other securities which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) (which for the avoidance of doubt does not include bilateral loans, syndicated loans or club deal loans);

Relevant Period means, in relation to each of the Company Audited Financial Reports and the Guarantor Audited Financial Reports, each period of twelve months ending on the last day of their respective financial year (being 31 December of that financial year) and, in relation to each of the Company Unaudited Financial Reports and the Guarantor Unaudited Financial Reports, each period of six months ending on the last day of their respective first half financial year (being 30 June of that financial year);

a **Subsidiary** of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person; and

Total Equity means, the line item with the corresponding caption in the consolidated statement of financial position of the Guarantor, comprising the aggregate of:

(i) the amount paid up or credited as paid up on the issued ordinary share capital of the Guarantor;

(ii) the amount standing to the credit of the consolidated reserve of the Guarantor and its Subsidiaries; and

(iii) the amount attributable to non-controlling interests.

5. INTEREST

The Bonds bear interest on their outstanding principal amount from and including 24 January 2018 at the rate of 4.70 per cent. per annum, payable semi-annually in arrear in equal instalments of U.S.$23.5 per Calculation Amount (as defined below) on 24 January and 24 July in each year (each an **Interest Payment Date**) commencing on 24 July 2018.

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal or premium (if any) is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

In these Conditions, the period beginning on and including 24 January 2018 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an **Interest Period**.

Interest in respect of any Bond shall be calculated per U.S.$1,000 in principal amount of the Bonds (the **Calculation Amount**). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for a period of less than a complete Interest Period, the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

6. REDEMPTION AND PURCHASE

(a) Final Redemption: Unless previously purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on 24 January 2021 (the **Maturity Date**). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) **Redemption for Tax Reasons**: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued up to but excluding the date fixed for redemption), if (i) the Issuer (or, if the Guarantee was called, the Guarantor) satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, Hong Kong or the PRC (each, a **Relevant Jurisdiction**) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 18 January 2018, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the giving of any notice of redemption pursuant to this Condition 6(b), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee a certificate signed by an authorised signatory of the Issuer (or of the Guarantor, as the case may be) stating that the obligation referred to in (i) above of this Condition 6(b) cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above of this Condition 6(b) without further enquiry and without liability to any Bondholder, in which event it shall be conclusive and binding on the Bondholders.

(c) **Redemption for Change of Control**: At any time following the occurrence of a Change of Control Put Event, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Change of Control Put Date at 101 per cent. of their principal amount, together with accrued interest to, such Change of Control Put Date. To exercise such right, the holder of the relevant Bond must deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a **Change of Control Put Exercise Notice**), together with the Certificates evidencing the Bonds to be redeemed, by not later than 30 days following the occurrence of a Change of Control Put Event or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 16. The **Change of Control Put Date** shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds subject to the Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

The Issuer shall give notice to Bondholders in accordance with Condition 16 and to the Trustee and the Principal Paying Agent in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control Put Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 6(c).

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Change of Control Put Event has occurred and shall not be responsible or liable to Bondholders, the Issuer, the Guarantor or the Company for any loss arising from any failure to do so.

In this Condition 6(c):

a **Change of Control Put Event** occurs when:

(i) Peking University ceases to directly or indirectly Control the Company;

(ii) the Company ceases to directly or indirectly own and hold not less than 85 per cent. of the outstanding shares of the Guarantor; or

(iii) the Issuer ceases to be a directly or indirectly wholly-owned Subsidiary of the Guarantor; and

Control means (where applicable): (i) the direct or indirect ownership, acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of a person or (ii) the ability to appoint and/or remove all or the majority of the members of a person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise and the terms **controlling** and **controlled** have meanings correlative to the foregoing.

References to **principal** in these Conditions shall, unless the context otherwise requires, include the premium referred to in this Condition 6(c).

(d) **Notice of Redemption**: All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition 6. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) and any Change of Control Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail.

(e) **Purchase**: The Issuer, the Guarantor, the Company and their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor, the Company or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of, among other things, calculating quorums at meetings of the Bondholders or for the purposes of Conditions 9, 12(a) and 13.

(f) **Cancellation**: All Certificates representing Bonds purchased by or on behalf of the Issuer, the Guarantor, the Company or their respective Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Bonds shall be discharged.

7. PAYMENTS

(a) **Method of Payment**:

(i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in Condition 7(a)(ii) below.

(ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the **Record Date**). Payments of interest on each Bond shall be made in U.S. dollars by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in U.S. dollars maintained by the payee with a bank.

(iii) For the purposes of this Condition 7, a Bondholder's **registered account** means the U.S. dollar account maintained by or on behalf of it, details of which appear on the Register at the close of business on the fifth Payment Business Day before the due date for payment.

(iv) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of premium (if any) or interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium (if any) or interest so paid.

(b) **Payments subject to Fiscal Laws**: All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreement thereunder, any official interpretations thereof, or (without prejudice to provisions of Condition 8 any law implementing an intergovernmental approach thereto). No commission or expenses shall be charged to the Bondholders in respect of such payments.

(c) **Payment Initiation**: Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated, on the due date for payment (or, if that date is not a Payment Business Day, on the first following day which is a Payment Business Day), or, in the case of payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer (or where a notice given by the Trustee pursuant to an Event of Default or a Potential Event of Default has not been withdrawn, the Trustee) and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent and (iv) such other agents as may be required by any other stock exchange on which the Bonds may be listed. Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Bondholders in accordance with Condition 16.

(e) **Delay in payment**: Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day or if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(f) **Payment Business Days**: In this Condition 7, **Payment Business Day** means a day (other than a Saturday, Sunday or public holiday) on which banks and foreign exchange markets are open for business and settlement of U.S. dollar payments in New York City, Hong Kong and London and (if surrender of the relevant Certificate is required) the relevant place of presentation.

8. TAXATION

All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within a Relevant Jurisdiction (as defined in Condition 6(b)) or any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by or within the PRC at the rate of up to and including the aggregate rate applicable on 18 January 2018 (the **Applicable Rate**) the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer or, as the case may be, the Guarantor is required to make a deduction or withholding in respect of PRC tax in excess of the Applicable Rate, or any Hong Kong or British Virgin Islands deduction or withholding is required, in such event that the Issuer or, as the case may be, the Guarantor shall pay such additional amounts (**Additional Tax Amounts**) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:

(a) **Other connection**: to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands, Hong Kong or the PRC other than the mere holding of the Bond; or

(b) **Surrender more than 30 days after the Relevant Date**: in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Tax Amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days; or

Relevant Date in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Bondholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Bonds without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

9. EVENTS OF DEFAULT

If any of the following events (each an **Event of Default**) occurs, the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, provided in any such case that the Trustee shall first have been indemnified and/or secured and/or prefunded to its satisfaction, give written notice to the Issuer, the Guarantor and the Company declaring that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest:

(a) **Non-Payment**: there is a failure to pay the principal of or any premium on any of the Bonds when due or there is a failure to pay interest on any of the Bonds when due and such failure continues for a period for seven days; or

(b) **Breach of Other Obligations**: the Company, the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Bonds, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking, the Trust Deed, (other than those referred to in Condition 9(a) or those the breach of which would give rise to a redemption right pursuant to Condition 6(c)) which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer, the Guarantor or the Company, as the case may be, by the Trustee; or

(c) **Cross-Default**: (i) any other present or future indebtedness of the Company, the Issuer, the Guarantor or any of their respective Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Company, the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any leading bank on the day on which this Condition 9(c) operates); or

(d) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against a material part of the property, assets or revenues of the Company, the Issuer, the Guarantor or any of their respective Principal Subsidiaries and is not discharged or stayed within 30 days; or

(e) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Company, the Issuer, the Guarantor or any of their respective Principal Subsidiaries over all or a material part of the assets of the Company, the Issuer, the Guarantor or the relevant Principal Subsidiary, as the case may be, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged within 30 days; or

(f) **Insolvency**: the Company, the Issuer, the Guarantor or any of their respective Principal Subsidiaries is (or is expected to by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of all or a material part of debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Company, the Issuer, the Guarantor, or any of their respective Principal Subsidiaries, as the case may be; or

(g) **Winding-up**: an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Company, the Issuer, the Guarantor or any of their respective Principal Subsidiaries, or the Company, the Guarantor, the Issuer or any of their respective Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for (A) the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution, or (ii) whereby the undertaking and assets of a Principal Subsidiary are transferred to or otherwise continue to be vested in the Company or any of its Subsidiaries; or (B) a solvent winding up of any Principal Subsidiary of the Company other than the Guarantor and the Issuer; or (C) a disposal of a Principal Subsidiary of the Guarantor or the Company on an arm's length basis where the assets (whether in cash or otherwise) resulting from such disposal is vested in the Issuer, the Guarantor, the Company or any of their respective Subsidiaries; or

(h) **Authorisation and Consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer, the Company and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds, the Trust Deed, the Keepwell Deed (other than with regard to the performance and compliance with the obligations thereunder), the Deed of Equity Interest Purchase Undertaking (other than with regard to the performance and compliance with the obligations thereunder), (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds, the Trust Deed, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or

(i) **Illegality**: it is or will become unlawful for any of the Company, the Issuer or the Guarantor to perform or comply with any one or more of their respective obligations under any of the Bonds or the Trust Deed, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking; or

(j) **Unenforceability of Guarantee**: except as permitted under the Trust Deed, any part of the Guarantee is unenforceable or invalid or shall for any reason cease to be in full force and effect or is claimed to be unenforceable, invalid or not in full force and effect by the Issuer or the Guarantor; or

(k) **Keepwell Deed and Deed of Equity Interest Purchase Undertaking**: the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking is not or is claimed by the Company not to be in full force and effect, or the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking is modified, amended or terminated other than strictly in accordance with its respective terms; or

(l) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Conditions 9(d) to 9 (g) (both inclusive).

In this Condition 9, **Principal Subsidiary** means any Subsidiary of the Issuer, the Guarantor or the Company:

(a) whose total revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated total revenue, as shown by its latest audited income statement are at least 5 per cent. of the consolidated total revenue as shown by the latest audited consolidated income statement of the Company and its Subsidiaries including, for the avoidance of doubt, the Company and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(b) whose gross profits or (in the case of a Subsidiary which itself has Subsidiaries) consolidated gross profit, as shown by its latest audited income statement are at least 5 per cent. of the consolidated gross profit as shown by the latest audited consolidated income statement of the Company and its Subsidiaries including, for the avoidance of doubt, the Company and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(c) whose gross assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated gross assets, as shown by its latest audited balance sheet are at least 5 per cent. of the amount which equals the amount included in the consolidated gross assets of the Company and its Subsidiaries as shown by the latest audited consolidated balance sheet of the Company and its Subsidiaries as being represented by the investment of the Company in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Company and after adjustment for minority interests; or

(d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall cease to be a Principal Subsidiary at the date on which the first audited accounts (consolidated, if appropriate), of the Company prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition;

provided that, in relation to paragraphs (a), (b) and (c) above of this definition:

(i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Company relate, the reference to the then latest consolidated audited accounts of the Company for the purposes of the calculation above shall, until consolidated audited accounts of the Company for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are available be deemed to be a reference to the then latest consolidated audited accounts of the Company adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

(ii) if at any relevant time in relation to the Company or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenue, gross profit or gross assets of the Company and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Company;

(iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, gross profit or gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Company; and

(iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Company, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Company.

10. PRESCRIPTION

Claims against the Issuer and the Guarantor for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal or premium) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Registrar or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

(a) **Meetings of Bondholders**: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed, the Agency Agreement, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Issuer if requested to do so by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons, being Bondholders or agents of Bondholders, holding or representing whatever principal amount of the Bonds, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable in respect of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to cancel or amend the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking, the Guarantee other than in accordance with Condition 12(b), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one third, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed and whether or not they voted on the Extraordinary Resolution).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than three-fourths in principal amount of the Bonds for the time being outstanding (a **Written Resolution**) and consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the Bondholders of not less than three-fourths in principal amount of the Bonds outstanding (an **Electronic Consent**) shall in each case for all purposes be as valid and effective as an Extraordinary Resolution. A Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders. A Written Resolution and/or Electronic Consent will be binding on all Bondholders whether or not they participated in such Written Resolution and/or Electronic Consent, as the case may be.

(b) **Modification of Agreements and Deeds**: The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement, the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or is to comply with any mandatory provision of applicable law, and (ii) any other modification (except for Reserved Matters as defined in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement, the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 16.

(c) **Entitlement of the Trustee**: In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 12) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders, and the Trustee shall not be entitled to require on behalf of any Bondholders, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor, the Company or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13. ENFORCEMENT

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Company, the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Agency Agreement, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking and the Bonds, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds then outstanding, and (b) it shall first have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Company, the Issuer and/or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

14. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability, including provisions relieving it from taking proceedings to enforce payment unless first indemnified and/or secured and/or pre-funded to its satisfaction.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Company, the Guarantor and any other person appointed by the Issuer in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has express written notice from the Issuer, the Company or the Guarantor to the contrary, the Trustee and each Agent shall assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Bondholder or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by holders of the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed. Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions from the Bondholders by way of an Extraordinary Resolution, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions or in the event that no such directions are received. The Trustee shall not be under any obligation to ascertain whether any Event of Default has occurred or monitor compliance with the provisions of the Trust Deed, the Agency Agreement, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking or these Conditions and shall not be liable to any person for any loss arising from any breach or any such event.

The Trustee may rely without liability to Bondholders on any report, confirmation or certificate or any advice of any legal advisers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and, in such event, such report, confirmation or certificate or advice shall be binding on the Issuer, the Company, the Guarantor and the Bondholders.

15. FURTHER ISSUES

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them and the timing for reporting to the NDRC) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any such other securities issued pursuant to this Condition 15 and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

16. NOTICES

Notices to the holders of Bonds shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

18. GOVERNING LAW AND JURISDICTION

(a) **Governing Law**: The Trust Deed, the Agency Agreement, the Guarantee, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking and the Bonds, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England.

(b) **Jurisdiction**: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Guarantee, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking, the Agency Agreement and the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with any Bonds, the Guarantee, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking, the Agency Agreement or the Trust Deed (**Proceedings**) may be brought in the courts of Hong Kong. Pursuant to the Trust Deed, each of the Issuer, the Guarantor and the Company has irrevocably submitted to the jurisdiction of the courts of Hong Kong.

(c) **Agent for Service of Process**: Each of the Issuer and the Company has irrevocably agreed to receive service of process at the Guarantor's principal place of business at Room 1501, Grand Millennium Plaza (Lower Block), 181 Queen's Road Central, Hong Kong in any Proceedings in Hong Kong.

(d) **Waiver of Immunity**: Each of the Issuer, the Company and the Guarantor hereby waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

TERMS AND CONDITIONS OF THE SERIES B BONDS

The terms and conditions of the Series B Bonds will be identical to those under "Terms and Conditions of the Series A Bonds" except as set out below. References to "Bonds" shall be construed as references to the Series B Bonds.

1. The principal amount of the Bonds shall be U.S.$400,000,000.

2. In Condition 5, the interest rate of the Bonds shall be 5.35 per cent. per annum.

3. In Condition 6, Maturity Date shall mean 24 January 2023.

DESCRIPTION OF THE KEEPWELL DEED

The following contains summaries of certain key provisions of the Keepwell Deed. Such statements do not purport to be complete and are qualified in their entirety by the Keepwell Deed.

Ownership of the Guarantor and the Issuer

Under the Keepwell Deed, the Company will undertake with the Issuer, the Guarantor and the Trustee that:

- it shall directly or indirectly own and hold not less than 85 per cent. of the outstanding shares of the Guarantor and shall not directly or indirectly pledge, grant a security interest, or in any way encumber or otherwise dispose of any such shares unless required to dispose of any or all such shares pursuant to a court decree or order of any government authority which, in the opinion of a legal adviser to the Company, may not be successfully challenged; and

- it shall cause the Guarantor to directly or indirectly own and hold all the outstanding shares of the Issuer and not to directly or indirectly pledge, grant a security interest, or in any way encumber or otherwise dispose of any such shares unless required to dispose of any or all such shares pursuant to a court decree or order of any government authority which, in the opinion of a legal adviser to the Company, may not be successfully challenged.

Maintenance of Consolidated Net Worth; Liquidity

In addition, the Company will undertake that it shall cause:

- each of the Issuer and the Guarantor to have a Consolidated Net Worth (as defined in the Keepwell Deed) of at least U.S.$1.00 at all times;

- each of the Issuer and the Guarantor to have sufficient liquidity to ensure timely payment by each of the Issuer and the Guarantor of any amounts payable under or in respect of the Bonds and the Guarantee in accordance with the Terms and Conditions of the Bonds and/or the Trust Deed and otherwise under the Trust Deed and the Agency Agreement; and

- the Guarantor to have an aggregate Total Equity (as defined in the Keepwell Deed) of at least HK$9,980,000 at all times.

Relevant Indebtedness

For so long as the Bonds are outstanding, the Company will undertake to the Trustee in the Keepwell Deed that neither the Company nor any of its subsidiaries (other than a Listed Subsidiary and any subsidiary of such Listed Subsidiary) will create or permit to subsist any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness outside the PRC without at the same time or prior thereto securing the Bonds equally and rateably therewith or providing such other security for the Bonds as the Trustee may in its absolute discretion consider to be not materially less beneficial to the Bondholders or as may be approved by an Extraordinary Resolution.

"Relevant Indebtedness" means any present or future indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, or other securities which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) (which for the avoidance of doubt does not include bi-lateral loans, syndicated loans or club deal loans).

Irrevocable Cross-Border Standby Facility

In the event (i) the Issuer does not provide a notice confirming it has sufficient liquidity to the Company and the Trustee no later than 30 Facility Business Days (as defined in the Keepwell Deed) before each Interest Payment Date (the "Liquidity Notice Date") or (ii) an Event of Default has occurred, the Company shall, subject to prevailing laws, regulations and government policies at such time and if required, the approvals from or registration with competent PRC government authorities as soon as practicable, among other things, grant to the Issuer a standby facility (the "Standby Facility") pursuant to which the Company will remit an amount, after conversion (if required), sufficient to enable the Issuer (a) in the case of (i) to discharge its obligations under the Bonds and the Trust Deed which will become due on the immediate next Interest Payment Date, or in the case of (ii) to discharge its obligations under or in respect of the Bonds in accordance with the Terms and Conditions of the Bonds and/or the Trust Deed and otherwise under the Trust Deed and the Agency Agreement (including, without limitation, the principal amount of the Bonds then outstanding and any interest due and unpaid and/or accrued but unpaid), and (b) to cover all costs, fees, expenses and other amounts payable to the Trustee and/or the Agents under or in connection with the Bonds, the Trust Deed, the Agency Agreement, the Deed of Equity Interest Purchase Undertaking and/or the Keepwell Deed as at the date of the Liquidity Notice Date (including without limitation all foreign exchange conversion expenses) plus provisions for costs, fees, expenses and all other amounts which may be incurred after the Liquidity Notice Date as notified by the Trustee.

Each of the Company and the Issuer agree and acknowledge that the terms of the Standby Facility shall be at arm's length (or more favourable to the Issuer) and shall not require any security from the Issuer.

Other Undertakings

For so long as the Bonds are outstanding, the Company will further undertake:

- to procure that the articles of association of each of the Issuer and the Guarantor shall not be amended in a manner that is, directly or indirectly, adverse to holders of the Bonds;

- to cause each of the Issuer and the Guarantor to remain in full compliance with the Terms and Conditions of the Bonds, the Guarantee, the Trust Deed and all applicable laws, rules and regulations in Hong Kong (in the case of the Guarantor) or the British Virgin Islands (in the case of the Issuer);

- promptly to take any and all action necessary to comply with its obligations under the Keepwell Deed;

- to cause each of the Issuer and the Guarantor to take all action necessary in a timely manner to comply with its obligations under the Keepwell Deed;

- to procure that the Issuer will not carry on any business activity whatsoever other than in connection with the issue of the bonds and any activities incidental thereto (which activities shall, for the avoidance of doubt, include the on- lending of the proceeds of the issue of the bonds (the "Proceeds of the Bonds") to the Guarantor or the Company or as any of them may direct), and to cause such recipient of the Proceeds of the Bonds to pay the interest and principal in respect of such intercompany loan on time; and

- to maintain the Guarantor as a primary overseas platform of the Company for investment holding, trading and financing.

Other Provisions

The Keepwell Deed is not, and nothing therein contained and nothing done pursuant thereto by the Company shall be deemed to constitute, or shall be construed as, or shall be deemed an evidence of, a guarantee by or any legal binding obligation of the Company of the payment of any obligation, responsibilities, indebtedness or liability, of any kind or character whatsoever, of the Issuer or the Guarantor under the laws of any jurisdiction, including the PRC.

The parties to the Keepwell Deed will acknowledge that in order for the Company to comply with its obligations under the Keepwell Deed, the Company may require approvals, registrations, filings, clearance or other authorisation of PRC government authorities. The Company will undertake to use its best efforts to obtain such approvals, registrations, filings, clearance or other authorisation.

The Keepwell Deed and any non-contractual obligations arising out of or in connection with it will be governed by and construed in accordance with English law.

DESCRIPTION OF THE DEED OF EQUITY INTEREST PURCHASE UNDERTAKING

The following contains summaries of certain key provisions of the Deed of Equity Interest Purchase Undertaking. Such statements do not purport to be complete and are qualified in their entirety by the Deed of Equity Interest Purchase Undertaking.

Obligation to Acquire Equity Interest

Under the Deed of Equity Interest Purchase Undertaking, upon receiving a written purchase notice (the "Purchase Notice") from the Trustee in accordance with the Trust Deed following the occurrence of an Event of Default under the Bonds, the Company shall, subject to obtaining all necessary approvals, consents, licences, orders, permits and any other authorisations from the Relevant Authorities (as defined in the Deed of Equity Interest Purchase Undertaking) (the "Relevant Approvals"), purchase, either by itself or through a PRC-incorporated subsidiary of the Company (the "Designated Purchaser") (the "Purchase"):

(i) the Equity Interest held by the Guarantor and/or any other subsidiaries of the Company incorporated outside the PRC (each a "Relevant Transferor") and notified in writing to the Trustee within three business days after the date of the Purchase Notice; or

(ii) in the absence of a designation and notification within three business days after the date of the Purchase Notice as provided in (i) above, the Equity Interest held by all the subsidiaries of the Company incorporated outside the PRC.

"Capital Stock" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all classes of partnership interests in a partnership, any and all membership interests in a limited liability company, any and all other equivalent ownership interests and any and all warrants, rights or options to purchase any of the foregoing.

"Equity Interest" means the Capital Stock held by a Relevant Transferor and which is subject to the Purchase pursuant to an equity interest transfer agreement.

The Purchase obligation shall be suspended if, prior to the relevant closing date for such Purchase, each of the Company, the Guarantor and the Issuer receives a notice in writing from the Trustee stating that all of the respective payment obligations of the Issuer and the Guarantor under the Bonds, the Guarantee and the Trust Deed have been satisfied as at the date of that notice, or that the Event of Default leading to the service of the Purchase Notice has been waived in accordance with the terms of the Trust Deed (the "Suspension Notice"). The Suspension Notice shall be provided by the Trustee to the Company (with copies to the Issuer and the Guarantor) within one business day after the date the Trustee is notified in writing that any of the above-mentioned grounds for suspension of the Purchase has occurred.

Determination of the Purchase Price

Within ten business days after the date of the Purchase Notice, the Company shall determine (i) the purchase price of the Equity Interest(s) subject to the Purchase (the "Purchase Price") in accordance with any applicable PRC laws and regulations effective at the time of determination; and (ii) the other applicable terms relating to the Purchase, provided that the Purchase Price shall be after conversion (if required) no less than the following amount:

(a) the amount sufficient to enable the Issuer and the Guarantor to discharge in full their respective obligations under the Bonds, the Guarantee and the Trust Deed (including without limitation the principal amount of the Bonds then outstanding as at the date of such Purchase Notice and any interest due and unpaid and/or accrued but unpaid on the Bonds up to but excluding the date of such Purchase Notice, plus

(b) the interest payable in respect of one interest period on the Bonds then outstanding as at the date of the Purchase Notice, plus

(c) all costs, fees, expenses and other amounts payable to the Trustee and/or the Agents under or in connection with the Bonds, the Trust Deed, the Agency Agreement, the Keepwell Deed and/or the Deed of Equity Interest Purchase Undertaking as at the date of such Purchase Notice plus provisions for costs, fees, expenses and all other amounts which may be incurred after the date of the Purchase Notice, as notified by the Trustee in the Purchase Notice.

Closing

In relation to the Purchase of any Equity Interest relating to a company incorporated in the PRC held by any Relevant Transferor, the Company will agree that:

- within 15 business days after the date of the Purchase Notice, the Company shall, and shall procure each Relevant Transferor to, execute, and the Company shall procure the board of directors of each of the subsidiaries of the Company that is held by a Relevant Transferor and which is subject to the Purchase (the "Target Subsidiaries") to execute (where applicable), an equity interest transfer agreement. If the special market entry management measures prescribed by the State (i.e. the Target Subsidiaries belong to the restricted and prohibited categories specified in the Catalogue of Industries for Guiding Foreign Investment (2017 Revision), or encouraged category therein on which equity or senior management related requirements are imposed) are involved, within 15 business days after the date of the Purchase Notice, the Company shall submit such agreements and/or documents as required by applicable laws and regulations with MOFCOM, for approval of the transfer of the Equity Interests as being the subject of the Purchase;

- within five business days after the receipt of approval from MOFCOM if such approval is required under the applicable laws and regulations, or if no such approval is required, then within five Business Days after the date of the execution of an equity interest transfer agreement, the Company shall submit all application documents to the competent PRC State Administration of Industry and Commerce (the "AIC") for registration of the transfer of the Equity Interest held by each Relevant Transferor;

- as soon as reasonably practicable after receipt of AIC registration from the competent AIC, the Company shall complete the procedures in respect of withholding tax for the Relevant Transferor required by applicable laws and regulations of the PRC with the competent tax authority to obtain the tax clearance certificate from such tax authority;

- within five business days after completion of the change of AIC registration and the receipt of the tax clearance certificate, the Company shall submit all required application documents to SAFE or commercial banks (a) to change the SAFE registration of the Target Subsidiaries and (b) for the outbound remittance of the Purchase Price; and

- closing of the Purchase shall take place on the fifth business day after the date of completion of the registration or approvals from SAFE or commercial banks, and all approvals or registrations from relevant state-owned assets authorities if such approvals or registrations are required under the then effective laws and regulations, whereupon the Company shall pay to or to the order of each Relevant Transferor the Purchase Price payable in immediately available funds in U.S. dollars or Renminbi to such account in Hong Kong as may be designated by such Relevant Transferor.

In relation to the Purchase of any Equity Interest relating to a company incorporated outside the PRC held by any Relevant Transferor, the Company will agree that:

- Within 15 business days after the date of the Purchase Notice, the Company shall (a) submit a project information report and other required documents to the NDRC or to its competent local counterpart (where applicable), and (b) submit the preliminary report and other required documents for overseas mergers and acquisitions, to MOFCOM.

- Within 30 business days after the date of the Purchase Notice, the Company shall, and shall procure each Relevant Transferor to, execute, and the Company shall procure the board of directors of each of the Target Subsidiaries to execute (where applicable), an equity interest transfer agreement and all other application documents required by applicable laws and regulations, and shall submit such agreements and/or documents as required by applicable laws and regulations to NDRC (where applicable) and MOFCOM and authorities of any other jurisdiction in charge of the Purchase (where applicable), for approval, filing or registration of the transfer of the Equity Interests as being the subject of the Purchase.

- Within five business days after the receipt of approval from NDRC (where applicable) and MOFCOM, the Company shall submit all application documents required by applicable laws and regulations to SAFE or commercial banks for registration of the transfer of the Equity Interests as being the subject of the Purchase.

- Closing shall take place on (i) the fifth business day after the date of receipt of all approvals, filings or registrations from NDRC, MOFCOM, SAFE or commercial banks and authorities of other jurisdictions in charge of the Purchase and all approvals or registrations from relevant state-owned assets authorities if such approvals or registrations are required under the then effective laws and regulations or (ii) if no such approval or registration from any approval authority is required, the fifth business day after the date of execution of the equity interest transfer agreement, whereupon the Company shall pay to or to the order of each Relevant Transferor the Purchase Price payable in immediately available funds in U.S. dollars or Renminbi to such account in Hong Kong as may be designated by such Relevant Transferor.

The requirements and deadlines referred to above in relation to the Closing of the Purchase may be modified in the sole discretion of the Trustee if the Company delivers to the Trustee, within ten business days after the receipt of the Purchase Notice, an opinion of a PRC counsel of recognised international standing stating that under applicable PRC law as at the date of the opinion, (a) any of the requirements set out above is no longer required or has been changed and/or (b) in its professional opinion, the time allowed for the Company to complete any of the requirements set out above is not reasonably achievable and what the commercially reasonable period of time is for the completion of such requirement.

Best Efforts

The Company shall, and shall procure each Relevant Transferor to, use their respective best efforts to do all such things and take all such actions as may be necessary or desirable to (i) procure the completion of the Purchase on the relevant Purchase Closing Date (including providing information and applying for the Relevant Approvals) as soon as reasonably practicable and in any event within six months from the date of the Purchase Notice; and (ii) procure the remittance of the sum of the Purchase Price to or to the order of the Relevant Transferor(s) in accordance with the Deed of Equity Interest Purchase Undertaking.

Other Provisions

The Deed of Equity Interest Purchase Undertaking is not, and nothing therein contained and nothing done pursuant thereto by the Company shall be deemed to constitute, or shall be construed as, or shall be deemed an evidence of, a guarantee by or any legal binding obligation of the Company of the payment of any obligation, responsibilities, indebtedness or liability, of any kind or character whatsoever, of the Issuer or the Guarantor under the laws of any jurisdiction, including the PRC.

The Deed of Equity Interest Purchase Undertaking and any non-contractual obligations arising out of or in connection with it will be governed by and construed in accordance with English law.

SUMMARY OF PROVISIONS RELATING TO EACH SERIES OF THE BONDS IN GLOBAL FORM

Each Global Certificate contains provisions which apply to the relevant series of the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. The following is a summary of certain of those provisions.

Terms defined in the terms and conditions of the Bonds (the "Conditions" or "Terms and Conditions") set out in this Offering Circular have the meaning in the paragraphs below.

The Bonds will be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary on behalf of Euroclear and Clearstream.

Under the relevant Global Certificate, the Issuer, for value received, will promise to pay such principal, interest and premium (if any) on the relevant series of Bonds to the Bondholder on such date or dates as the same may become payable in accordance with the Terms and Conditions of the Bonds.

Owners of interests in the Bonds in respect of which the relevant Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates if either Euroclear or Clearstream or any other clearing system (an "Alternative Clearing System") is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

The individual definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the relevant Global Certificate. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of the Bonds scheduled thereto and, in particular, shall be effected without charge to any Bondholder or the Trustee, but against such indemnity and/or security as the Registrar or the other relevant Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

The Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Bondholders. A person with an interest in the Bonds in respect of which the relevant Global Certificate is issued must provide the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange and a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

In addition, the relevant Global Certificate will contain provisions which modify the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by the relevant Global Certificate. The following is a summary of certain of those provisions:

Notices

So long as a series of the Bonds are represented by the relevant Global Certificate and the relevant Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

Meetings

For the purposes of any meeting of Bondholders, the Bondholder represented by the relevant Global Certificate shall be treated as being entitled to one vote in respect of each U.S.$1,000 in principal amount of the Bonds.

Bondholder's Redemption

The Bondholder's redemption option in Condition 6(c) of the Conditions may be exercised by the holder of the relevant Global Certificate giving notice to any Paying Agent of the principal amount of Bonds in respect of which the option is exercised within the time limits specified in the Conditions.

Issuer's Redemption

The option of the Issuer provided for in Condition 6(b) of the Conditions shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the Conditions.

Transfers

Transfers of the interests in a series of Bonds represented by the relevant Global Certificate will be effected through the records of Euroclear or Clearstream, or any Alternative Clearing System, and their respective participants in accordance with the rules and operating procedures of Euroclear or Clearstream or any Alternative Clearing System and their respective participants.

Cancellation

Cancellation of any Bond represented by a Global Certificate which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the Bonds in the register of Bondholders and the relevant Global Certificate on its presentation to or to the order of the Principal Paying Agent for annotation (for information only).

Trustee's Powers

Bondholders: Subject as provided in the Trust Deed, each Person who is for the time being shown as the records of Euroclear and/or Clearstream as entitled to a particular principal amount of Bonds represented by a Global Certificate (in which regard any certificate or other document issued by Euroclear or Clearstream as to the principal account of such Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the holder of such principal amount of such Bonds for all purposes other than with respect to payments of principal, premium (if any) and interest on the Bonds for which purpose the registered holder of the relevant Global Certificate shall be deemed to be the holder of such principal amount of the Bonds in accordance with the terms of the relevant Global Certificate and the Trust Deed.

The Global Certificates shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

DESCRIPTION OF THE ISSUER

Overview

The Issuer was incorporated as a BVI business company with limited liability on 20 February 2017 under the laws of the British Virgin Islands. The registered office of the Issuer is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. As at the date of this Offering Circular, the Issuer is authorised to issue a maximum of 50,000 ordinary shares with a par value of U.S.$1.00 per share and the Issuer has one share in issue.

Business Activities

The Issuer is a wholly-owned subsidiary of the Guarantor. As at the date of this Offering Circular, the Issuer has not engaged, since its incorporation, in any material activities other than entering into arrangements for the proposed issue of the Bonds and on-lending of the proceeds thereof to the Guarantor. As at the date of this Offering Circular, the Issuer has no subsidiaries nor employees.

Director

The sole director of the Issuer is at the date of this Offering Circular is Mr Xi Wang.

Financial Statements

Under the British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of the Issuer's affairs and to explain its transactions. As at the date of this Offering Circular, the Issuer has not prepared nor published any financial statements and does not propose to do so. The Issuer has no outstanding borrowings nor contingent liabilities other than the proposed issue of the Bonds.

DESCRIPTION OF THE GUARANTOR

Overview

The Guarantor was incorporated in Hong Kong in September 2012 with limited liability. The registered office of the Guarantor is at Room 1501, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong. As at 30 June 2017, the Company indirectly held approximately 94.17 per cent. of the issued share capital of the Guarantor. As at 30 June 2017, the Guarantor had a paid-up capital of U.S.$9.98 million.

Financial Overview

As at 30 June 2017, the Guarantor had total asset of approximately U.S.$856.2 million. For the year ended 31 December 2016 and for the six months ended 30 June 2017, the Guarantor recorded a total revenue of approximately U.S.$1,495.9 million and U.S.$775.0 million, with gross profit of approximately U.S.$13.7 million for the year ended 31 December 2016 and U.S.$8.4 million for the six months ended 30 June 2017.

Business Activities

Overview

The Guarantor is positioned by the Group as its primary overseas platform for investment holding, cross-border bulk commodities trading and financing. Principal non-ferrous metal products traded by the Guarantor include copper cathodes, nikkel and zinc slabs. The Guarantor sources metal products and sells to customers via overseas entrepot trading and bonded area entrepot trading.

Suppliers

Key suppliers of the Guarantor are international metal commodities traders.

Customers

For the six months ended 30 June 2017, the Guarantor had more than 90 customers. Key customers of the Guarantor are international and domestic metal commodities traders.

Credit facilities

The Guarantor has maintained long-term relationships with several major international and regional banks with a total approved credit line of approximately U.S.$98.0 million and unused credit line of approximately U.S.$15.4 million as at 30 June 2017.

Directors

As at the date of this Offering Circular, the directors of the Guarantor are Mr Li Jun, Mr Xiong Wanlong and Mr Chen Nian.

Mr Li Jun (李軍), aged 38, serves as a director of the Guarantor and chief financial officer of PKU Founder Commodities. He previously served various positions in PKU Founder Commodities, including as a manager and as a principal accountant. Mr Li has a bachelor degree.

Mr Xiong Wanlong (熊萬龍), aged 50, serves as a director of the Guarantor and a vice president of PKU Founder Commodities. He previously served various positions in PKU Founder Commodities, including as a manager of finance and domestic trading and as a deputy general manager. Mr Xiong has a bachelor degree.

Mr Chen Nian (陳念), aged 32, serves as a director of the Guarantor, general manager of the non-ferrous department and deputy general manager of the non-ferrous market department of Shanghai JHC. He previously served various positions in Shanghai JHC, including as the supervisor of non-ferrous department I, business supervisor of the import/export department and deputy manager of the import/export department. Mr Chen has a bachelor degree.

DESCRIPTION OF THE GROUP

Overview

The Group is a leading state-owned diversified conglomerate with strategic business segments covering several major industries in the PRC. Its business segments consist of information technology, healthcare and pharmaceuticals, finance and securities, bulk commodities trading and other businesses, such as education and training. The Company was founded in 1986 by Peking University (北京大學), which is wholly-owned by the Ministry of Finance of the PRC and controlled by the Ministry of Education of the PRC. As at the date of this Offering Circular, 70 per cent. of the Company's issued share capital is held by Peking University through its wholly-owned subsidiary PKU Asset Management with the remaining 30 per cent. held by Beijing Zhaorun Investments Management Co., Ltd. (北京招潤投資管理有限公司), a holding company controlled by the Group's employees. As at 30 September 2017, the Company had an issued share capital of CNY1,103 million and total assets of CNY250,139.9 million on a consolidated basis. For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the Group recorded revenue of CNY80,511.3 million, CNY82,004.8 million, CNY63,169.1 million and CNY79,997.0 million, respectively.

The Group considers its information technology, healthcare and pharmaceuticals, finance and securities and bulk commodities trading businesses as its core strengths. The Group intends to concentrate on the development of its information technology and healthcare and pharmaceuticals segments by leveraging its close collaboration with Peking University, and the expertise and capabilities of its finance and securities business, in order to achieve higher growth and greater synergies between different business segments. The Group envisages that its finance and securities business and the bulk commodities trading business will generate sufficient profits and cash flows to support the development of its other business segments.

The Group has won numerous awards, and its various business segments enjoy leading positions in their respective industries. The Group was selected as one of "2014 China's Most Admired Companies" by Fortune China in 2014. In respect of its information technology business, for the years ended 31 December 2015, the Group ranked fifth among information technology software companies in China in terms of revenue, according to the Ministry of Industry and Information Technology of the PRC. In 2015, according to Ministry of Industry and Information Technology of the PRC and the China Printed Circuit Association, the Group ranked third in terms of production capacity among those PCB manufacturers with principal investors originating from the PRC. The Group was recognised as one of "2015 China's Top 10 Intelligent Public Transport Enterprises" in 2015. In 2017, the Group was awarded the second prize of "2016 National Science and Technology Progress Award" for its National Police Geographic Information Platform Application Technology Research and Scale Application Demonstration (PGIS project). The Group is also a leader in network and digital book publication in China, leading the national digital publication project, initiating and co-ordinating various research and development projects, as well as establishing industry standards. In respect of the healthcare and pharmaceuticals business, the Group owns one of the largest production bases in terms of production volume for biological drugs and synthetic drugs in western China. In 2017, the Group was awarded as "2016 – 2017 National Quality Engineering Award" in 2017 by the National Engineering Construction Quality Award Review Committee. In respect of its finance and securities business, the Group was granted the "Cooperative Innovation Award" by China Beijing Equity Exchange in 2014 in recognition of its financial innovation and awarded as "Insurance Company with Greatest Potentials" by China Financial Value Ranking in 2016. In respect of its bulk commodities trading business, the Group ranked second on the list of "2016 Top 10 Famous Copper Trading Enterprises" in 2017. For a list of some of the Group's recent awards, please refer to "– Awards and Initiatives".

Leveraging its strong ties with Peking University, the Group has created and owns the rights to some of the core technologies that have played a significant role in the development of China's information technology and healthcare and pharmaceuticals industries. By leveraging its relationship with the Institute of Computer Science & Technology of Peking University and Peking University Health Science Centre as its strategic partners, the Group has established an innovative business model of production, research and development. As one of the PRC's first six pilot enterprises dedicated to technological innovation, the Group was granted the honorary title of "National Demonstration Enterprise Dedicated to Technological Innovation" jointly by the Ministry of Industry and Information Technology of the PRC and the Ministry of Finance of the PRC in 2012. The Group has also established good relationships with many well-known domestic enterprises and government institutions on various co-operation or research projects, such as the Joint Innovation Centre established by Founder Industry Holdings and the Institute of Innovation of Peking University. With the benefit of the Group's domestic and international reputation, the Group has also attracted international investments from numerous large investors.

The Group, headquartered in Beijing, operates throughout the PRC, providing services to clients in more than 20 provinces, municipalities and autonomous regions. The Group is also committed to introducing its products and services to overseas markets. For example, the Group established Founder Holdings in 1992, which was listed on the HKSE in 1995, to provide media and software products. It also established Founder Information Hong Kong in 2002 for the Group's domestic and international investments. The Group established the Guarantor in 2012 for the Group's cross-border bulk commodities trading business. As at 30 September 2017, the Group employed approximately 36,000 employees globally. In addition, the Group holds interests in six public companies listed on the stock exchanges of Shanghai, Shenzhen and Hong Kong. The following table sets out these six companies and their respective listing venues, stock codes and industries, and the equity interests held, directly or indirectly, by the Company as at 30 September 2017.

Public Company	Listing Venue	Stock Code	Industry	Equity Interest held by the Company
Founder Securities	SSE	601901	Finance and securities	29.20%(1)
PKU Healthcare	SZSE	000788	Healthcare and pharmaceuticals	34.57%(2)
Founder Holdings	HKSE	00418	Information technology	30.60%
China Hi-Tech	SSE	600730	Trading and education	20.03%
Founder Technology	SSE	600601	Information technology	11.65%
PKU Resources	HKSE	00618	Property investment and distribution of information products	25.00%(3)

Notes:

(1) As at 30 September 2017, the Company held approximately 27.75 per cent. equity interest in Founder Securities directly. In addition, the Company held approximately 94.17 per cent. equity interest in Founder Industry Holdings which in turn held approximately 1.54 per cent. in Founder Securities as at 30 September 2017.

(2) As at 30 September 2017, the Company held an approximately 85.60 per cent. equity interest in PKU Healthcare Industry Group Co., Ltd., which wholly-owned Southwest Synthetic Pharmaceutical Group Co., Ltd., which in turn held approximately 28.58 per cent. equity interest in PKU Healthcare. In addition, PKU Healthcare Industry Group Co., Ltd. directly held approximately 40.38 per cent. of PKU Healthcare's equity interest as at 30 September 2017.

(3) The financial results of PKU Resources are not consolidated into the financial statements of the Group.

Recent Development

For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the Group had revenue of CNY80,511.3 million, CNY82,004.8 million, CNY63,169.1 million and CNY79,997.0 million, respectively, and net profits of CNY4,317.5 million, CNY2,996.3 million, CNY2,812.0 million and CNY322.9 million, respectively. For the year ended 31 December 2017, the Group also recorded a significant drop of its net profit as compared to the year ended 31 December 2016. The Group is still finalising its financial statements for the year ended 31 December 2017. For the reasons of the significant drop in net profits for the nine months ended 30 September 2017 and for the year ended 31 December 2017, see *"Risk Factors — General Risks relating to the Group and its Businesses — Historical consolidated financial information of the Group may not be indicative of its* *current or future results of operations."* on page 28. As at 31 December 2015 and 2016 and 30 September 2017, the Group recorded total assets of CNY196,560.5 million, CNY223,583.6 million and CNY250,139.9 million, respectively.

Business Segments

The Group has four core business segments (information technology, healthcare and pharmaceuticals, finance and securities, and bulk commodities trading) and other business interests. The Group's business segments and their key products and services include:

Business segment		Primary operating entity	Primary products/services
Information Technology . . .	Information technology software and industry solutions	Beijing PKU Founder Electronics, Founder International Software and PKU Healthcare IT	Laser illumination, system integration and industry solutions
	PCBs and semiconductors	Founder Technology and ACCESS	PCB and package substrate
		Founder Microelectronics	Computer chips
	Information technology distribution	Founder Century Information, Founder Information Security Technology, Founder Technology, Founder Broadband and Founder Information Technology	Personal computers, servers, network equipment, internet connection and others
Healthcare and Pharmaceuticals.	Healthcare	PKU International Hospital	Comprehensive medical services focusing on centres specialising in heart disease, blood and tumours, nervous and mental diseases, bone and sport diseases, urology diseases, first-aid injuries, eye diseases, oral diseases, and diseases affecting women and children
		Hunan Kaide	Medical services, including cardiovascular, urology and general surgery
		Beijing Beiyi Tairan	Support services to urology specialists, including expert support, personnel training, academic communication, scientific co-operation, and the management of urology centres in Ningxia, Hubei, Hunan and Zhejiang provinces
	Pharmaceutical production and distribution	Founder Research	Introduction of innovative drugs by combining various techniques, and transforming them into patented intellectual rights
		PKU Healthcare	Research and development, and production and marketing, of pharmaceutical ingredients and preparations, including sulphonamides and antibiotics, covering more than 50 different products

Business segment		Primary operating entity	Primary products/services
		Chongqing Daxin Pharmaceutical	Pharmaceutical ingredients and preparations, covering more than 30 types and specifications of products
		Beijing Beiyi Pharmaceutical	Sales and logistics of medical equipment, Chinese medicine, chemical medicine, antibiotics, biochemical drugs and healthcare nutrition
		Chongqing Fanggang Pharmaceutical	Marketing and sales of pharmaceuticals and preparations
		Wuhan Ye Kai Tai	Operating logistics of more than 3,000 types and specifications of pharmaceuticals
		Shanghai Beiyi Tuokang	Import and export of goods and technologies, with a focus on the marketing and export of advanced health products to the European and U.S. markets
	Medical ancillary	Beijing Beiyi Medical Textile	Customisation, washing, leasing and delivery of medical textiles
		Founder International Leasing	Financial and general leasing services for medical equipment, information technology services, shipbuilding, municipal facilities and general equipment; managed through PKU Healthcare Industry Group Co., Ltd.
		PKU Healthcare Industrial Park Technology	Development and operation of PKU Healthcare Industrial Park, as well as the provision of relevant services to medical and pharmaceutical industries
		PKU Medical Industrial Fund	Platform for investment and asset capitalisation and securitisation in healthcare
Finance and Securities		Founder Securities and its subsidiaries (Credit Suisse Founder, Founder CIFCO Futures, Founder H Fund and Founder Fubon), PKU Founder Finance and PKU Founder Life Insurance	Stocks, bonds, futures brokerage, equity and debt underwriting and sponsorship, as well as securities dealing, direct investment, funds, and life insurance businesses
Bulk Commodities Trading		PKU Founder Commodities, Shanghai JHC and the Guarantor	Agricultural, chemical and energy, metal products and related raw materials
Other Businesses		China Hi-Tech	Trading and education
		Founder Training and Development Centre	Education and training

Information Technology

The Group categorises its information technology business into three segments: (i) core information technology business, which includes information technology software and industrial solutions, PCB and semiconductor manufacturing business; (ii) pillar business, which includes information technology distribution; and (iii) other businesses which include hardware distribution. The Group conducts its information technology business primarily through Founder International Software, Beijing PKU Founder Electronics, Founder Microelectronics, ACCESS, Founder Apabi, Founder Broadband, Shanghai Founder Digital Publishing, Founder Technology and their respective subsidiaries. The Group manufactures computers and PCB and also provides software systems and technology services. The Group's customers include technology companies, media groups and organisations, schools and governmental bodies.

Healthcare and Pharmaceuticals

The Group has an integrated, full-chain healthcare and pharmaceuticals business combining medical services, ancillary medical services, pharmaceutical research, production and distribution, and innovation investments which is growing organically. The Group provides medical services with specialisations in cardiovascular, urology and minimally invasive surgery mainly through Hunan Kaide and its subsidiaries. In addition, the Group develops a network of medical service providers with PKU International Hospital as its flagship hospital, and intends to further explore the market of healthcare management in the PRC. The primary operating entities for the ancillary medical business of the Group include principally Beijing Beiyi Medical Textile, Founder International Leasing, PKU Medical Industrial Fund and PKU Healthcare Industrial Park Technology. The Group's pharmaceutical research, production and distribution businesses are conducted primarily through Founder Research, PKU Healthcare and its subsidiary, Chongqing Daxin Pharmaceutical, Beijing Beiyi Pharmaceutical, Chongqing Fanggang Pharmaceutical, Wuhan Ye Kai Tai and Shanghai Beiyi Tuokang. The Group also invests in innovation industries and emerging enterprises via PKU Healthcare Industrial Park Technology and PKU Medical Industrial Fund.

Finance and Securities

The Group has comprehensive licences in the PRC for brokerage, proprietary trading, asset management, investment banking, trusts, funds, direct investment, insurance and financing businesses. The Group conducts its finance and securities business primarily through Founder Securities and PKU Founder Life Insurance. Founder Securities, one of the largest securities firms in the PRC, provides comprehensive suite of financial services. It has expanded its businesses through joint ventures with, among others, Credit Suisse Founder, Founder CIFCO Futures, Founder H Fund and Founder Fubon.

Bulk Commodities Trading

The Group operates its domestic and international bulk commodities trading through PKU Founder Commodities, an international supply chain service provider for bulk commodities, integrating investment, production, trading, logistics and information services, and its subsidiaries Shanghai JHC and the Guarantor. In conducting its bulk commodities trading business, PKU Founder Commodities combines futures and spot transactions of bulk commodities, such as petrochemicals, agricultural products and metal minerals, to hedge transaction risks. In addition, PKU Founder Commodities provides warehousing facilities through Shanghai Anshi Warehousing Management Co., Ltd., chemical manufacturing and trading through Fujian Fangxing Chemical Co., Ltd. and harbour logistics through Fujian Fangtong Port Storage & Transportation Co., Ltd.

Other Businesses

The Group also engages in education and training, mainly through China Hi-Tech, Founder Training and Development Centre.

The following table sets forth the Group's consolidated revenue by business segment for the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017:

Business segment	Year ended 31 December				Nine months ended 30 September			
	2015		2016		2016		2017	
	CNY in millions	%	*CNY in millions*	%	*CNY in millions*	%	*CNY in millions*	%
Information technology	28,074.9	34.9	27,765.8	33.9	21,593.5	34.3	16,066.4	20.1
Healthcare and pharmaceuticals	4,907.5	6.1	3,200.8	3.9	2,164.9	3.4	2,375.1	3.0
Finance and securities	12,593.6	15.6	8,344.1	10.2	6,381.5	9.9	6,863.2	8.6
Bulk commodities trading	27,242.9	33.8	40,327.8	49.2	31,612.9	50.2	52,367.9	65.5
Other businesses	7,692.4	9.6	2,366.2	2.9	1,416.4	2.2	2,324.0	2.9
Total	80,511.3	100.0	82,004.8	100.0	63,169	100.0	79,997.0	100.0

The following table sets forth the Group's consolidated gross profit by business segment for the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017:

Business segment	Year ended 31 December				Nine months ended 30 September			
	2015		2016		2016		2017	
	CNY in millions	%	*CNY in millions*	%	*CNY in millions*	%	*CNY in millions*	%
Information technology	1,524.3	13.4	1,877.4	25.4	1,136.2	18.6	1,276.2	16.9
Healthcare and pharmaceuticals	505.5	4.5	656.2	8.9	458.4	7.5	585.5	7.8
Finance and securities	7,556.3	66.4	4,137.4	55.9	3,617.5	59.2	5,231.1	69.3
Bulk commodities trading	1,512.6	13.3	322.5	4.4	820.6	13.4	104.2	1.4
Other businesses	273.6	2.4	406.4	5.5	74.7	1.2	348.8	4.6
Total	11,372.5	100.0	7,399.9	100.0	6,107.5	100.0	7,545.9	100.0

Corporate Milestones

The following are the milestone events in the corporate development history of the Group:

1986 . . . . The predecessor of the Company, Peking Science New Technologies Company (北京理科新技術公司), was established.

1988 . . . . Peking Science New Technology Company was renamed as Peking University New Technologies Company (北京大學新技術公司).

Laser photo-typesetting technology became the Company's primary product.

1992 . . . . Peking University established the Company, then known as Peking University Founder Group Company (北大方正集團公司), with the assets of Peking University New Technologies Company.

Founder (Hong Kong) Co., Ltd. (方正(香港)有限公司), the Company's first overseas subsidiary, was established.

1995 . . . . The computer division of the Group was established.

The second generation of Founder computer monitors was released.

Founder Technology Research Institute (方正技術研究院), the technology centre of the Group, was established. The integration of the Group and Peking University Computer Institute was completed.

Founder Holdings was listed on the HKSE.

1996 . . . . China Hi-Tech was listed on the SSE.

1997	PKU Healthcare was listed on the SZSE.
1998	The Group acquired Shanghai Yanzhong Industrial Co., Ltd.（上海延中實業股份有限公司）(which was listed on the SSE in 1990) and renamed it Founder Technology. Founder Technology promoted the Group's migration towards its high-tech computing business.
2000	PKU Founder Commodities (formerly known as Peking University Founder Import Export Company)（北大方正進出口公司）was established.
2002	Founder Securities (formerly known as Zhejiang Securities Co., Ltd.) was acquired by the Company.
2003	PKU Healthcare (formerly known as PKU International Healthcare Group Southwest Synthetic Pharmaceutical Co., Ltd.) was acquired by the Company.
2004	The Company signed a long-term strategic co-operation agreement with Japan's Omron Corporation and established the Founder-Omron Joint Research & Development Centre focusing on: metro transport automatic toll collection systems (known as the AFC system); services in the fields of public systems; security systems, transportation systems; billing systems; software development; and other research areas.
2005	PKU Healthcare was recognised by the Ministry of Science and Technology as a "National Key High-tech Enterprise" for the Torch Plan in 2005. In December, it passed the certification review of the U.S. Food and Drug Administration. The application for the construction of PKU International Hospital was approved by the Beijing Municipal Development and Reform Commission. In October, the Group entered into the land development and construction contract for the PKU International Hospital project.
2008	Founder Microelectronics signed an agreement with a major international semiconductor chip manufacturer on manufacturing equipment, sales, and technology transfer. The Founder PCB Industrial Park（方正PCB產業園）in Zhuhai was completed, and commenced operations.
2011	Founder Finance Research Institute（方正金融研究院）was established. PKU Founder Finance was established. Founder Fubon was established, which is China's first fund management joint venture with Taiwan. Founder Securities was listed on the SSE.
2012	PKU Founder Commodities established four subsidiaries, in Hong Kong and Singapore (including the Guarantor in Hong Kong), for further expansion of the international bulk commodities trading business of the Group. PKU International Hospital entered into a €58 million loan facility co-operation memorandum with KfW Entwicklungs Bank. PKU Founder Life Insurance was established.

2013 . . . . Founder Securities acquired a 60.00 per cent. equity interest in Beijing CIFCO Futures Co., Ltd., upon which Founder Securities became its controlling shareholder, holding 75.62 per cent. of the equity interest. Beijing CIFCO Futures Co., Ltd. later changed its name to Founder CIFCO Futures Co., Ltd.

PKU Founder Commodities complete the registration of its four overseas subsidiaries in Hong Kong and Singapore, a significant marker in achieving the international development goals of the Group's bulk commodity business.

The Group signed a strategic partnership agreement with Peking University Health Science Center to strengthen and deepen their cooperation in various aspects.

2014 . . . . The Group issued CNY2.0 billion in bonds through its subsidiary, with Founder Information Hong Kong as guarantor.

Founder Securities completed the acquisition of 100 per cent. of the equity interest in Minzu Securities.

Founder Securities received approval from the CSRC to establish Founder Securities (Hong Kong) Financial Holdings Limited (方正證券(香港)金融控股有限公司) with a registered capital of HKD 100 million.

In August 2014, China Lianhe Credit Rating Co., Ltd. issued credit rating report and upgraded the rating of the Company from "AA+" to "AAA".

PKU International Hospital commenced operations in Beijing. PKU International Hospital is one of the largest medical facilities in Asia by GFA, and is the flagship hospital of the Group's healthcare network. It is a technologically advanced hospital consistent with JCI medical management standards, and is expected to be an internationally-recognised leading hospital in the future.

2015 . . . . Founder Securities received approval to deal in securities in Hong Kong from January 2015.

Founder Securities gained control over Minzu Securities and its financial statements were consolidated into the financial statements of the Company.

The Group issued U.S.$685.0 million in bonds through its subsidiary, with Founder Information Hong Kong as guarantor.

2016 . . . . The Group completed the transfer of 57.51 per cent. of its equity interest in Founder BEA Trust to Wuhan Economic Development Investment Co., Ltd.

Minzu Securities launched strategic cooperation with a Korean partner for global investment banking business.

Founder Information Group signed a strategic cooperation agreement with a leading IT company in PRC to develop "Smart City" services.

PKU Care Zibo Hospital (北大醫療淄博醫院) commenced operations.

Awards and Initiatives

The Group has received numerous awards for its strong brand recognition in several industries, including most recently, the Group was:

- awarded as "2016 – 2017 National Quality Engineering Award" in 2017 by the National Engineering Construction Quality Award Review Committee (國家工程建設質量獎審定委員會) in 2017;
- awarded as "2017 Credit Risk Management Enterprise" by Chicago Metal Exchange – China Enterprise Risk Management Forum in 2017;
- awarded as "China Securities Investment Management Growth Award" by China Fund News in 2017;
- awarded as "2016 China AAA Credit Enterprise" in 2017;
- awarded as "National Good Faith Management Demonstration Unit" (全國誠信經營示範單位) in 2017;
- awarded the second prize of "2016 National Science and Technology Progress Award" for its National Police Geographic Information Platform Application Technology Research and Scale Application Demonstration (PGIS project) in 2017;
- ranked second on the list of "2016 Top 10 Famous Copper Trading Enterprises" in 2017;
- awarded as "Insurance Company with Greatest Potentials" by China Financial Value Ranking in 2016;
- awarded as "China's Best Securities Broker in 2016"by China Securities Times;
- recognised as "Pilot Organisation for National Patent Operations" in 2016;
- awarded as "Insurance Company with Great Potentials" by China Financial Value Ranking in 2016;
- recognised as one of "2015 China's Top 10 Intelligent Public Transport Enterprises" in 2015;
- recognised as "Cooperative Innovation Award" by China Beijing Equity Exchange in 2014;
- ranked fourth on the list of "China's Top 100 Enterprises By Software Business Revenue" by the Ministry of Industry and Information Technology of the PRC in 2014;
- ranked ninth on the list of "The top 100 Enterprises In China's Information Industry" by the Ministry of Industry and Information Technology of the PRC in 2014;
- recognised as one of "2014 China's Most Admired Companies" by Fortune magazine;
- recognised as one of "China's Top 20 Software Innovation Enterprises in China Enterprises" by the Copyright Protection Centre of China in 2013;
- awarded the "2013 Excellence Award for Pioneering Integrated Financial Competitiveness" by China Business in 2013;
- recognised as "2013 China's Best Securities Company" by Money Week in 2013;

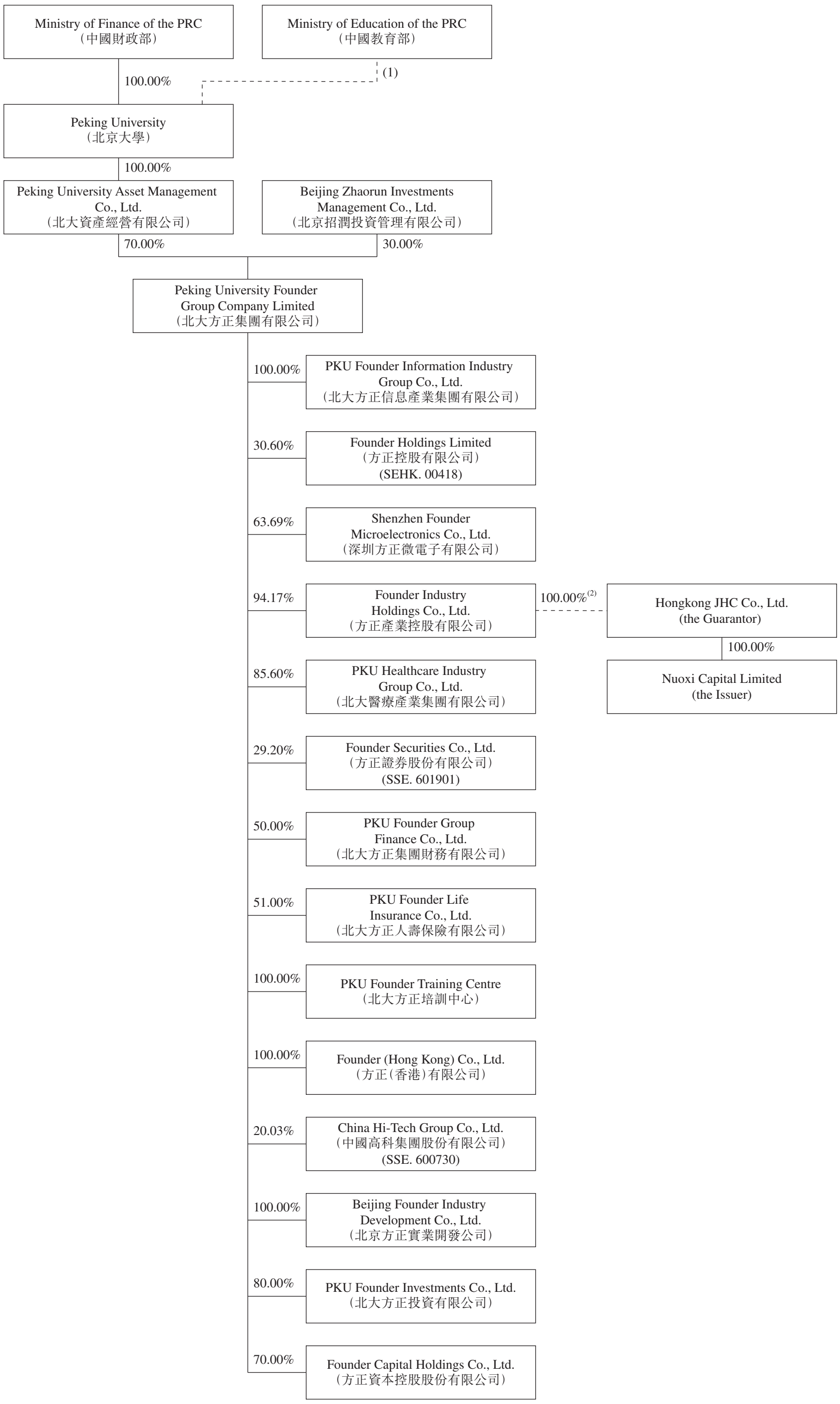
- recognised as "2013 Best Online Securities Broker" by China Securities Times in 2013; and
- recognised as one of "2013 China's Most Admired Companies – Ten-Year Achievement Award" by Fortune China.
- awarded "The Best Strategic Decision Award" in 2013;
- awarded as one of "The Most Valuable Brand in China's Software and Information Technology" in 2013;

The Group has also supported various social and community initiatives, including:

- PKU Founder Commodities entered into cooperation agreement with China Gas Holdings in December 2017 regarding the Quangang Pier Project to promote the economic development of Quangang District, Quanzhou, Fujian Province and the petro-chemical industrial zone;
- PKU Healthcare entered into a cooperation framework agreement with Hezhou Municipal Government in Guangxi Province in December 2017 to carry out a number of cooperation with regard to Hezhou City Chinese Medicine Hospital, in order to enhance the local medical standards, optimize the medical pattern and promote the industrial upgrading;
- PKU Healthcare conducted cooperation with Henan Province to fully support its development of health care industry, including medical and health industries and the combination of medical and rehabilitation pension industries;
- Founder Securities entered into Designated Poverty Alleviation Alliance Cooperation Framework Agreements in 2017 with several national poor counties in Jiangxi Province, Ningxia Hui Autonomous Region, Hubei Province and Heilongjiang Province, respectively, to build a new poverty alleviation model by E-commerce, medical industry and other industries;
- PKU Healthcare IT Co., Ltd. assisted Xuanwu Hospital of Capital Medical University in 2017 to obtain the HIMSS EMRAM (inpatient) Level-7 certificate;
- PKU Healthcare IT Co., Ltd. assisted 19 hospitals in 2017, including Baotou Central Hospital, the First People's Hospital of Tianmen, Hubei Province, the Affiliate Hospital of Shandong Binzhou Medical College, to obtain the HIMSS EMRAM (inpatient) Level-6 certificate;
- Founder Securities entered into an agreement with Kaifeng City in 2016 for strategic cooperation in finance integration;
- Beijing Jianan Out-patient Clinic, an entity under control of PKU Healthcare, opened for business in 2016 and it is in close cooperation with Peking University Cancer Hospital, to promote the early diagnose and treatment of cancer;
- PKU Founder Electronics initiated "Font Licence and Support Programme for Growth Enterprise" in 2015 to provide complimentary font licence for micro and innovative growth enterprise and individual developers; and
- PKU Healthcare entered into a cooperation agreement with Wu Jieping Medical Fund to promote research in urology.

Group Structure

The following chart provides a simplified shareholding structure of the Group as at 30 September 2017. It shows the Company's direct or indirect percentage shareholdings in its key operating subsidiaries:



Notes:

(1) As at 30 September 2017, Peking University was controlled by the Ministry of Education of the PRC.

(2) As at 30 September 2017, Founder Industry Holdings indirectly held all issued share capital of the Guarantor.

Competitive Strengths

The Group believes that it has the following competitive strengths:

A large state-owned conglomerate with close affiliation with, and strong support from, Peking University and the PRC government

The Company is a large state-owned conglomerate with strategic business segments covering several major industries in the PRC, including information technology, healthcare and pharmaceuticals, finance and securities, bulk commodities trading and other businesses, such as education and training. Peking University, through its wholly-owned subsidiary PKU Asset Management, holds 70 per cent. equity interest in the Company, with the balance held by its employees. Peking University is wholly owned by the Ministry of Finance of the PRC, and controlled by the Ministry of Education of the PRC. Peking University is one of the oldest and most prestigious universities in China. The Group is Peking University's primary platform for engaging in commercial ventures, including the commercialisation of its research and development efforts.

In addition, the Group's affiliation with Peking University provides it with a strong brand reputation that in turn helps attract talent and business partners, win customers, and obtain low-cost financing from policy banks. In 2013, Founder was recognised as one of the "2013 China's Most Admired Companies" by Fortune China. The Group capitalises on its brand recognition by cross-marketing its products, thereby widening the customer base and increasing the quality of investment opportunities, both in the PRC and internationally. The Group believes that its well-established brand also provides a number of other benefits, including premium pricing, reputation for reliability and quality, and a solid base for acquisitions and further expansion in new and existing markets. By leveraging its brand recognition across various business segments, the Group is able to achieve and maintain a strong position in these segments.

With Peking University's support, and leveraging its position as a state-owned enterprise, the Group also benefits from PRC government support. In addition, Peking University also maintains long-term relationships with major local and foreign banks, and assists the Group with obtaining preferential access to low interest financing. Leveraging the Group's strategic relationships with central, provincial and city governments, the Group has first-hand knowledge and access to extensive investment opportunities in the industries in which it operates. The strong local government ties of the Group also enable the Group to obtain more favourable contractual terms while expediting the process for obtaining relevant government approvals. In 2003, under the guidance of the Chongqing government, the Group successfully acquired PKU International Healthcare Group Southwest Synthetic Pharmaceutical Co., Ltd., and has gradually built it as the comprehensive platform for the Group's pharmaceuticals business. The Group believes that its close affiliation with Peking University and the PRC government will continue to provide it with development opportunities in the industries in which it operates.

Well-diversified business portfolio generating operating synergies and stable income

The Group is a diversified investment holding group engaged in information technology, healthcare and pharmaceuticals, finance and securities, bulk commodities trading and other businesses, including education and training. The Group's engagement in multiple diverse business segments provides it with the experience to capitalise on opportunities in new areas in which to grow and develop the Group's business portfolio.

A well-diversified business portfolio also ensures stability, consistency and reliability in the Group's business performance, and hence maintains a diversified revenue and earnings mix. This mitigates business concentration risk and volatility in the Group's overall earnings and financial position, as well as makes the Group less affected by business cycles. Benefiting from this, since its establishment in 1986, the Group has enjoyed stable income despite of the volatility in the economy.

In addition, the Group benefits from synergies among the various business segments, such as reduced sales costs as a result of cross-selling among business segments, enhanced leverage and negotiation power, and a broader clientele. For example, PKU Founder Finance is able to build a large customer base in relation to its sales of trust, insurance and securities products, relying on the platform provided by other business segments; and the Group's information technology business also provides technological support for the Group's other businesses including the healthcare and pharmaceuticals, finance and securities and bulk commodities business. For examples, PKU People's Hospital was the first hospital in China to obtain the HIMSS Level-7 Certificate, representing the highest level of application of information technology by international hospitals, through its use of the healthcare information technology system developed by Founder Information Industry Group. The Group's information technology business also reinforces its finance and securities segment with key information technology products such as core banking systems, integrated finance service platforms, information management systems, image management platforms and audit and supervision information technology systems. In addition, as an important ancillary service provider to the Group's healthcare business, PKU Founder Life Insurance provides a range of services including life and health insurance.

Leading market positions and strong research and development capabilities

The Group enjoys leading market positions and strong research and development capabilities in its information technology and healthcare and pharmaceuticals businesses. Through the Institute of Computer Science & Technology of Peking University, Peking University Health Science Centre and Peking University School of Pharmaceutical Sciences, the Group has established an innovative business model of production, research and development. The information technology and healthcare and pharmaceuticals businesses are supported by the Group's extensive design, research and innovation capabilities, enabling the Group to rapidly introduce new, award-winning products to the market, and maintain its market-leading positions in the PRC in these industries. The Group currently operates four post-doctoral research centres staffed by more than 3,000 researchers, three national industry technology centres, and more than 20 local research centres across the PRC.

Information Technology

The Group's information technology segment has established strong market positions in multiple areas including information technology software solutions and PCB manufacturing. Related information technology businesses are primarily conducted through the Founder Information Industry Group.

The Group's leading positions in its information technology business include the following:

- One of the Company's subsidiaries, Founder Technology, is listed on the SSE and has established strong market positions in the information technology industry in the PRC.

- One of the Company's subsidiaries, Beijing PKU Founder Electronics is one of the leading information technology service providers for the PRC media industry, through the provision of quality media industry information technology products which were researched and developed in-house, such as the Founder Omnimedia System for News Collection and Editing (方正暢享全媒體新聞編採系統), the Website Features Management System (網站專題管理系統) and the Cloud Service System for Mobile Reading (移動閱讀雲服務系統). The Group currently owns the intellectual property rights for over 1,000 information technology software products, and over 100 national patents for various information technology products.

- The Group also believes it is one of the leading players in the emerging digital inkjet printing market in China, and it believes it has established the largest Chinese digital content database by using the media digital publication solutions offered by the Founder Information Industry Group.

- The Group started producing PCB in 2003, and is now one of the leading manufacturers of PCB in China with an annual revenue of over CNY2 billion.

- The information system provided by the Group to PKU International Hospital was accredited HIMSS Level-7, representing the highest level of application of information technology by international hospitals.

The Group has recently received various awards for its information technology business, including being recognised as one of "2015 China's Top 10 Intelligent Public Transport Enterprises" in 2015, and it ranked fourth on the list of "China's top 100 enterprises by software business revenue" and ninth on the list of "The top 100 enterprises in China's information industry" published by the Ministry of Industry and Information Technology of the PRC in 2014. It has also been recognised as one of the "Top 20 Software Innovation Enterprises in China" by the Copyright Protection Centre of China in 2013. Members of the Founder Information Industry Group have also been awarded a number of accolades, such as the "Most Valuable Brand in the PRC Software and IT Service Industry" in the 2013 (the Second) China (Huangshan) Software and Information Technology Services Brand Conference in 2013, the second prize of "2016 National Science and Technology Progress Award" in 2017.

Healthcare and Pharmaceuticals

The Group's healthcare and pharmaceuticals business enjoys outstanding medical talent and scientific research resources through its exclusive, strategic co-operation agreement with Peking University Health Science Centre. The centre has one national laboratory, one national engineering laboratory, and 25 provincial and ministry-level laboratories and research centres. Peking University Health Science Centre has also received 124 scientific awards, and enjoys a leading position in China in the fields of blood and kidney diseases, urology, sports medicine and reproductive medicine. Being an important strategic partner of the Group, Peking University Health Science Centre provides comprehensive support to various medical institutions of the Group, covering academic development, talent recruitment, personnel training, academic communication and medical business management. The Group has established a pharmaceutical research institution, Founder Research, through co-operation with the Peking University Health Science Centre, to develop new pharmaceutical products. As at 30 September 2017, Founder Research had 34 technicians, among whom two held doctor's degrees and 12 held master's degrees. In addition, as at 30 September 2017, Founder Research had conducted more than 38 product development projects, including projects to develop three new innovative drugs and 35 new generic drugs, and filed 165 patent applications.

The Group's leading positions in its healthcare and pharmaceuticals business include:

- The Group conducts its healthcare business primarily through a national healthcare network comprising subsidiaries such as Hunan Kaide, Beijing Beiyi Medical Textile and Founder International Leasing. PKU International Hospital, which commenced operation on 5 December 2014, is one of the largest medical facilities in Asia by GFA, and the flagship hospital of the Group's healthcare network.

- The Group's pharmaceutical business is operated mainly through PKU Healthcare and other pharmaceutical manufacturing or distribution subsidiaries. PKU Healthcare is one of the major pharmaceutical manufacturers in western China, and has strong research and development capabilities. PKU Healthcare established its research and development centre, PKU Healthcare Technical Centre, which is the only nationally certified research centre in pharmaceutical area in Chongqing. Key products under the Group's healthcare and pharmaceuticals business include APIs such as ceftriaxone sodium, lovastatin, chlorinated polyethylene, sulfadiazine and midecamycin and supplements including vitamin E oil. The Group believes that it is one of the largest producers of lovastatin and sulfonamides in the world in terms of market share.

- The Group's market leadership provides benefits including economies of scale, cost reductions, premium pricing and increased competitiveness for certain of its products and services. These advantages provide the Group with the potential to increase its market share and strengthen the Group's market position, and to capitalise on different growth trends and opportunities in its business segments.

Strong internal control and asset management capabilities

The Group has an extensive portfolio of business segments in various industries including information technology, healthcare and pharmaceuticals, finance and securities, and bulk commodities trading. In order to properly monitor and control operational risks, the Group has adopted an efficient management system:

Autonomy with centralised management

The Group positions its management members in key subsidiaries to achieve centralised control, while these subsidiaries have appropriate level of autonomy to modify their own operational strategies. In addition, the Group centralises the management of finance, human resources, investment decision-making, brand maintenance, and internal control, at the Company level.

Internal control

The Group's internal control measures consist of three facets. Firstly, through an efficient human resources platform and internal labour division, superior management practices can be shared within the Group efficiently in terms of finance, human resources, investment, and brand maintenance. Secondly, the Group has established legal departments monitoring compliance with laws and regulations as well as internal protocols. Thirdly, the Group has established an internal audit system. In addition, the Group has established an Internal Control and Risk Management Committee to effectively manage various risks the Group is subject to, including operational and financial risks.

Asset management

The Group maintains its market leadership by organic growth and acquisitions. The steady growth of the Group over the years testifies to the Group's ability in identifying targets and integrating newly acquired businesses into existing. For example, the Group acquired Shanghai Yanzhong Industry Co., Ltd., Zhejiang Securities Co., Ltd., PKU International Healthcare Group Southwest Synthetic Pharmaceutical Co., Ltd., Taiyang Securities Co., Ltd. and Minzu Securities, and successfully leveraged these acquisitions to expand into new business areas, or integrated them into the Group's information technology, finance and securities, and healthcare and pharmaceuticals businesses.

Capital management and resource allocation

In terms of financial synergies, the Company's centralised treasury management subsidiary, PKU Founder Finance, closely monitors the capital and cash positions of the Group, ensuring that cash management is carried out on a prudent and efficient basis. The business activities of PKU Founder Finance include: (i) deposit taking from members of the Group; (ii) making intra-group capital lending and financial leasing; and (iii) other miscellaneous financial services. The Group believes that this centralised treasury management enables the Group to minimise its borrowing costs by procuring financing on favourable terms. It provides an alternative to raising loans from other financial institutions, which in turn promotes liquidity among the Group, enhances the overall ability of the Group to repay debts, and assists with monitoring and controlling financial risks. It also provides a structure to efficiently allocate cash resources across the Group.

Strong liquidity and access to diverse funding sources

The Group maintains a strong liquidity position through its cash management system and a balanced debt maturity profile. As at 30 September 2017, the Group had approximately CNY21,077.8 million in cash and cash equivalents and CNY64,511.8 million of net current assets. To ensure sufficient liquidity, the Group seeks to maintain a balance between its short-term and long-term debt obligations, and to build strategic relationships with major lending banks.

The Group also has strong access to diverse sources of funding, both onshore and offshore. The Group believes it has a good credit standing and close relationships with both domestic and international banks, and utilises a mix of committed and uncommitted credit lines to increase diversity of liquidity and to reduce risks. The Group has access to both international and domestic capital markets and has raised financing through initial public offerings, secondary offerings and the issue of bonds and other debt and equity capital instruments. For example, the Group issued CNY2.0 billion and U.S.$685.0 million in bonds through its subsidiaries in 2014 and 2015 respectively. The Issuer issued U.S.$300.0 million guaranteed bonds in April 2017. The Company has successfully listed six of its subsidiaries on stock exchanges – in Shanghai, Shenzhen or Hong Kong – namely China Hi-Tech, Founder Securities, Founder Technology, PKU Healthcare, Founder Holdings and PKU Recourses. Furthermore, as a state-owned enterprise, the Group is able to obtain financing from policy banks and benefit from favourable government concessions and policy determinations, leading to substantial capital cost advantages. The Company has a current rating of "AAA" by China Lianhe Credit Rating Co., Ltd.

Experienced and committed management team

The Group has an experienced management team with international perspectives and strong capabilities in adaptability and innovation. The Group has established a comprehensive internal training and promotion system, and has been developing and cultivating talent among its staff in all industries. Management's depth of industry experience enables the Group to anticipate market trends and to manage assets and risks more effectively. In addition, the Group's management and employees are motivated by its corporate culture of the pursuit of excellence and a system of competitive, performance-based incentives.

A majority of the Group's senior management team have more than 15 years management experience in state-owned enterprises that operate in the same sectors as the Group. Many of them have worked in the Peking University and PKU Asset Management or graduated from the Peking University. Both Peking University and PKU Asset Management will offer the Group the benefit of strong support.

The Company's subsidiaries also benefit from strong managerial support from the Group, as many members of their respective senior management also hold management positions in various principal entities within the Group. The leadership structure allows the Group's senior management to work closely with various subsidiaries across different levels. This has been an important contribution to developing the Group's businesses and in creating and maintaining the leading positions in the industries in which it operates.

Business Strategies

The Group's overall business strategy is to leverage the support from Peking University, enhance the brand-name of Founder, and maintain its market leadership as a conglomerate with sufficient cash flow, high profitability and abundant talent.

To accomplish this, the Group plans to employ the following strategies:

To leverage high-quality resources from Peking University, to combine manufacturing and research and development capabilities, for commercialisation of cutting-edge research achievements

The Group has benefited and expects to continue to benefit significantly from its affiliation with Peking University. It is able to leverage its strong relationship with Peking University and capitalise on Peking University's resources and strong research and development capabilities to improve its own manufacturing, research and development capabilities, and to commercialise cutting-edge research achievements of Peking University. As a result, the Group has created and owns the rights to some of the core technologies that have played a significant role in the development of China's information technology and healthcare and pharmaceuticals industries.

For example, through its collaboration with Peking University, Founder Research has introduced important technologies in various projects and launched a process of research and development and industrialisation of new products. In particular, the Group closely co-operates with, and benefits from the experience and expertise of, Peking University's Institute of Computer Science and Technology, and Health Science Centre, in developing its information technology and healthcare and pharmaceuticals businesses, respectively. To promote the research and development of new pharmaceutical products, the Group and the Peking University Health Science Centre jointly established Founder Research Institute Co., Ltd., a joint venture company with a business model based on the synergistic integration of academic research and industrial production. In 2008, Founder Research Institute Co., Ltd. and the Peking University Health Science Centre jointly established a research fund which between 2008 and 2010 sponsored 19 research projects in the research, development and production of new pharmaceutical products. In addition, the exclusive co-operation between the Group and Peking University Health Science Centre brought important opportunities to the Group to sell its pharmaceuticals and medical equipment to the eight hospitals controlled by Peking University, as well as gaining a pre-emptive position to acquire these hospitals during their ownership privatisation reform.

To integrate its existing business segments for synergies, enhance its operating efficiency, and build a comprehensive business industrial chain

The Group aims to integrate its existing business segments, enhance its operating ability and build a complete industrial chain covering both upstream and downstream industries. Details of the respective strategies of each of the Group's principal business segments are as follows:

- ***Information Technology:***

  The Group intends to become a leading supplier of the world's information technology, products and services, focusing on high-tech areas such as cloud computing, smart city and the Internet of Things. The Group will accelerate its pace of technological innovation in order to offer customers cutting-edge information technology, products, solutions and services, and covers whole industry chain of "Cloud, Channel, Device" by focusing on the "Smart City" initiative.

  The Group aims to become a software and information technology industry solutions provider by continuing to build on its core businesses of hardware manufacturing and software production, as well as to develop its pillar business of information technology distribution. In particular, the Group will continue to enhance the Group's leadership positions in its existing core businesses in areas such as software and PCBs and increase its global competitiveness. The Group also intends to grow its personal computer and information technology distribution abilities, and gain an advantage in segmented markets with a differentiated competitive strategy.

  The Group plans to continue to optimise the performance of its existing information technology operations and to develop them into leaders in their respective industries through a combination of organic growth, strategic partnerships, continued investment and a focus on research and development. The Group's expansion strategies include the acquisition of information technology businesses and outstanding software developers, further expansion of its digital publication business, development of its internet and outsourcing business, expansion and consolidation of existing information technology businesses and re-organisation and vertical integration of current information technology software and hardware businesses, so as to achieve improved efficiency and effectiveness and create an integrated business model. Through the vertical integration of the Group's software and hardware business and the integration of other similar businesses, the Group aims to offer comprehensive software and industry solutions, and gradually extend its reach to the digital media business.

- ***Healthcare and Pharmaceuticals:***

  The Group plans to become the most influential healthcare industry group in China, building on its established national healthcare services network with PKU International Hospital as the flagship hospital. The Group aims to develop PKU International Hospital into an internationally-recognised leading hospital while also actively participating in the reform of public hospitals, and the restructuring and integration of medical resources, in order to grow its national healthcare services network.

The Group endeavours to further integrate its healthcare and pharmaceutical business by vertically combining medical services with ancillary medical services, pharmaceutical research, production and distribution, and horizontally supplementing medical services with affiliated segments such as health management, elderly care, medical equipment leasing, and medical insurance. In order to lay the foundation for further growth and expansion, the Group is also developing various management platforms to consolidate customer resources, facilitate the provision of medical services, and develop relevant information and communication technology. The Group also contributes to the development of the medical industries in China by investments in and cultivating the development of emerging enterprises.

- ***Finance and Securities:***

  With Founder Securities as its primary platform, the Group plans to restructure its various service channels including securities, futures, public offerings, investment banks, direct investment, trusts, finance companies, insurances and leases, in order to serve as a one-stop financial services provider to its customers. The Group aims to continue to optimise performance in its existing range of financial products and services, including brokerage, investment banking, proprietary trading, asset management, direct investment, margin financing, and securities lending and research. The Group also intends to focus on innovation, and strives to develop new financial products and services to cater to the developing needs of its customers. Through the provision of both new financial products and organic growth and acquisitions, the Group aims to achieve a market-leading position for its finance and securities business in the PRC.

- ***Bulk Commodities Trading:***

  The Group will actively expand and constantly upgrade the core competencies and market influences of its bulk commodities trading business. The Group will continue to focus on optimising its upstream and downstream networks by leveraging the Group's reputation and capital resources to acquire and invest in upstream and downstream assets, and plans to continue to cultivate long-term relationships with its broad supplier and customer base across diverse industries and geographical regions. The Group intends to progressively explore, develop and acquire production facilities and distribution centres to further strengthen the Group's already strong upstream and downstream networks and to reduce market risk for the Group. It also aims to establish PKU Founder Commodities as a first-class international service provider of comprehensive commodities investment and trading services. Furthermore, the Group plans to achieve broader market coverage and revenue growth primarily through building up its scale, improving efficiencies, and acquiring additional upstream and downstream capabilities.

To strengthen the existing strong positions in its core businesses through acquisitions and strategic partnerships

The Group intends to continue to explore, on a prudent and selective basis, acquisitions and investment opportunities which will offer synergies with its existing businesses. The Group also expects to utilise its diversified business portfolio and strong brand recognition in investment in new business opportunities.

Following the Group's experience in successfully acquiring Shanghai Yanzhong Industrial Co., Ltd., Zhejiang Securities Co., Ltd., PKU International Healthcare Group Southwest Synthetic Pharmaceutical Co., Ltd., Taiyang Securities Co., Ltd. and Minzu Securities, the Group will seek further acquisitions of hospitals, software developers, mines, farms and chemical plants:

- by leveraging its close relationship with all levels of the PRC government and Peking University Health Science Centre, the Group is expected to obtain pre-emptive rights to invest in or acquire hospitals during the privatisation process of public hospitals in China, and then gradually combine the potentially targeted hospitals with the Group's existing businesses to build a national medical network;

- the Group intends to hire outstanding software developers to enhance its information technology software and industry solutions business; and

- through increased investment in projects covering mines, farms and chemical plants, the Group expects to obtain better management and control of the upstream resources for its bulk commodities trading business, so overcoming potential bottlenecks from non-guaranteed sources.

To fine-tune its management model and improve synergies between segments to increase operational efficiency

The Group expects to further reduce its selling costs and increase bargaining power through intersegment cross-selling, enlarge its overall customer base by sharing clientele among the business segments, and achieve increased synergies among all of its business segments. For example, the Group plans to capitalise on its information technology business' expertise to further drive the digitalisation of its finance and securities and bulk commodities trading businesses. The Group also expects to capitalise on its real estate capabilities to support other businesses, including healthcare and pharmaceuticals. For example, the Group built PKU Healthcare Industrial Park, which provides the infrastructure and facilities to support the Group's healthcare network and boost its pharmaceutical research and development capabilities. In addition, the Group expects to enhance the performance of its life insurance business by leveraging its strengths in the medical and pharmaceuticals business.

To continuously focus on innovation and utilizes its extensive industry expertise and strong research capabilities to increase its competitive position in the market

In line with its motto – "Innovate Forever" – the Group strives to maintain its market leadership in the PRC by maintaining and improving its research and development capabilities in various business segments. The Group aims to leverage its first-mover advantage and retain market leadership by enhancing its sales, information technology services and industry resolution, with a focus on cutting-edge fields such as cloud computing. The Group also plans to expand its medical ancillary business, such as in health management, elderly care and medical equipment leasing. Furthermore, the Group expects to benefit from regulatory reform in the field of finance and securities, and explore new securities products.

Business Operations

Information Technology

Overview

The Group conducts its information technology business primarily through Founder Information Group, Founder Holdings and their respective subsidiaries, which collectively form the Founder Information Industry Group. For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the consolidated revenue of the Group's information technology businesses was approximately CNY28,074.9 million, CNY27,765.8 million, CNY21,593.5 million and CNY16,066.4 million, respectively, representing approximately 34.9 per cent., 33.9 per cent., 34.3 per cent. and 20.1 per cent. of the Group's total revenue.

Founder Information Industry Group is one of the market leaders in China's information technology industry. It specialises in high-tech and new technologies. Founder Holdings is listed on the HKSE. Founder Information Group has nine high-tech subsidiaries, including Founder Technology.

The Group categorises its information technology business into three categories: (i) core information technology business, which includes information technology software and industrial resolutions, PCB and semi-conductor manufacturing; (ii) pillar business, which includes information technology distribution; and (iii) others businesses which include hardware distribution. Revenue from its information technology business are recorded under two categories, namely: (i) information technology hardware and distribution; and (ii) information technology software and system integration.

The following table sets out the breakdown of Founder Information Industry Group's revenue by sub-segments, expressed as a percentage of the Founder Information Industry Group's total revenue for the periods indicated:

	Year ended 31 December				Nine months ended 30 September			
	2015		2016		2016		2017	
	CNY in billions	*%*	*CNY in billions*	*%*	*CNY in billions*	*%*	*CNY in billions*	*%*
IT hardware manufacturing and distribution	19.4	69.2	19.5	70.3	15.2	70.5	11.3	70.6
IT software sale and system integration	8.7	30.9	8.2	29.7	6.4	29.5	4.7	29.4
Total	28.1	100.0	27.8	100.0	21.6	100.0	16.1	100.0

The following table sets out the breakdown of Founder Information Industry Group's gross profit by sub-segments, expressed as a percentage of the Founder Information Industry Group's total gross profit for the periods indicated:

	Year ended 31 December				Nine months ended 30 September			
	2015		2016		2016		2017	
	CNY in billions	*%*	*CNY in billions*	*%*	*CNY in billions*	*%*	*CNY in billions*	*%*
IT hardware manufacturing and distribution	0.8	49.0	1.1	56.1	14.5	71.1	0.8	64.0
IT software sale and system integration	0.8	51.0	0.8	50.1	5.9	28.9	0.5	36.0
Total	1.6	100.0	1.9	100.0	20.5	100.0	1.3	100.0

As of the date of this Offering Circular, Founder Information Industry Group has approximately 12,000 employees. As at 31 December 2016, Founder Information Industry Group has obtained more than 2,793 invention patents in China. Moreover, 349 invention patents have been applied for PCT, out of which 51 applications have been successfully approved and granted.

Business Operations

Information technology software and Industry Solutions

The Group's information technology software and industry solutions business provide its customers with information technology solutions for business, information processing technologies, software products, information technology outsourcing and business process outsourcing. The Group has a diverse customer base both domestically and internationally, ranging from the media, transportation, finance, healthcare and public security industries to governmental bodies. Beijing PKU Founder Electronics and Founder International Software are the main platforms for the Group's information technology software business.

Beijing PKU Founder Electronics, built on the Group's traditional strength in media information technology, is one of the market-leading information technology services providers and consultants in the Chinese media industry. It provides the newspaper publishing industry with high-quality software services, and advanced hardware products and solutions, including the self-developed Founder Omnimedia System for News Collection and Editing (方正暢享全媒體新聞編採系統), the Web site Features Management System (網站專題管理系統) and the Cloud Service System for Mobile Reading (移動閱讀雲服務系統), which have been widely recognised and used in the industry. The Group believes it is the largest provider of Chinese character laser photo-typesetting technologies in China by market share. On the strength of its high-end proprietary digital inkjet printing technology, it is also one of the leading players in the emerging digital inkjet printing market in China. Beijing PKU Founder Electronics is also the leading Chinese font product provider by turnover, with nearly 200 Chinese character fonts and more than 70 ethnic character fonts, including four font libraries consisting of over 70,000 Chinese characters. The Group believes a large number of newspaper agencies and publishing and printing houses in China use Founder fonts in printing newspapers, books, magazines, teaching materials, documents and packages. Aimed at the B2C market, the Android, iOS and Windows versions of Founder Ziku (方正字庫) were launched to enable end-users to easily download their favourite fonts to their mobile phones, computer software, or files.

The Group's key customers in the media industry include major national newspaper, news agency and television stations.

Founder International Software provides integrated solutions and information technology platforms to its customers in five major industries, namely media and communications, transportation, finance, healthcare and public security. Founder International Software's key products include AFC application systems, AFC clearing centre systems, comprehensive financial service platforms, core business and decision support systems, image management platforms, hospital and regional healthcare network systems, police-used GIS systems for the police and EzDISA location service software. Founder International Software has successfully completed a number of information technology projects both domestically and overseas, including Japan, Southeast Asia, North America, Europe and the Middle East.

Founder International Software is a state-certified high-tech company, previously rated as a "China's Software Export Demonstration Enterprise" and an "Advanced Patent Pilot Unit". It was awarded the titles of "Top 20 Solution Providers in China 2013"by consulting institutions and "Top 10 Service Providers of Golden Service in China" by CCID in 2013 and 2014 consecutively.

PCBs and semiconductors

The Group engages in the development and production of one-stop information technology hardware products and services, including chip and PCBs used in the fields of communication systems, communication terminals, information technology, consumer electronics, high-end instruments, industry electronics, automation control, and the aviation and military industries. In 2015, according to Ministry of Industry and Information Technology of the PRC and the China Printed Circuit Association, the Group ranked third in terms of production capacity among those PCB manufacturers with principal investors originating from the PRC. The Group's PCB and semiconductor business is principally conducted through Founder PCB, ACCESS, Founders Microelectronics and Shenzhen Microelectronics. Founder Microelectronics was recognised as "China's Top 10 Most Progressive Semiconductor Enterprise" in 2012.

- Founder PCB designs, manufactures and sells a variety of products ranging from QTA PCBs, HDI PCBs, backplane PCBs, multilayer PCBs (up to 40 layers), and gold finger PCBs to integrated circuit ("IC") substrate. Its customers include top global telecommunications and technology brands. Founder PCB has six production plants and one research and development institution, located in Zhuhai, Hangzhou and Chongqing, with an annual output capacity of approximately 12 million square feet.

- ACCESS designs, manufactures and tests high-performance IC substrates for the semiconductor industry. It focuses on the global RF (radio frequency) market, and has been one of the five major suppliers in the global SiP/RF Module IC substrate market since 2012, with a market share of over 25 per cent. Its products have obtained approval and certification from some of the biggest telecommunications and information technology brands in the world.

- Founder Microelectronics manufactures and sells ICs and provides foundry services for CMOS, DMOS, BCD and 0.35 micron processes. In 2008, it acquired special process technologies for MCU, HV-CMOS, HV-DMOS, BiCMOS and embedded flash for consumer electronics from a major international semiconductor chip manufacturer. Another leading international electronics components conglomerate has also transferred its core technology to Founder Microelectronics since 2008.

Information Technology Distribution

The Group's information technology distribution business provides wholesale and retail customers with personal computers, servers, network equipment, internet connection and other value-added services. The Group's information technology distribution business is principally conducted through Founder Technology, Founder Broadband, Founder Century Information and Beijing Founder Information Technology.

The Group's information technology distribution business is mainly focused on the distribution of information technology products with higher profit margins, such as switches, networking products, servers, storage devices, workstations, notebook computers and screen projectors produced by major international information technology companies.

The Group's information technology distribution business has received awards from various upstream vendors for its excellent service in terms of its distribution channel, coverage, growth and overall performance in the PRC. As one of the Company's main subsidiaries for its information technology distribution business, Founder Century Information, has won several accolades: the "Best Distributor in IT Business" award in 2013; the Most Influential Chinese Intelligence Community Information Business Award (中國智慧社區信息化最具影響力企業獎) in September 2014 in the Information Technology Industry Contest in the PRC; the Excellent IT Industry Service Provider in the PRC (中國IT產業優秀渠道服務商獎) in November 2014 from the CCW Media Group; and the "Leading Enterprise in using IT solutions" award in 2015.

Others

The Group also distributes IT and electronic products manufactured by some of the world's renowned brands. This business is principally conducted through Founder Information Technology and Founder Century Information.

Customers

Key customers of the Group's information technology hardware and distribution business include major telecommunication technology and electronic companies. The Group generally sells PCB, package substrate, computers and relevant products to such customers.

Key customers of the Group's information technology software and system integration business include technology companies and medical centres. The Group generally offered services of expanding virtual tape library or renewing procurement of enterprise agreement from a major international software company, procuring new generation of machine for data centre, preliminary phase of metro system, offering of virtual machine software products and upgrading of image system.

Healthcare and Pharmaceuticals

Overview

The Group has an integrated healthcare and pharmaceuticals business by vertically combining medical services with pharmaceutical research, production and distribution, and horizontally supplementing medical services with affiliated segments such as healthcare management, elderly care, medical equipment leasing and medical insurance. The Group's pharmaceutical business produces and distributes pharmaceutical products to the network of medical institutions established by the Group's healthcare business. Leveraging the synergies achieved between its healthcare business and pharmaceutical business, and between its medical business and affiliated businesses, the Group undertakes co-ordinated sales efforts in order to generate increased revenue for its pharmaceutical business and also provides steady, efficient and low-cost medicine supplies for its healthcare business.

The Group conducts its pharmaceutical production and distribution business primarily through PKU Healthcare. PKU Healthcare, established in 1993, is one of the leading pharmaceutical manufacturers in western China. Its diversified operations include research and development, production, distribution and sales of pharmaceuticals. PKU Healthcare is listed on the SZSE (stock code: 000788). PKU Healthcare was identified as a national key high-tech enterprise of the "Torch Plan" by the Ministry of Science and Technology.

The Group endeavours to build a leading national healthcare platform in the PRC through developing a network of medical service providers. It aims to make PKU International Hospital its flagship hospital, while branching out and establishing a network of various regional and community hospitals and clinics across the PRC through acquisitions, supported by affiliated business segments such as healthcare management. PKU International Hospital, which is designed as the largest single-purpose medical building in Asia and has commenced operations on 5 December 2014, and it is a clinical, research and teaching base of the Peking University. PKU International Hospital is a non-profit Grade III comprehensive hospital and obtained the HIMSS Level-7 certificate, representing the highest level of application of information technology by international hospitals. It has a total construction area of 440,000 sq.m. with 1,800 beds. The Group expects the PKU International Hospital to provide both general and specialised healthcare services, with 32 departments and 45 medical specialisations, including the key departments of cardiology, haematology and oncology, psychiatry and psychology, orthopaedics, urology, trauma, ophthalmology, dental, gynaecology, and paediatric. The Group also has a minimally invasive surgery hospital in Hunan Province and a medical investment management company headquartered in Beijing, which manages urology centres in Ningxia Hui Autonomous Region, Hubei, Hunan and Zhejiang provinces. The Group has also expanded its presence in the healthcare industry in affiliated medicine fields including healthcare management and physiotherapy.

The Group also contributes to the development of the medical industries in China by investments in and cultivating the development of emerging enterprises. The Group invests in innovation industries and emerging enterprises via PKU Healthcare Industrial Park Technology and PKU Medical Industrial Fund.

For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the consolidated revenue of the Group's healthcare and pharmaceuticals business was approximately CNY4,907.5 million, CNY3,200.8 million, CNY2,164.9 million and CNY2,375.1 million, respectively, representing approximately 6.1 per cent., 3.9 per cent., 3.4 per cent. and 3.0 per cent. of the Group's total revenue, respectively.

The following table sets out the breakdown of the Group's revenue from healthcare and pharmaceuticals business by sub-segments, expressed as a percentage of the Group's total revenue from healthcare and pharmaceuticals business:

	Year ended 31 December				**Nine months ended 30 September**			
	2015		**2016**		**2016**		**2017**	
	CNY in billions	*%*	*CNY in billions*	*%*	*CNY in billions*	*%*	*CNY in billions*	*%*
Production	764.5	15.8	493.6	15.8	201.0	9.5	419.2	18.3
Distribution	1,267.7	26.1	1,916.2	57.8	447.0	21.1	1,332.4	58.2
Medical services	347.6	7.2	382.3	12.3	1,201.0	56.7	382.2	16.7
Others	2,470.9	50.9	336.4	14.1	270.0	12.7	156.1	6.8
Total	4,850.6	100.0	3,128.5	100.0	2,118.0	100.0	2,289.8	100.0

The following table sets out the breakdown of Group's gross profits from healthcare and pharmaceuticals business by sub-segments, expressed as a percentage of the Group's total profits from healthcare and pharmaceuticals business:

	Year ended 31 December				Nine months ended 30 September			
	2015		2016		2016		2017	
	CNY in billions	*%*	*CNY in billions*	*%*	*CNY in billions*	*%*	*CNY in billions*	*%*
Production	62.0	13.2	164.3	26.6	32.0	7.3	247.2	45.7
Distribution	185.7	39.5	280.0	34.5	110.0	25.3	146.8	27.2
Medical services	65.4	13.9	50.6	8.2	198.0	45.3	34.1	6.3
Others	157.6	33.5	156.5	30.8	96.0	22.0	112.7	20.8
Total	470.7	100.0	651.4	100.0	436.0	100.0	540.7	100.0

Business Operations

Pharmaceutical Production & Distribution

PKU Healthcare is the Company's primary pharmaceutical subsidiary. It is principally engaged in the research, development and production of APIs and pharmaceutical preparations; and its business scope includes the sales and distribution of pharmaceuticals. It has a broad product portfolio of around 100 pharmaceutical APIs and pharmaceutical preparations in 20 categories, including sulphanilamide groups, antibiotics, vitamin, antipyretic analgesic, quinolones, anti-infective drugs, anti-anxiety drugs, anti-tuberculosis drugs, anti-virus drugs, cerebral metabolic drugs, hypoglycaemic drugs, anti-allergy drugs and anti-ulcer drugs. PKU Healthcare has established a nationwide sales and distribution network focusing on Beijing, Shanghai, Chongqing and Hubei provinces.

PKU Healthcare conducts its pharmaceutical production business primarily through Chongqing Daxin Pharmaceutical. Established in 1941, it is currently a biotech-oriented pharmaceutical company focusing on pharmaceutical APIs and pharmaceutical preparation. It was also a veterinary drug production base in Western China. Chongqing Daxin Pharmaceutical produces around 100 types of API, pharmaceutical preparations and pharmaceutical intermediates, including cardiovascular drugs, antibiotics, immune regulation drugs and plasma substitute products. All of its products are GMP-certified, among which four APIs are certified by the U.S. FDA. It has set up an efficient and professional sales team, with its sales network covering the PRC and more than 20 countries and regions in the United States, European and Southeast Asia.

PKU Healthcare conducts its pharmaceutical distribution business primarily through Beijing Beiyi Pharmaceutical, which has established an extensive distribution network focusing on northern China. Beijing Beiyi Pharmaceutical is a medicine logistics company specialising in the sales of Chinese patent drugs, bulk chemical drugs, western medicine preparation and medical instruments. Beijing Beiyi Pharmaceutical is a specialised medicine logistics centre in north China, and a well-known distribution agent for the world's leading test reagent brands in China, with a focus on Liaoning, Jilin, Heilongjiang, Shandong, Hebei and Tianjin.

The Group's pharmaceutical production and distribution businesses work closely together to expand sales of pharmaceutical products. The pharmaceutical production business benefits from additional sales through the national distribution network, as well as strong government and hospital relationships of the pharmaceutical distribution business. In addition, the pharmaceutical distribution business benefits by gaining access to a vast portfolio of high-quality pharmaceutical and healthcare products manufactured by the pharmaceutical production business.

Compared with third-party manufacturers and distributors, the Group's production and distribution businesses enjoy greater flexibility in making co-ordinated sales efforts, allowing it to price its products and services more competitively and so provide its customers with better supplier stability and increased efficiency. The Group's ability to leverage the synergies achieved among various business segments enables it to generate additional business and revenue, as well as increase market share.

Healthcare

The Group has leveraged its close affiliation with, and strong support from, Peking University, in terms of research and development capabilities and healthcare and pharmaceuticals resources, to grow and develop the Group's healthcare business. The Group aims to develop a network of medical service institutions by making PKU International Hospital its flagship hospital and integrating large and medium-sized hospitals and small community clinics. PKU International Hospital, located in Zhongguangcun International Life Healthcare Zone in Beijing, is a technologically advanced hospital consistent with JCI medical management standards. PKU International Hospital commenced operations on 5 December 2014.

The medical service network of PKU International Hospital is composed of four tiers of medical service institutions. Tier one includes PKU International Hospital, the flagship hospital, platform and centre of the Group's medical resources. Tier two includes various regional medical centres which will focus on the medium and high-end markets, assist regional management departments with system reform, inject resources into various regional medical centres and enlarge the market share and influence of the Group in major medical markets. Tier three includes other hospitals and chain clinics (including community hospitals and chain clinics), which will focus on the low-end market and build the client base for PKU International Hospital. Finally, tier four includes various co-operative hospitals, which will fully co-operate with the regional central hospital to establish an effective two-way referral system and provide a convenient service channel for PKU International Hospital.

The Group provides medical services with specialisations in cardiovascular, urology and minimally invasive surgery mainly through Hunan Kaide and its subsidiaries. The predecessor of Hunan Kaide, Zhuzhou 601 Hospital, was established in 1959. At present, Hunan Kaide has three hospital districts, in Zhuzhou, Loudi and Chaling.

The Group also invests in PKU Care Luzhong Hospital (北大醫療魯中醫院) and PKU Care Zibo Hospital (北大醫療淄博醫院). The Group has also established a number of specialized hospital, for example, Wu Jieping Urology Center (吳階平泌尿外科中心), PKU Care Zhuzhou Kaide Cardiovascular Diseases Hospital (北大醫療株洲愷德心血管病醫院), PKU Care Rehabilitation Hospital (北大醫療康復醫院) and PKU Care Brain Health Co., Ltd. (北大醫療腦健康公司).

The Group set up PKU Healthcare Centre in 2008, which was the first private health club in China and provides comprehensive healthcare management. It operates under the management model of five-star hotels, and provides clients with "private club" style healthcare management services. PKU Healthcare Centre aims to maintain comprehensive health records for its clients, manage their lifestyles and potential health risks, issue emergency health warnings, and follow up on the health conditions of clients.

PKU Healthcare Elderly Care Centre (北大醫療老年健康養護中心) was established by the Group under the "medical and elderly care" model targeting prestige retired customers. Located next to PKU International Hospital and PKU Care Rehabilitation Hospital, the elderly care centre has a gross floor area of approximately 57,000 sq.m. and 500 beds. The elderly care centre positions itself as a leading retirement community in the PRC combining healthcare and rehabilitation.

The Group also engages in ancillary medical businesses such as the manufacture and leasing of medical textiles and leasing medical equipment. Beijing Beiyi Medical Textile manufactures bespoke medical textiles, and provides laundry and leasing for medical textiles, as well as value-added services such as transportation. Founder International Leasing provides leasing services of medical equipment, among other products. PKU Healthcare Industrial Park Technology is responsible for the development and operation of PKU Healthcare Industrial Park, where a physiology hospital, research and development buildings and training centres, are located. There are four national laboratories in the PKU Healthcare Industrial Park and.

Key customers of the PKU Healthcare include hospitals, insurance institutions and relevant trading companies.

Investments in Innovation and Emerging Enterprises

The Group also invests in innovation industries and emerging enterprises via PKU Healthcare Industrial Park Technology and PKU Medical Industrial Fund. It aims to develop new medical projects for manufacturing, startup enterprise, foundation services and technical services, for which the Group plans to set up specific industrial funds. The core areas which the Group invests in are molecular diagnose and treatment, biopharmaceutical and research and development in medical equipment, mobile medical services and artificial intelligence. In future, the Group plans to build five industrial parks in five major cities in China and to cultivate 500 to 800 emerging enterprises.

Research and Development

Through its exclusive, strategic collaboration with Peking University Health Science Centre, the Group has established a business model based on the synergistic integration of academic research and industrial production. Founder Research has dedicated research and development centres based in Beijing, and a research and development team of more than 34 personnel. It co-sponsored the "Founder Innovative Pharmaceutical Research Fund" with Peking University in 2008. Through research and development efforts, Founder Research has introduced more than 60 raw materials and formulations new generic drugs, of which have undergone phases of research, registration, production and launching to the market as at the date of this Offering Circular. In addition to its independent research and development, Founder Research also cooperates with a number of foreign partners. For example, Founder Research co-operated with a technical team of Chinese scientists from the U.S. in the "FBR-1501 double effect drug" project, under which the design and synthesis of compounds and pharmacokinetic studies were completed and an application for an international patent was submitted. In 2011, Founder Research launched its first generic drug, and in 2012 it made substantial progress on its first original new drug. It is expected that Founder Research will conduct the research and development of five to eight generic drugs, and one original new drug, each year. Founder Research will mainly focus on the research and development of generic drugs and original new drugs for cancer and cardiovascular and cerebro-vascular diseases.

In addition, PKU Healthcare also established its research and development centre, PKU Healthcare Technical Centre, which is the only nationally-certified research centre in Chongqing. Since its establishment, it has undertaken the research and development of a number of national projects and key municipal projects.

Regulatory Regime

As at 30 September 2017, the Group had obtained the requisite permits, approvals, certificates and drug registration approvals in the PRC to enable it to produce and distribute pharmaceutical products in accordance with PRC legal and regulatory requirements. These included drug manufacturing enterprise licenses, GMP certificates, and certificates of pharmaceutical products, pharmaceutical production permits, pharmaceutical trading permit and GSP certificates in the PRC. All drug registration approvals have validity periods of five years, and will be renewed or re-registered before they expire.

Finance and Securities

Overview

The Group has comprehensive licences in the PRC for brokerage, proprietary trading, asset management, investment banking, trusts, funds, direct investment, leasing, insurance and financing businesses. The Group conducts its finance and securities business primarily through Founder Securities and its subsidiaries (including Credit Suisse Founder, Founder CIFCO Futures, Founder H Fund, Founder Fubon and Minzu Securities, in which Founder Securities held 66.67 per cent., 90.62 per cent., 100.00 per cent., 66.67 per cent. and 100.00 per cent. of their equity interest, respectively, as at 30 September 2017) and PKU Founder Life Insurance. For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the consolidated revenue of the Group's finance and securities business was approximately CNY12,593.6 million, CNY8,344.1 million, CNY6,381.5 million and CNY6,863.2 million, respectively, representing approximately 15.6 per cent., 10.2 per cent., 9.9 per cent. and 8.6 per cent. of the Group's total revenue, respectively. As at 31 December 2016, Founder Securities had total assets of approximately CNY152.34 billion and net assets of approximately CNY35.43 billion.

Founder Securities, in which the Company held approximately 29.20 per cent. equity interest as at 30 September 2017, is the main platform of the Group's finance and securities business. Its shares have been listed on the SSE (stock code: 601901) since August 2011. Although the Group is not a majority shareholder of Founder Securities, the Group was the largest shareholder of Founder Securities as at 30 September 2017; the second largest shareholder holds 27.75 per cent. of Founder Securities. Founder Securities, established in 1988, is one of the largest full-service securities firms in the PRC, with an integrated business platform, extensive branch network, and substantial customer base. Founder Securities provides a comprehensive range of financial products and services, and focuses primarily on brokerage, margin financing and securities lending, futures brokerage, investment banking, capital operation, proprietary trading, direct investment, asset management, funds, the OTC market and other areas such as research and distribution of financial products. Founder Securities was ranked 21 and 20 among all PRC securities firms, in terms of operating income and net profit, respectively, for the six months ended 30 September 2017, and 15 and 13 among all PRC securities firms in terms of total assets and net assets, respectively, as at 30 September 2017, according to the Securities Association of China. In 2013, Founder Securities was awarded the "2013 Excellence Award for Pioneering Integrated Financial Competitiveness" by China Business, and was recognised as "2013 China's Best Securities Company" by Money Week, and "2013 Best Online Securities Broker" by China Securities Times; in 2014, Founder Securities was named as the "Best Innovative Services Securities Firm" and the "Best Branding Securities Firm" in The Eleventh China Finance Fengyun Bang; and in 2016, Founder Securities was awarded the "2016 Best Fortune Management Institution" by China Securities Times and "Internet Innovation Award of Securities Firms" by 21st Century Economic Journal. In 2017, Founder Securities was also awarded as "China Securities Investment Management Growth Award" by China Fund News, "2016 China AAA Credit Enterprise" and "National Good Faith Management Demonstration Unit".

Business Operations

The following table sets out the breakdown of Founder Securities' revenue by sub-segments, expressed as a percentage of Founder Securities' total revenue for the periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	CNY in millions	*%*	*CNY in millions*	*%*	*CNY in millions*	*%*	*CNY in millions*	*%*
Brokerage, margin financing and securities lending	9,374.8	85.9	6,279.2	80.9	3,194.1	71.2	2,629.5	88.6
Proprietary trading	1,690.0	15.5	1,095.2	14.1	622.4	13.9	509.2	17.2
Asset management	116.1	1.1	200.5	2.6	67.8	1.5	178.1	6.0
Investment banking	418.6	3.8	591.1	7.6	291.3	6.5	183.0	6.2
Others	(684.5)	(6.3)	(406.0)	(5.2)	312.1	7.0	(531.5)	(17.9)
Total	10,915.0	100.0	7,759.9	100.0	4,487.6	100.0	2,968.2	100.0

The following table sets out the breakdown of Founder Securities' gross profits (or loss) by sub-segments, expressed as a percentage of Founder Securities' total profits (or loss) for the periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	CNY in millions	*%*	*CNY in millions*	*%*	*CNY in millions*	*%*	*CNY in millions*	*%*
Brokerage, margin financing and securities lending	6,901.5	125.0	4,098.8	130.1	2,247.0	86.0	1,807.8	170.1
Proprietary trading	1,557.8	28.2	957.7	30.4	571.2	21.9	477.3	44.9
Asset management	62.3	1.1	134.9	4.3	39.3	1.5	139.7	13.1
Investment banking	118.7	2.2	191.0	6.1	118.2	4.5	3.8	0.4
Others	(3,119.6)	(56.5)	(2,231.9)	(70.8)	(362.4)	(13.9)	(1,365.7)	(128.5)
Total	5,520.7	100.0	3,150.6	100.0	2,613.4	100.0	1,063.0	100.0

Brokerage and Margin Financing and Securities Lending

Founder Securities engages in the trading of equities, bonds, funds, warrants, and futures, on behalf of its customers. As at 30 September 2017, Founder Securities' brokerage business ranked 13 among all PRC securities firms in terms of net profit.

Founder Securities classifies its securities brokerage business into two categories by customer type: (i) retail brokerage business; and (ii) brokerage business for institutional and high net worth customers. Founder Securities' retail brokerage business serves individual customers with less than CNY1,000,000 of assets under management. Founder Securities provides standard brokerage trading services, investment advisory and other value-added services to its retail customers, and also distributes asset management products, and introduces futures products, to retail customers through its sales and marketing team. This enables it to diversify its product and service offerings while promoting cross-selling across multiple business lines. Founder Securities also provides securities brokerage services for institutional and high net worth customers. Its institutional brokerage customers primarily include fund management companies, commercial banks, trust companies and other large corporations. As in 30 September 2017, Founder Securities had over 300 securities and futures brokerage branches, and branch offices located in 28 provinces across the PRC.

The following table sets out the breakdown of the securities brokerage customers (excluding futures brokerage customers) of Founder Securities by type in the PRC for the periods indicated:

	As at 31 December		As at 30 September
	2015	2016	2017
Retail brokerage customers(1)	5,522,475	7,775,622	8,634,431
Institutional and high net worth customers(2)	71,556	119,490	133,916
Total customers	5,593,164	7,895,112	8,768,347

Notes:

(1) Retail brokerage customers include individual customers, except high net worth customers.

(2) Institutional and high net worth customers include institutional customers and individual customers with assets under management of at least CNY1 million.

Founder Securities was authorised by the CSRC in 2012 to pilot a margin financing and securities lending business. Its margin financing services involve offering securities-backed loans to brokerage customers who wish to finance their securities purchases. Margin financing offers funding flexibility to its brokerage customers, and assists them with maximising investment returns through leverage. Securities lending services involve the lending of securities held on its own account to customers. Securities lending allows brokerage customers to borrow securities to take advantage of potential short-selling opportunities in the markets. Agreements with customers typically include terms such as margin loan or securities lending amounts, maturity dates, interest rates and collateral ratios, which represent a percentage of its customers' margin loan balance and the market value of the securities it has loaned. Founder Securities also charges brokerage commission fees on margin trading and short-selling.

The following table sets out certain information regarding the margin financing business of Founder Securities as at and for the nine months ended 30 September 2017:

	As at and for the nine months ended 30 September 2017
Average daily margin loan balance (*CNY in billions*)	21.8
Fees on margin trading and short-selling (*CNY in billions*)	1.4
Average market share of margin loan balance (%)	2.4

In addition, Founder Securities also obtained the required licences to conduct repo trading and stock pledged-repurchase financing from the SZSE and the SSE.

As at 30 September 2017, the outstanding balance of Founder Securities' margin financing and securities lending business was approximately CNY23.1 billion, with a 2.4 per cent. market share. It ranked 14 among all PRC securities firms qualified to conduct such business as at 30 June2017.

Proprietary Trading

Founder Securities engages in the trading of various products for its own account, mainly focusing on equity securities (including derivatives) and fixed income securities.

The goal of the equity investment team of Founder Securities is to provide continuous stable asset management. The equity investment team of Founder Securities has established a comprehensive stock rating system, with a full coverage of key industries and individual stocks, so as to monitor latest changes in the market. A classification system, based on different listed companies, has also been implemented in order to lower and better control investment risk.

Asset Management

Founder Securities offers traditional asset management products and services. It develops asset management products and services based on asset size and customer demands, which mainly include collective asset management schemes and targeted asset management schemes. Total assets under management amounted to approximately CNY291.2 billion as at 30 September 2017, with assets under management in collective asset management schemes of some CNY32.5 billion. Assets under management from targeted asset management schemes amounted to approximately CNY244.8 billion.

Collective asset management schemes include large and small schemes. In order to meet the demands of investors for different risk profiles, Founder Securities provides diversified fund products, such as equity funds, balanced funds, bond funds, fund of funds and money market funds. The targeted asset management schemes that Founder Securities provides are customised wealth management plans designed for individual customers, and typically have a minimum subscription amount of CNY1,000,000. Such customised investment plans are provided to customers based on their risk characteristics and investment needs, and use the most suitable financial products available in the market, such as fixed income funds, balanced funds, selected fund of funds, and selected equity funds, and stock index futures.

Founder Securities has formulated different marketing strategies and established various sales channels for its products. Its collective asset management products are promoted through its branches nationwide or through agency banks. Founder Securities cross-sells its diversified asset management products and services to brokerage customers through its nationwide sales network. Its customer relationship managers analyse customers' needs in order to identify suitable candidates for targeted asset management products.

Investment Banking

Founder Securities provides corporate finance services, including equity underwriting, debt underwriting and financial advisory services, to institutional clients. It is committed to offering clients customised corporate finance services, and expanding cross-selling opportunities across multiple business lines through its integrated investment banking platform. Equity underwriting is the strength of Founder Securities investment banking business in the PRC. It sponsors and underwrites IPOs, follow-on offerings and rights issues on the A-share market to assist its clients equity financing activities. Up to 30 September 2017, Founder Securities (including its subsidiaries) had acted as the lead underwriter for equity offerings of 27 institutional clients. For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017, Founder Securities, through its subsidiary, Credit Suisse Founder, had acted as the lead underwriter for equity offerings with an aggregate value of CNY11.2 billion, CNY4.7 billion, CNY4.2 billion and CNY2.8 billion, respectively, according to the Certified Information Security Professional System of the CSRC.

Founder Securities underwrites enterprise, corporate, and financial bonds, medium-term notes, short-term commercial paper and asset-backed securities to assist its clients debt financing activities. Founder Securities debt underwriting business primarily serves large corporate clients. For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the total amount of debt securities Credit Suisse Founder underwrote as the lead underwriter was CNY13.4 billion, CNY9.5 billion, CNY5.0 billion and CNY3.5 billion, respectively, according to data from the Certified Information Security Professional System of the CSRC. Up to 30 September 2017, Credit Suisse Founder had underwritten an aggregate amount of CNY125.7 billion in securities offerings since its establishment.

Founder Securities also provides financial advisory services on mergers and acquisitions, restructuring, stock option schemes of listed companies, and private financing transactions through its subsidiary, Credit Suisse Founder. Founder Securities provides localised customer coverage through its branch network nationwide in order to develop an in-depth understanding of customers needs and so provide customised financial advisory services.

Others

The Group also engages in the OTC market, research, distribution of financial products and life insurance businesses.

(i) *OTC market*

Founder Securities became qualified to conduct equities transfer and quotation business in 2011, and has established 244 branches in Beijing, Shanghai, Hangzhou and Changsha since then. As at 30 June 2017, Founder Securities had successfully advised 247 companies listed on the New Third Board, a national share transfer system for small- and medium-sized enterprises. In future, Founder Securities intends to capture business opportunities from the rapid development of the OTC market, seize market share and establish more branches to improve its comprehensive professional ability and profitability.

(ii) *Research*

Research capability is one of Founder Securities core competencies and plays a key role in the development of its principal business lines. In recent years, Founder Securities has increased its resource allocation to strengthen its research capability. The number of employees in its research team was 157 as at 30 September 2017. Over 80 per cent. of its research analysts hold master's degrees and a number of its research analysts hold professional qualifications such as Chartered

Financial Analyst, Financial Risk Manager and Certified International Investment Analyst. Founder Securities encourages its research analysts to participate in training to enhance their professional expertise. Its research team provides research reports and regular company updates to external customers, including domestic fund management companies, insurance companies and institutional investors, assisting them with identifying and evaluating investment opportunities. While continuing to provide support to Founder Securities' other business lines – such as its investment banking, asset management and proprietary trading businesses – its research team intends to strengthen its research capability for new products such as repo trading and stock pledged-repurchase financing.

(iii) Distribution of financial products

In addition, Founder Securities was authorised to engage in financial products distribution in 2013.

(iv) Life Insurance

PKU Founder Life Insurance, established in 2002, is a joint venture insurance institution in which the Group held 51.00 per cent. equity interest, Meiji Yasuda Life Insurance held 29.24 per cent. and Qingdao Haier Investment and Development Co., Ltd. held 19.76 per cent. as at 30 September 2017. Headquartered in Shanghai, it has subsidiaries in Jiangsu, Shandong, Sichuan and Hubei provinces. It provides a range of insurance services mainly through its agents, including life, health, and accident insurance, reinsurance, and others. The Group completed the acquisition of PKU Founder Life Insurance in 2012.

Bulk Commodities Trading

Overview

The Group undertakes domestic and international bulk commodities trading through PKU Founder Commodities and the Guarantor.

For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the consolidated revenue of the Group's bulk commodities trading business was approximately CNY27,242.9 million, CNY40,327.8 million, CNY31,612.9 million, CNY52,367.9 million, respectively, representing 33.8 per cent., 49.2 per cent., 50.2 per cent. and 65.5 per cent. of the Group's total revenue, respectively.

PKU Founder Commodities has been growing in its scale of operations, with operating results steadily improving over the past decade. It has become an international supply chain service provider for bulk commodities, integrating investment, production, trading, logistics and information services.

Headquartered in Beijing, PKU Founder Commodities has subsidiaries in Shanghai, Tianjin, Harbin, Dalian, Xiamen, Quanzhou, Hong Kong, Singapore and Qingdao. It also has branches in Haikou, Nanning and Wuxi. PKU Founder Commodities has also set up branches and subsidiaries in Europe, North America, South America, Africa and Southeast Asia. PKU Founder Commodities currently markets and distributes agricultural, chemical, energy, metal products and related raw materials, both to industrial consumers and the futures market. It also provides export and import agency services and bidding directions on electronic equipment and instrumentation.

PKU Founder Commodities' experience as a commodity marketer has enabled it to build expertise in the commodities it covers. It has also cultivated long-term relationships with its broad supplier and customer base across diverse industries and geographical regions. PKU Founder Commodities' marketing activities are supported by investments in industrial assets operating in its core commodities. Its industrial, geographical, commodity, supplier and customer diversity, combined with its long-term supplier and customer relationships, has enabled it to operate profitably, even during periods in which a particular commodity, industry, customer or geographical region may have experienced some weakness.

PKU Founder Commodities was invited by London Metal Exchange to attend LME Asia Week in Hong Kong in 2017. PKU Founder Commodities was awarded as "2017 Credit Risk Management Enterprise" by Chicago Metal Exchange – China Enterprise Risk Management Forum in 2017.

In addition, PKU Founder Commodities also provides warehousing and logistics services for products such as non-ferrous metals, natural rubber and chemical products. It operates its warehousing facilities through Shanghai Warehousing Management Co., Ltd., chemical manufacturing and trading through Fujian Fangxing Chemical Co., Ltd. and harbour logistics through Fujian Fantong Port Storage & Transportation Co., Ltd.

The following table sets out the breakdown of PKU Founder Commodities' revenue by sub-segments, expressed as a percentage of the PKU Founder Commodities' total revenue for the periods indicated:

	Year ended 31 December				**Nine months ended 30 September**			
	2015		**2016**		**2016**		**2017**	
	CNY in millions	*%*	*CNY in millions*	*%*	*CNY in millions*	*%*	*CNY in millions*	*%*
Information	23.4	0.3	14.3	0.2	6.2	0.2	8.2	0.2
Petro chemistry	2,172.9	25.2	1,064.3	16.3	693.6	16.9	597.0	11.4
Minerals	5,808.5	67.3	4,112.6	63.1	2,583.8	62.9	3,137.2	60.0
Bulk commodities	620.2	7.2	1,329.9	20.4	821.8	20.0	1,486.4	28.4
Total	8,625.0	100.0	6,521.1	100.0	4,105.4	100.0	5,228.7	100.0

The following table sets out the breakdown of PKU Founder Commodities' gross profit (or loss) by sub-segments, expressed as a percentage of the PKU Founder Commodities' total gross (or loss) profit for the periods indicated:

	Year ended 31 December				**Nine months ended 30 September**			
	2015		**2016**		**2016**		**2017**	
	CNY in millions	*%*	*CNY in millions*	*%*	*CNY in millions*	*%*	*CNY in millions*	*%*
Information	1.3	0.5	(0.3)	(0.2)	(2.2)	(2.4)	1.8	1.4
Petro chemistry	10.9	4.7	38.9	18.9	18.1	20.0	6.3	5.1
Minerals	171.1	73.8	41.4	20.1	22.5	24.8	107.8	86.8
Bulk commodities	48.7	20.1	125.7	61.1	55.2	57.6	8.3	6.7
Total	232.0	100.0	205.7	100.0	90.6	100.0	124.2	100.0

Business Operations

Products

PKU Founder Commodities' operations are divided into three principal product groups: agricultural products; chemical and energy products; metal products and related raw materials. Each group is responsible for managing the marketing, sourcing, hedging, logistics and industrial investment activities relating to the commodities it covers.

The three principal product groups focus on the following commodities:

- Agricultural products: corn, soybean, white refined sugar and cotton.
- Chemical and energy products: polyolefins, chlor-alkali and others.
- Metal products and related raw materials: copper cathodes and zinc slabs. In addition to copper and zinc, it also markets tin, silver and gold, which are typically mined in conjunction with copper and zinc.

Suppliers

The suppliers to the chemical and energy products, and agricultural products business, segments are farmers, farming co-operatives, processing plants, local exporters and global merchants. Metal products and related raw materials are sourced through some of the key industrial assets the Group has stakes in, including Suzhou Steel Group, by way of long-term off-take, agency and distribution agreements, as well as from third-party suppliers.

Customers

PKU Founder Commodities conducts both domestic and international bulk commodities trading. The following table sets out the breakdown of PKU Founder Commodities total revenue by domestic trading and international trading, expressed as a percentage of its total revenue for the periods indicated:

	Year ended 31 December				**Nine months ended 30 September**			
	2015		**2016**		**2016**		**2017**	
	CNY in millions	%	*CNY in millions*	%	*CNY in millions*	%	*CNY in millions*	%
Domestic trading	15,302	56.2	17,579	43.6	13,714	43.4	38,578	73.7
International trading	11,941	43.8	22,749	56.4	17,899	56.6	13,790	26.3
Total	27,243	100.0	40,328	100.0	31,613	100.0	52,368	100.0

As at 30 September 2017, PKU Founder Commodities chemical and energy products were supplied to eastern China. Its metals products were supplied to Shanghai, Hong Kong and other overseas countries and its agricultural products were supplied to domestic cities and provinces such as Dalian, Heilongjiang Province and Henan Province.

PKU Founder Commodities customers for its chemical and energy products and agricultural products are the processing industries (such as food and consumer goods), large metal mills, local importers, futures brokerages, trading companies and competing global marketers.

Marketing and Arbitrage Strategy

PKU Founder Commodities sources a diverse range of physical commodities, from both third-party suppliers and industrial assets in which it has full or part-ownership interests. These commodities are sold, often with value-added services such as freight, insurance, financing and/or storage, to a broad range of consumers and industrial commodity end-users with whom, in many cases, PKU Founder Commodities enjoys long-term commercial relationships. As a marketer, PKU Founder Commodities is able to differentiate itself from other production entities as, in addition to focusing on minimising costs and maximising operational efficiencies, it is able to focus on maximising returns from the entire supply chain, taking into account its extensive and global third-party supply base, as well as its logistics, risk management and working capital financing capabilities, extensive market insight and extensive customer base.

Many of the physical commodity markets in which PKU Founder Commodities operates are fragmented or periodically volatile. As a result, discrepancies generally arise in respect of the prices at which the commodities can be bought or sold in different geographical locations or time periods, taking into account numerous pricing factors including freight and product quality. These pricing discrepancies can present PKU Founder Commodities with arbitrage opportunities whereby it is able to generate profit by sourcing, transporting, blending, storing or otherwise processing the relevant commodities. PKU Founder Commodities closely monitors the futures market development and ongoing innovations in the futures and spot markets and has achieved stable profitability and steady compound rates through its effective arbitrage strategy. For example, PKU Founder Commodities maintains the same level of inventory of its spot goods and futures goods to avoid risks as a result of volatile commodity prices.

PKU Founder Commodities primary marketing activities are those performed in the ordinary course of its global sourcing and distribution of commodities, including the provision of multiple value-added services across the full supply chain and seeking the frequent arbitrage opportunities that arise.

Logistics

Logistics operation, a key part of its marketing operations, enables PKU Founder Commodities to fulfil its marketing obligations and to maximise arbitrage opportunities created by demand and supply imbalances. Physical sourcing and marketing of commodities require professional handling and shipment of goods from the supplier to the customer, including storage activities as required. PKU Founder Commodities pursues development strategy of "control over both resources and channels", which revolves around trading operations of commodities through share investment and controlling interests in plantations and processing plants to build its upstream presence, and through investment in warehousing and logistics service providers to cover downstream operations.

The third-party logistics service providers of PKU Founder Commodities actively trade freight to gain market knowledge and volume benefits. The freight element of transactions is also used to maintain maximum physical optionality, so that full value can be extracted from the underlying commodity positions of each department, thereby complementing PKU Founder Commodities' overall ability to seize geographical and time spread arbitrage opportunities as they arise.

Other Businesses

The Group also engages in other businesses, including education and training. For the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2016 and 2017, the consolidated revenues of the Group's other businesses were approximately CNY7,692.4 million, CNY2,366.2 million, CNY1,416.4 million and CNY2324.0 million, respectively, representing 9.6 per cent., 2.9 per cent, 2.2 per cent. and 2.9 per cent. of the Group's total revenue, respectively.

Education and Training

The Group also conducts education and training through China Hi-Tech and Founder Training and Development Centre.

China Hi-Tech was founded in 1993 by more than 60 national universities such as Peking University, Tsinghua University, Fudan University and Shanghai Jiao Tong University. It mainly conducts specialised and innovate education services and aims to become a major education investment management group with international coverage.

Since 2017, China Hi-Tech has started to refresh its development strategy and combines the effect from capital investment and self-operation, external acquisition and internal development, international and domestic business operations. China Hi-Tech has the following four business focuses:

- Vocational Education

  It utilises different business models such as acquisition, joint-venture and co-operation to build itself into a major vocational education group.

- Operation and Management of Educational Businesses

  It assists existing schools and institutions to cooperate with enterprises and industries and to update the quality of education services.

- Intelligent Education

  It focuses on the integration of internet in education and utilise IT to further reform and development existing education resources.

• Research Institute

  lt aims to build a global education research institute to undertake academic research, international exchanges, consultancy and vocational training.

Founder Training and Development Centre, incorporated in 1993, mainly conducts training in foreign languages (including English and Japanese), computer applications, composition typesetting, and Founder WITS typesetting system and software.

Environment

As at 30 September 2017, to the best of the Group's knowledge and information, it believes that it is substantially in compliance with all material applicable national or local environmental laws and regulations in the PRC and has obtained, or is in the process of obtaining, all permits, approvals and certifications required under PRC law in relation to its environmental facilities. Please also see "*Risk Factors – General Risks relating to the Group and its Businesses – The Group's businesses are subject to various laws, regulations and government policies*"; "*Risk Factors – General Risks relating to the Group and its Businesses – The Group's businesses are required to comply with the environmental protection regimes in the jurisdictions in which they operate*".

Health and Safety

The Group regards occupational health and safety as one of its important corporate and social responsibilities. Some of the Group's business operations involve significant risks and hazards that could result in damage or destruction of property, death and personal injury, business interruption and possible legal liabilities. As at 30 September 2017, all of the Company's subsidiaries engaging in dangerous production and processing operations in the PRC had obtained and maintained work safety permits issued by relevant local authorities in the PRC. The Group has not had any of its work safety permits terminated or suspended by relevant government departments.

The Group provides safety training to its employees, and requires all employees to follow the safety standards prescribed by its production safety department. It also specifies safety standards for matters such as purchasing new equipment, constructing new facilities or improving existing facilities. Safety measures and regular safety inspection points are established throughout the production process. Production plants are inspected regularly, and each production plant has a designated employee responsible for safety inspection. Serious work-related injuries are very rare. See also "*Risk Factors – General Risks relating to the Group and its Businesses – The Group's businesses are subject to various laws, regulations and government policies*"; "*Risk Factors – General Risks relating to the Group and its Businesses – The Group's businesses are required to comply with health and safety regulations with respect to employees in the jurisdictions in which they operate*".

Competition

The Group's businesses operate in highly fragmented and competitive markets, and face increasing competition for capital, labour, location, facilities and supporting infrastructure, services, pricing and raw materials, as well as acquisition opportunities and new business opportunities. Certain of the Group's competitors in their respective businesses may have longer operating track records, stronger government and customer relationships, and greater parent support and access to financial, technical, infrastructure, marketing and other capabilities, or other resources and/or name recognition than the Group. To maintain and enhance its competitiveness, the Group aims to further strengthen and develop long-term, stable and co-operative business relationships, capitalise upon extensive local knowledge and strategic investment opportunities, focus on improving its product mix and operational efficiencies, develop innovative process technologies, enhance its marketing techniques, further reduce its production costs and, ultimately, become a competitive diversified enterprise with a leading presence in each of its core businesses. See also "*Risk Factors – General Risks Relating to the Group and its Businesses – Some of the Group's businesses, conducted through its subsidiaries, are operated in sectors facing* *increasing competition and consolidation in the PRC*"; "*Risk Factors – Risks Relating to the Group's Information Technology Business – The Group's information technology business operates in a competitive industry*"; "*Risk Factors – Risks Relating to the Group's Finance and Securities Business – The Group faces intense competition and its business in finance and securities could be materially and adversely affected if it is unable to compete effectively*"; and "*Risk Factors – Risks Relating to the Group's Bulk Commodities Trading Business – The commodities industry is very competitive and the Group may have difficulty effectively competing with other commodity marketing and industrial companies*".

Insurance

The Group is covered by insurance which covers losses caused by fire, flood, riot, strike and malicious damage. The Group believes that its properties are covered by adequate insurance provided by reputable independent insurance companies in the relevant jurisdictions, and with commercially reasonable deductibles and limits on coverage which are normal for the type and location of the assets and properties to which they relate.

Employees

As at 30 September 2017, the Group had approximately 36,000 employees globally.

The Group adheres to, and complies with, the relevant labour laws of the PRC and other jurisdictions in which it operates. Staff benefits include salaries, provident fund contributions, insurance, medical care and housing. The Group believes that its employees are critical to its success, and it is committed to investing in the development of its employees through continuing education and training, as well as the creation of opportunities for career growth. In order to motivate employees, employee salaries are tied to business and individual performance. To date, the Group has not experienced any labour strikes or other material labour disputes that affected its operations. The Group believes that its senior executives, labour union and employees will continue to maintain good relationships with each other.

Legal Proceedings and Regulatory Investigations

The Group is from time to time involved in certain legal proceedings concerning matters arising in the ordinary course of its business.

Some of the Group's former members of senior management and responsible officers were sanctioned by relevant regulatory authorities for various non-compliances. For example, the former director and chief executive officer of the Group, Mr Li You, was convicted of, insider dealing, obstruction of official duties, and concealing accounting vouchers, books and accounting reports, by the Dalian Intermediate People's Court in November 2016.

PKU HEALTHCARE

In December 2016, PKU Healthcare received a penalty notice from the CSRC in respect of PKU Resources Group Holdings and Zhengquan Holdings on (i) their failures to disclose to PKU Healthcare the details of a shareholding entrustment agreement and changes in equity in a timely manner, respectively; and (ii) the failures of their respective interested shareholders to abstain in the shareholders' meeting. The penalty notice proposed that PKU Healthcare be reprimanded and fined CNY0.6 million, and a director of PKU Healthcare be reprimanded and fined CNY0.3 million. The penalty notice also proposed that PKU Resources Group Holdings be reprimanded and fined CNY0.6 million, and its legal representative and general manager be reprimanded and each fined CNY0.3 million.

In May 2017, the CSRC formally reprimanded, warned and fined PKU Healthcare (and PKU Resources Group Holdings) and these senior management for the above non-compliance pursuant to the above proposed penalties.

In August 2017, SZSE publicly reprimanded PKU Healthcare and the then chairman of PKU Healthcare for the above non-compliance.

Founder Technology

In December 2016, Founder Technology received a penalty notice from the CSRC in respect of (i) its failure to disclose its related-party relationship and related-party transactions with some of its dealers; and (ii) the Company's failure to inform Founder Technology of its related-party relationship with one of the shareholders of Founder Technology thus resulting in Founder Technology's incorrect disclosure with respect to its principal shareholders. The penalty notice proposed that the Company, Founder Technology, the relevant shareholder of Founder Technology be reprimanded and fined CNY0.6 million, the then director and chief executive officer of Founder Technology and the Company be reprimanded and fined CNY0.3 million, and other responsible officers each be reprimanded and fined.

In May 2017, the CSRC formally reprimanded, warned and fined Founder Technology and these senior management for the above non-compliance pursuant to the above proposed penalties.

China Hi-Tech

In December 2016, China Hi-Tech received a penalty notice from the CSRC in respect of its failure to disclose its related-party relationship and related-party transactions with certain subsidiaries of the Company. The penalty notice proposed that China Hi-Tech be reprimanded and fined CNY0.6 million, its then chairman and its then chief financial officer be warned and fined CNY0.3 million, and other responsible officers each be reprimanded and fined.

In May 2017, the CSRC formally reprimanded, warned and fined China Hi-Tech and these senior management for the above non-compliance pursuant to the above proposed penalties. In November 2017, an independent director of China Hi-Tech, Mr Pan Guohua, was also fined for RMB30,000 for the above non-compliance pursuant to the above proposed penalties.

In July 2017, the SSE issued a regulatory attention (監管關注) on China Hi-Tech that (i) the fact that one of its directors Cong Jianhua traded the shares of China Hi-Tech multiple times in May 2017 constituted short-selling; and (ii) Cong Jianhua violated relevant regulations in the PRC Company Law (《中華人民共和國公司法》) from selling all his shares of China Hi-Tech. Accordingly, the SSE issued a regulatory attention on Cong Jianhua.

Founder Securities

The 2008 Suit and 2013 Suit

In February 2008, Aerospace Solid Rocket Company (航天固體運載火箭有限公司) (the "Rocket Company") filed a suit against Taiyang Securities Co., Ltd. (泰陽證券) ("Taiyang Securities"), which was acquired by Founder Securities in 2006, to claim damages of an aggregate amount of approximately CNY240 million as a result of disputes arising from certain asset management transactions (the "2008 Suit"). The Higher People's Court of Hunan province ruled in March 2008 to suspend the hearing of the 2008 Suit on the grounds that it involved alleged criminal offences by certain former officers of the Rocket Company and Taiyang Securities. According to a notice issued by the Higher People's Court of Hunan province in March 2012, the 2008 Suit was transferred to the relevant public security authority for further investigation, and the litigation in respect of the dispute under civil procedure was subsequently terminated.

In July 2013, Aerospace Kegong Assets Management Company (航天科工資產管理有限公司) (the "Aerospace Kegong Company") filed a suit against the Rocket Company in the Beijing No.1 Intermediate People's Court, claiming that Aerospace Kegong Company failed to recover certain debts owing to it pursuant to the debt transfer agreement between Aerospace Kegong Company and the Rocket Company within 60 days after such agreement took effect (the "2013 Suit"). In August 2013, Aerospace Kegong Company applied to join Founder Securities as the first defendant, claiming for the repayment of principal and interest in the aggregate amount of approximately CNY363.37 million by the Rocket Company, which was the second defendant, with joint and several liability. Founder Securities challenged the jurisdiction of the Beijing No. 1 Intermediate People's Court, but the challenge was struck down both in this suit and the appealing suit in the Beijing Higher People's Court. Founder Securities subsequently filed a retrial application in the Supreme People's Court and the Supreme People's Court held that the 2013 Suit fell under the jurisdiction of the Beijing Higher People's Court. Founder Securities then applied to Supreme People's Court for retrial. In December 2015, the Supreme People's Court held hearings for the case. In April 2017, final judgement was delivered by the Supreme People's Court where Founder Securities and the Rocket Company were jointly ordered to pay Aerospace Kegong Company a principal amount of CNY140 million with corresponding interests.

Failure to conduct customer identity check etc.

In November 2016, Founder Securities received a penalty decision from the CSRC for its failure to property check and understand customer identity. Founder Securities was reprimanded; its illegal income of approximately CNY7.8 million was forfeited; it was fined CNY15.7 million; other responsible officers were each reprimanded and fined.

Failure to disclose information during IPO

In December 2016, Founder Securities received a penalty notice from the CSRC in respect of its non-compliance of disclosure requirements during its IPO in 2011 and continued non-compliance thereafter on, among others, omission and failure of the Company and Founder Securities to disclose the related-party relationship between the Company and certain shareholders of Founder Securities, and the rights transfer agreement affecting the shareholding structure of Founder Securities. The penalty notice proposed that the Company (and certain shareholders of Founder Securities) be reprimanded and fined CNY0.6 million, and its then chairman and chief executive officer each be reprimanded and fined CNY0.3 million. The penalty notice also proposed that Founder Securities be reprimanded and fined CNY0.6 million, and its then chairman be reprimanded and fined CNY0.3 million. The penalty notice further proposed that a then director of the Company and Founder Securities, a then supervisor of Founder Securities, and a responsible officer of Founder Securities each be reprimanded and fined CNY0. 1 million. Lastly, the penalty notice proposed that a director of the Company be reprimanded and fined CNY50,000.

In May 2017, the CSRC formally reprimanded, warned and fined Founder Securities and these senior management for the above non-compliance pursuant to the above proposed penalties.

Minzu Securities

In April 2015, Zhongzhun Certified Public Accountants, ("Zhongzhun") being the auditors of Minzu Securities, issued a qualified audit report for the financial year of 2014 due to lack of sufficient audit evidence for one of Minzu Securities' bank deposit amounting to CNY2.05 billion. Based on investigation of Founder Securities, the location of an investment fund of CNY2.05 billion cannot be identified after certain capital flow of funds. In May 2015, Founder Securities announced that, after investigation, the said fund was not bank deposit and was invested into financial products by Minzu Securities.

Founder Securities has, since the incident, strengthened the internal control measures of Minzu Securities and applied to the relevant regulatory authorities for their intervention to facilitate further investigation. According to the investigation of the CSRC Beijing Branch, Minzu Securities was found to be in breach of the Measures for the Risk Control Indexes of Securities Companies (《證券公司風險控制指標管理辦法》) and the Guidance on Internal Control of Securities Companies (《證券公司內部控制指引》). Pursuant to the Regulations on Administration Supervision of Securities Companies (《證券公司監督管理條例》), the CSRC Beijing Branch ordered Minzu Securities to rectify such wrongdoings by June 2015.

In July 2015, Minzu Securities received an administrative decision from the CSRC Beijing Branch to (i) suspend its securities proprietary trading business; (ii) suspend its application for new business; and (iii) reprimand its non-compliance. The decision came as a result of Minzu Securities' above mentioned audit report for the year of 2014. As at the date of this Offering Circular, the said suspension has not been lifted.

In September 2015, Minzu Securities received an investigation notice from the CSRC in respect of the investment fund of CNY2.05 billion. As of the date of this Offering Circular, the said investigation was ongoing and its result was pending.

As of the date of this Offering Circular, there is no evidence showing that the relevant fund cannot be recovered or Minzu Securities has incurred loss in such regard, yet, Minzu Securities may face significant potential risks which could have a material adverse effect on its financial security and business operation.

PKU FOUNDER COMMODITIES

In July 2016, PKU Founder Commodities was sued, together with Fujian Fangxing Chemical Co., Ltd. and other defendants, by a third-party plaintiff for infringement of its intellectual property rights in the Fujian Provincial Higher People's Court. The plaintiff alleged that certain machines acquired by PKU Founder Commodities in 2007 had infringed the intellectual property rights owned by the plaintiff, and PKU Founder Commodities had further violated the plaintiff's trade secrets by employing former employees of the plaintiff. The plaintiff claimed damages for CNY0.1 billion. The parties were challenging the jurisdiction of the courts and PKU Founder Commodities filed an appeal to the Supreme People's Court in August 2016. As at the date of this Offering Circular, the verdict on jurisdiction remains pending.

Except as disclosed in this Offering Circular, to the best of the knowledge of the Issuer, the Guarantor and the Company, there are currently no litigation or arbitration proceedings against the Group or any of its senior management team members as at the date of this Offering Circular that could have a material adverse effect on its business, financial condition and results of operations.

DIRECTORS OF THE COMPANY

As at the date of this Offering Circular, the members of the board of directors are as follows:

Name	Age	Position
Sheng Yu Hai (生玉海)	44	Chairman
Xiao Jian Guo (肖建國)	60	Director
Xie Ke Hai (謝克海)	52	Director, president and chief executive officer
Xiao Qun (蕭群)	48	Director
Zhang Xuan Long (張旋龍)	61	Director
Zhou Fu Min (周福民)	49	Director

Board of Directors

Mr Sheng Yu Hai (生玉海), aged 44, serves as the chairman, a Director, party secretary and secretary of discipline committee of the Company. Mr Sheng is also the vice director of academic affairs of Peking University, party secretary of the Affiliated High School of Peking University and vice party secretary of Industry Party Committee of Peking University. Mr Sheng previously served as the director of the admission office of graduate school of Peking University and vice dean of graduate school of Peking University. Mr. Sheng holds a bachelor's degree.

Mr Xiao Jian Guo (肖建國), aged 60, serves as a Director of the Company. Mr Xiao graduated from the College of Dalian Ocean Communication with a bachelor's degree in Computer Science in 1982 and obtained a master's degree in Computer Science at Peking University. Mr Xiao has been conducting research and development of digital publishing technology since 1987 and is an industrial expert. Mr Xiao has received the National Science and Technology Progress Award, as well as several other national awards, for his research. Mr Xiao is currently a professor and a supervisor of PhD students at Peking University. Mr Xiao joined the Group in 1995 and previously served as the chairman of the Company, a vice president, the president and the chairman of Founder Institute of Technology, the president and the chairman of PKU Founder Electronics, the chairman of Founder Century Information, the deputy chairman of Founder Holdings, the chairman of the Company, the head of Peking University Institute of Computer Science and Technology, and Peking University Research Centre of New Technology of Electronic Publishing. Mr. Xiao holds a master's degree.

Mr Xie Ke Hai (謝克海), aged 52, serves as a Director, president and chief executive officer of the Company. Mr Xie graduated from the University of Science and Technology Beijing with a master's degree. Mr Xie previously served as the vice president, senior vice president and executive president of the Company.

Mr Xiao Qun (蕭群), aged 48, serves as a Director. Mr Xiao is also the party secretary of Industry Party Committee of Peking University, the chairman of PKU Asset Management, the party secretary of and the vice curator of Peking University Library. He previously served as the standing vice minister of social science department of Peking University. Mr. Xiao holds a bachelor's degree.

Mr Zhang Xuan Long (張旋龍), aged 61, serves as a Director and is a co-founder of the Group. Mr Zhang is also a co-founder of Kingsoft Corporation Ltd. (HKSE stock code: 3888), an executive director of PUC Founder (MSC) Berhad, a visiting fellow of Peking University Enterprise Research Institute and a Peking University Guanghua School of Management MBA alumni-distinguished instructor. He is also the chairman of Founder Holdings, the deputy chief supervisor of Peking University Education Foundation. Mr Zhang joined the Group in 1991 and previously served as the executive chairman of PUC Founder (MSC) Berhad and chairman of Founder International Inc.

Mr Zhou Fu Min (周福民), aged 49, serves as a Director. Mr Zhou is also the vice minister of science and technology department of PKU, the deputy director of property management committee of the general office of PKU, and a director of PKU Asset Management. Mr. Zhou previously served as the deputy director of Peking University Science and Technology Development Department and Natural Science Division of Peking University. Mr. Zhou holds a master's degree.

EXCHANGE RATES

PRC

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to 20 July 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2 per cent. against the U.S. dollar. On 18 May 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate, effective on 21 May 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012 and to 2.0 per cent. on 17 March 2014. From 21 July 2005 to 31 December 2014, the value of the Renminbi appreciated by approximately 33 per cent. against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. PBOC authorized the China Foreign Exchange Trading Center, effective since 4 January 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day.

The following table sets forth the exchange rate between Renminbi and the U.S. dollar set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States for the periods indicated:

Period	Period end	Average[1]	High	Low
		(RMB per U.S. $1.00)		
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2303	6.3085	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1620	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017				
January	6.8768	6.8907	6.9575	6.8360
February	6.8665	6.8694	6.8821	6.8517
March	6.8870	6.8945	6.9132	6.8687
April	6.8900	6.8876	6.8988	6.8778
May	6.8098	6.8843	6.9060	6.8098
June	6.7793	6.8066	6.8382	6.7793
July	6.7240	6.7708	6.8039	6.7240
August	6.5888	6.6670	6.7272	6.5888
September	6.6533	6.5690	6.6591	6.4773
October	6.6328	6.6254	6.6533	6.5712
November	6.6290	6.6200	6.6385	6.5967
December	6.5063	6.5921	6.6210	6.5063

Source: Federal Reserve H.10 Statistical Release

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for the monthly average rates, which are determined by averaging the daily rates during the month.

Hong Kong

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since 17 October 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to U.S.$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on 1 July 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to U.S.$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the link within the current rate range or at all.

The following table sets forth the exchange rate between Hong Kong dollar and the U.S. dollar set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States for the periods indicated:

Period	**Period end**	**Average[(1)]**	**High**	**Low**
		(HK$ per U.S. $1.00)		
2010	7.7810	7.7692	7.8040	7.7501
2011	7.7663	7.7793	7.8087	7.7634
2012	7.7507	7.7556	7.7699	7.7493
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7554	7.7669	7.7495
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7618	7.8270	7.7505
2017				
January	7.7579	7.7560	7.7580	7.7540
February	7.7627	7.7596	7.7627	7.7575
March	7.7702	7.7655	7.7702	7.7611
April	7.7779	7.7737	7.7806	7.7687
May	7.7929	7.7864	7.7933	7.7775
June	7.8055	7.7984	7.8055	7.7908
July	7.8100	7.8091	7.8128	7.8034
August	7.8267	7.8217	7.8267	7.8121
September	7.8110	7.8127	7.8256	7.7995
October	7.8015	7.8053	7.8106	7.7996
November	7.8093	7.8052	7.8118	7.7955
December	7.8128	7.8128	7.8228	7.8050

Source: Federal Reserve H.10 Statistical Release

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for the monthly average rates, which are determined by averaging the daily rates during the month.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Bondholder or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

British Virgin Islands

As at the date of this Offering Circular, a British Virgin Islands business company is exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands including with respect to all dividends, interests, rents, royalties, compensations and other amounts payable by the company to persons who are not resident in the British Virgin Islands. There is no capital gains tax, estate or inheritance tax payable by persons who are not persons resident in the British Virgin Islands.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest in respect of the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, professional or business carried on in Hong Kong in the following circumstances:

(a) interest on the Bonds is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong; or

(b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person, other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(c) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds will be subject to profits tax.

Gains or profits derived from the sale, disposal or redemption of Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, from the carrying on of a trade, profession or business in Hong Kong and the sums are revenue in nature and have a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of China for PRC tax purposes. These beneficial owners are referred to as non-PRC Bondholders in this section. In considering whether to invest in the Bonds, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situation as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes imposed in the taxable year beginning on or after 1 January 2008.

EIT

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under the laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management bodies" are within the territory of China shall be treated as PRC tax resident enterprises for the purpose of the EIT Law and they are required to pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside China. The implementing rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. A circular issued by the State Administration of Taxation on 22 April 2009 provides that a foreign enterprise controlled by a PRC enterprise or a PRC enterprise group will be treated as a "resident enterprise" with a "de facto management body" located within the PRC if all of the following requirements are satisfied at the same time: (i) the senior management in charge of daily operations are located mainly within the PRC and core management departments perform such obligation mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or entities in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within the PRC. Despite the said circular, it is still unclear how the PRC tax authorities will determine whether an entity will be classified as a PRC tax resident enterprise. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management bodies" of the Issuer or the Guarantor is within the territory of the PRC, the Issuer or the Guarantor may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside the PRC. As confirmed by the Issuer and the Guarantor, as of the date of this Offering Circular, neither the Issuer nor the Guarantor has been given notice or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, holders of the Bonds will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Bonds or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer or the Guarantor will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Accordingly, in the event the Issuer or the Guarantor is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, interest payable to "non-resident enterprise" holders of the Bonds and capital gains realised by "non-resident enterprise" holders of Bonds may be treated as income derived from sources within China and be subject to PRC withholding tax at a rate of 10 per cent., or a lower rate for holders who qualify for the benefits of a double-taxation treaty with China. However, despite the potential withholding of PRC tax by the Issuer or the Guarantor, the Issuer and the Guarantor have agreed to pay additional amounts to "non-resident enterprise" holders of the Bonds so that holders of the Bonds would receive the full amount of the scheduled payment, as further set out in "Terms and Conditions of the Bonds".

Non-PRC Bondholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Bonds consummated outside mainland China between non-PRC Bondholders, except however, if the Issuer or the Guarantor is treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Bondholders from the transfer of the Bonds may be regarded as being derived from sources within the PRC and accordingly would be subject to PRC withholding tax at a rate of up to 10 per cent., subject to the application of any relevant income tax treaty that the PRC has entered into.

VAT

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation issued the Circular of Full Implementation of Replacing Business Tax with Value-Added Tax Reform (《關於全面推開營業稅改徵增值稅試點的通知》, "Circular 36"), confirming that business tax will be completely replaced by VAT from 1 May 2016. With effect from 1 May 2016, income derived from the provision of financial services which previously was subject to business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, entities and individuals providing services within PRC will be subject to VAT. Services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. Services subject to VAT include financial services, such as the provision of loans. It is further clarified under Circular 36 that "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon.

It is not clear whether Circular 36 would be interpreted to deem the issuance of Bonds by the Issuer and the giving of the Guarantee by the Guarantor as the provision of loans, and therefore provision of financial services within the PRC could be subject to VAT. Furthermore, there can be no assurance that the Issuer or the Guarantor would not be treated as a "resident enterprise" under the Enterprise Income Tax Law. PRC tax authorities could take the view that holders of Bonds are providing loans within the PRC because the Issuer or the Guarantor is treated as a PRC tax resident. In such an interpretation, the issuance of the Bonds and the giving of the Guarantee by the Guarantor could be regarded as the provision of financial services within the PRC that is subject to VAT.

If the Issuer or the Guarantor is treated as a PRC tax resident and if PRC tax authorities take the view that Bondholders are providing loans within the PRC, or if the interest component of the amount payable by the Guarantor to the Bondholders under the relevant Deed of Guarantee is viewed as interest income arising within the territory of the PRC, then Bondholders could be deemed to be providing financial services within PRC and consequently, Bondholders could become subject to VAT at the rate of 6 per cent. on interest payments under the Bonds. In addition, under such an interpretation Bondholders could become subject to local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies payable on interest due to Bondholders could be up to 6.72 per cent. Since Bondholders are located outside of the PRC, the Issuer or the Guarantor, acting as the obligatory withholder in accordance with applicable law, would be required in such instance to withhold VAT and local levies from the payment of interest income to Bondholders.

Where a Bondholder located outside of the PRC resells Bonds to a buyer also located outside of the PRC, since neither buyer nor seller is located in the PRC, theoretically Circular 36 would not apply and the Issuer and the Guarantor would not have the obligation to withhold VAT or local levies. However, there is uncertainty as to the applicability of VAT if either a seller or buyer of Bonds is located within the PRC.

Circular 36 has been issued recently and remains subject to the issuance of further clarification rules and/or different interpretations by the competent tax authority. There is uncertainty as to the application of the Circular 36 in the context of the issuance of the Bonds, payments thereunder, and their sale and transfer.

The Issuer and the Guarantor confirm that, as at the date of this Offering Circular, the Issuer and the Guarantor have not been notified or informed by the PRC tax authorities that they are considered as PRC tax resident enterprises. However, there is no assurance that the Issuer or the Guarantor will not be treated as a PRC tax resident enterprise in the future. Pursuant to the VAT reform detailed above, the Issuer or the Guarantor may need to withhold VAT (should such tax apply) from the payments of interest in respect of the Bonds for any Bondholders located outside of the PRC. The Issuer and the Guarantor have agreed to pay additional amounts to holders of the Bonds, subject to certain exceptions, so that Bondholders would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Bonds.

Stamp duty

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Bondholders is maintained outside China) of a Bond.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "Commission's Proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Bonds should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

FATCA

Whilst the Bonds are in global form and held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Bonds by the Issuer, the Guarantor, any paying agent and the common depositary, given that each of the entities in the payment chain between the Issuer and the participants in the Clearing System is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the securities. The documentation expressly contemplates the possibility that the securities may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Bonds will only be printed in remote circumstances. Further, foreign financial institutions in a jurisdiction which has entered into an IGA are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

REMITTANCE OF CNY INTO AND OUTSIDE THE PRC

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012, except that the key enterprises on a Supervision List determined by the PBOC and five other relevant authorities would be subject to enhanced scrutiny when banks process current account cross-border repatriations.

On 5 July 2013, the PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知)(the "2013 PBOC Circular") which simplified the procedures for cross-border Renminbi trade settlement under current account items. On 1 November 2014, the PBOC introduced a cash pooling arrangement for qualified multinational enterprise group companies, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. On 5 September 2015, the PBOC promulgated the Circular on Further Facilitating the Cross-Border Bi-directional Renminbi Cash Pooling Business by Multinational Enterprise Groups (關於進一步便利跨國企業集團開展跨境雙向人民幣資金池業務的通知)(the "2015 PBOC Circular"), which, among others, have lowered the eligibility requirements for multinational enterprise groups and increased the cap for net cash inflow.

On 26 January 2017, the SAFE issued the Notice on Further Promoting Foreign Exchange Management Reform by Improving Real Compliance Audit (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知) which seeks to further regulate the foreign exchange management in relation to trading. Domestic institutions should handle their currency conversion trade finance businesses and process export earnings timely in accordance with the principle of "who exports, who receives payment, who imports and who makes payment".

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms by the PBOC, the Ministry of Commerce of the PRC and SAFE, foreign investors are now permitted to make capital contribution, share transfer, profit allocation and liquidation and certain other transactions in Renminbi for their foreign direct investment within the PRC. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements for capital account payments in Renminbi are being removed gradually. The Circular on Reforming Foreign Exchange Capital Settlement for Foreign Invested Enterprises (關於改革外商投資企業外匯資本金結匯管理方式的通知) which became effective on 1 June 2015 (the "2015 SAFE Circular"), and the Circular on Reforming and Regulating Management

Policies of Foreign Exchange Settlement for Capital Account Items (關於改革和規範資本項目結匯管理政策的通知) was newly promulgated and became effective on 15 June 2016 (the "2016 SAFE Circular"). In addition to the option to settle foreign currency income under capital account items (such as registered capital or foreign debt) through payment-based foreign exchange settlement (支付結匯制), the 2015 SAFE Circular and the 2016 SAFE Circular allows PRC enterprises (including PRC domestic enterprises and foreign-invested enterprises incorporated in PRC and excluding financial institutions) to settle up to 100 per cent. (subject to future adjustment at discretion of SAFE) of the foreign currency under capital account items into Renminbi according to their actual operational needs on a voluntary basis, subject to any restrictive requirement as provided by currently effective regulations in PRC in respect of the settlement of foreign currency income under the capital account items by PRC enterprise. In principle, the Renminbi proceeds through the aforementioned voluntary settlement shall be deposited into designated bank account called *capital account item – account for foreign currency settlement pending payment* (資本項目-結匯待支付賬戶)(the "Account for Foreign Currency Settlement Pending Payment") as opened by such PRC enterprise, and accordingly all future payments shall be processed from such Account for Foreign Currency Settlement Pending Payment. A negative list with respect to the usage of the foreign currency under capital account items and the Renminbi proceeds through the aforementioned settlement procedure is set forth under the 2016 SAFE Circular. In particular, a foreign invested enterprise with investment as its main business (including the foreign-invested investment company (外商投資性公司), foreign-invested venture capital enterprise (外商投資創業投資企業) or foreign-invested private equity investment enterprise (外商投資股權投資企業)) is permitted to use such settled Renminbi proceeds (whether directly settled, or from the Renminbi deposit in its Account for Foreign Currency Settlement Pending Payment as previously settled through voluntary settlement) to make equity contribution to its invested enterprises directly, without further fillings with SAFE.

PRC entities are also permitted to obtain loans from offshore lenders (which are referred to as "foreign debt") and provide loans to offshore borrowers (which are referred to as "outbound loans"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "cross-border security"). Under current rules promulgated by SAFE, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. In 2016 and 2017, the PBOC promulgated regulations to expand the full-scale cross-border financing macro-prudential management pilot programme to nationwide financial institutions and enterprises, pursuant to which, the risk-weighted balance of the relevant PRC enterprise must not exceed a risk-weighted upper limit. On 26 January 2017, the SAFE issued the Notice on Further Promoting Foreign Exchange Management Reform by Improving Real Compliance Audit (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知), which states that in order for a domestic institution to carry out cross-border lending, the aggregate of the balance of domestic currency denominated loans and foreign currency denominated loans shall not exceed 30 per cent. of the owners' equity as set out in the previous years' audited financial statements. However, there remains potential inconsistencies between the provisions of the SAFE rules and the PBOC rules. It is not clear how regulators will deal with such inconsistencies in practice.

The Notice on Further Promoting Foreign Exchange Management Reform by Improving Real Compliance Audit (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知) permits funds raised using cross-border guarantees, whether in the form of cross-border debt or equity investments, to be remitted into the PRC.

Recent reforms introduced were aimed at controlling the remittance of Renminbi and/or foreign currencies for payment of transactions categorised as capital account items. There is no certain by now the PRC government will continue to control or supervise payments in Renminbi and/or foreign currencies of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi and/or foreign currencies for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN PRC GAAP AND IFRS

The consolidated financial statements of the Company included in this Offering Circular have been prepared and presented in accordance with PRC GAAP. PRC GAAP are substantially in line with International Financial Reporting Standards ("IFRS"), except for certain modifications which reflect China's unique circumstances and environment. The following is a general summary of certain differences between PRC GAAP and IFRS on recognition and presentation as applicable to the Company. The differences identified below are limited to those significant differences that are appropriate to the Company's consolidated financial statements. The Company is responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the summary. The Company has not prepared a complete reconciliation of the consolidated financial information and related footnote disclosure between PRC GAAP and IFRS and has not quantified such differences. Had any such quantification or reconciliation been undertaken by the Company, other potentially significant accounting and disclosure differences may have been required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and IFRS as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate PRC GAAP and IFRS have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify future differences between PRC GAAP and IFRS that may affect the financial information as a result of transactions or events that may occur in the future. Accordingly, no assurance is provided that the following summary of differences between PRC GAAP and IFRS is complete. In making an investment decision, you must rely upon your own examination of the Company, the terms of the offering and other disclosure contained herein. You should consult your own professional advisors for an understanding of the differences between PRC GAAP and IFRS and/or between PRC GAAP and other generally accepted accounting principles, and how those differences might affect the financial information contained herein.

Government grant

Under PRC GAAP, an assets-related government grant is only required to be recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset.

However, under IFRS, such assets-related government grants are allowed to be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Under PRC GAAP, the relocation compensation for public interests is required to be recognised as special payables. The income from compensation attributable to losses of fixed assets and intangible assets, related expenses, losses from production suspension incurred during the relocation and reconstruction period and purchases of assets after the relocation shall be transferred from special payables to deferred income and accounted for in accordance with the government grants standard. The surplus reached after deducting the amount transferred to deferred income shall be recognised in capital reserve.

Under IFRS, if an entity relocates for reasons of public interests, the compensation received shall be recognised in profit and loss.

Reversal of an impairment loss

Under PRC GAAP, once an impairment loss is recognised for a long term asset (including fixed assets, intangible assets and goodwill, etc.), it shall not be reversed in any subsequent period.

Under IFRS, an impairment loss recognised in prior periods for an asset other than goodwill could be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Related party disclosures

Under PRC GAAP, government-related entities are not treated as related parties. Under IFRS, government-related entities are still treated as related parties.

Fixed assets and intangible assets

Under PRC GAAP, only the cost model is allowed.

Under IFRS, an entity can choose either the cost model or the revaluation model as its accounting policy.

SUBSCRIPTION AND SALE

The Issuer, the Guarantor and the Company have entered into a subscription agreement with Bank of China Limited, Barclays Bank PLC, DBS Bank Ltd. and Founder Securities (Hong Kong) Limited, as the Joint Lead Managers dated 18 January 2018 (the "Subscription Agreement") pursuant to which and subject to certain conditions contained in the Subscription Agreement, the Issuer agreed to sell to the Joint Lead Managers, and the Joint Lead Managers agreed to severally and not jointly subscribe and pay for, or to procure subscribers to subscribe and pay for each series of the Bonds at an issue price of 100 per cent. of their principal amount set forth opposite its name below:

Joint Lead Managers	**Principal amount of the Series A Bonds to be subscribed**	**Principal amount of the Series B Bonds to be subscribed**
BANK OF CHINA LIMITED	U.S.$50,000,000	U.S.$100,000,000
BARCLAYS BANK PLC	U.S.$50,000,000	U.S.$100,000,000
DBS BANK LTD.	U.S.$50,000,000	U.S.$100,000,000
FOUNDER SECURITIES (HONG KONG) LIMITED	U.S.$50,000,000	U.S.$100,000,000
Total	U.S.$200,000,000	U.S.$400,000,000

The Subscription Agreement provides that the Issuer, the Guarantor and the Company will jointly and severally indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Each of the Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Each of the Joint Lead Managers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer, the Guarantor and the Company, for which they received or will receive customary fees and expenses.

The Joint Lead Managers and their affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution. In the ordinary course of their various business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer, the Company and/or the Guarantor.

In connection with the issue of the Bonds, the Stabilising Manager or any person acting on behalf of the Stabilising Manger may, to the extent permitted by applicable laws and directives, over-allot the Bonds or effect transactions with a view to supporting the price of the Bonds at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager or any person acting on behalf of the Stabilising Manger shall act as principal and not as agent of the Issuer, the Company or the Guarantor. However, there is no assurance that the Stabilising Manager or any person acting on behalf of the Stabilising Manger will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any loss or profit sustained as a consequence of any such overallotment or stabilisation shall be for the account of the Joint Lead Managers.

General

The Bonds are a new issue of securities with no established trading market. No assurance can be given as to the liquidity of any trading market for the Bonds.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

If a jurisdiction requires that the offering of the Bonds be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering of the Bonds shall be deemed to be made by the Joint Lead Managers or their affiliate on behalf of the Issuer in such jurisdiction.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

  (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United States

The Bonds and the Guarantee have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds and the Guarantee are being offered and sold outside the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds and the Guarantee, an offer or sale of Securities or Guarantee within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Joint Lead Managers has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

British Virgin Islands

The Bonds has not been and will not be offered to members of the public in the British Virgin Islands or to any natural person resident or citizen in the British Virgin Islands to subscribe for any of the Bonds. This Offering Circular does not constitute on offering of the bonds to any person in the British Virgin Islands.

Hong Kong

Each of the Joint Lead Managers has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "CWUMPO") or which do not constitute an offer to the public within the meaning of the CWUMPO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each of the Joint Lead Managers has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore and the Bonds will be offered pursuant to exemptions under the Securities and futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, each of the Joint Lead Managers has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause any Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFS) pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

PRC

The Joint Lead Managers have represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended, the "FIEA"). Accordingly, each of the Joint Lead Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidelines of Japan.

GENERAL INFORMATION

1. **Clearing Systems**: The Series A Bonds have been accepted for clearance through Euroclear and Clearstream in Common Code 175178872 and ISIN XS1751788727. The Series B Bonds have been accepted for clearance through Euroclear and Clearstream in Common Code 175179283 and ISIN XS1751792836. The Legal Entity Identifier of the Issuer is 549300ED8J4IE3JZHD75.

2. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Bonds and the entry into, delivery and performance of its obligations under the Bonds, the Trust Deed, the Agency Agreement, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking. The issue of the Bonds and the entry into, delivery and performance of the Trust Deed, the Agency Agreement, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking was authorised by resolutions of the Board of Directors of the Issuer on 29 December 2017. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee, the execution, delivery and performance of the Trust Deed, the Agency Agreement, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking. The giving of the Guarantee was authorised by resolutions of the Board of Directors of the Guarantor on 20 December 2017. The Company has obtained all necessary consents, approvals and authorisations in connection with entry into and delivery of the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking and the entry into and delivery of the transaction documents in connection with the Bonds was authorised by resolutions of the Board of Directors of the Company on 6 July 2017. PRC counsels to the Company and to the Joint Lead Managers have advised that no approvals or consents are required from any regulatory authorities or other relevant authorities in the PRC for the Company to enter into the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking except the NDRC filing obligations within the prescribed timeframe under the *Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (Fa Gai Wai Zi [2015] No. 2044)(《國家發展改革委員會關於推進企業發行外債備案登記制管理改革的通知》)(發改外資[2015] 2044號)*.

3. **No Material Adverse Change**: Save as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or prospects of the Issuer, the Guarantor, the Company and the Group since 30 September 2017.

4. **Litigation**: Save as disclosed in this Offering Circular, none of the Issuer, the Guarantor, the Company or any other member of the Group is involved in any litigation or arbitration proceedings that the Issuer, the Guarantor or the Company, as the case may be, believes are material in the context of the Bonds or have material adverse impact on the Issuer, the Guarantor, the Company or the Group, nor is any of the Issuer, the Guarantor or the Company aware that any such proceedings are pending or threatened.

5. **Available Documents**: Copies of the Company's audited consolidated financial statements as at and for the years ended 31 December 2015 and 2016 and the Company's unaudited but reviewed consolidated financial statements as at and for the nine months ended 30 September 2016 and 2017, the Guarantor's audited financial statements as at and for the year ended 31 December 2016, the Trust Deed and the Agency Agreement relating to the Bonds, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking and the Articles of Association of the Issuer, the Guarantor and the Company will be available for inspection from the Issue Date at the Guarantor's principal office at Room 1501, Grand Millennium Plaza (Lower Block), 181 Queen's Road Central, Hong Kong, during normal business hours, so long as any of the Bonds is outstanding.

6. **Financial Statements**: The Company's audited consolidated financial statements as at and for the year ended 31 December 2015 and 2016 have been prepared and presented in accordance with PRC GAAP and have been audited by Asia Pacific (Group) Certified Public Accountants. The Company's unaudited but reviewed consolidated interim financial statements as at and for the nine

months ended 30 September 2016 and 2017 have been prepared and presented in accordance with PRC GAAP and have been reviewed by Asia Pacific (Group) Certified Public Accountants. The Chinese Financial Statements have only been prepared in Chinese. The Financial Statements Translation has been prepared and included in this Offering Circular for reference only. Should there be any inconsistency between the Chinese Financial Statements and the Financial Statements Translation, the Chinese Financial Statements shall prevail. The Financial Statements Translation does not itself constitute audited financial statements, and is qualified in its entirety by, and is subject to the more detailed information and the financial information set out or referred to in, the Chinese Financial Statements. The Guarantor's audited financial statements as at and for the year ended 31 December 2016 have been prepared and presented in accordance with HKFRS and have been audited by Global CPA (HK) Limited. These audited and unaudited but reviewed consolidated financial statements of the Company and the Guarantor are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions.

7. **Listing**: Application has been made to the HKSE for the listing of, and permission to deal in each series of the Bonds by way of debt issues to professional investors only. It is expected that dealing in, and listing of, the Bonds on the HKSE will commence on 25 January 2018.

INDEX TO FINANCIAL STATEMENTS

Asia-Pacific (Group), CPA (Special General Partnership)
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Audit Report

Asia Pacific (Group) B Audit (2016) No.1231

To Peking University Founder Group Company Limited:

We have audited the accompanying consolidated financial statements of PKU Founder Group Co., Ltd(thereafter referred to as "Founder Group"), which comprises related consolidated balance sheet as of December 31, 2015, consolidated income statement for the year then ended, consolidated cash flow statement , consolidated statement of changes in shareholders' equity and the notes to the financial statements.

Ⅰ. Management's responsibility for the financial statements

Management of Founder Group is responsible for the preparation and fair presentation of financial statements. This responsibility includes: (1) preparing the financial statements, which is fairly presented in accordance with the *Accounting Standards for Business Enterprises* and its relevant provisions; (2) designing, implementing and maintaining the necessary internal control in order to free financial statements from material misstatement, whether due to fraud or error.

Ⅱ. Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with *Chinese Certified Public Accountants Auditing Standards*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain related audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Opinion

In our opinion, the financial statements of Founder Group have been prepared in accordance with the *Accounting Standards for Business Enterprise* and its relevant provisions in all material respect, and present fairly the financial position of your Company as of 31 December 2015, and the results of its operations and cash flows for the year then ended.

Asia Pacific(Group) CPAs (special general partnership)

Chinese Certified Public Accountant

Chinese Certified Public Accountant

Beijing·China

April 30, 2016

Consolidated Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Company Limited December 31.2015 Unit: (RMB) Yuan

	Row No.	Closing balance	Opening Balance
Current Assets:	1		
Monetary funds	2	29,454,911,529.68	23,079,532,862.45
Measured at fair value and the changes are recorded into the profits and losses of the current financial assets	3	25,060,811,843.47	5,719,726.330.77
Derivative financial assets	4	34,552,865.00	
Notes receivable	5	822,513,237.81	874,430,707.95
Dividend receivable	6	4,000,000.00	258,890.31
Interest receivable	7	1,591,561,919.20	935,260,766.30
Accounts receivable	8	5,535,774,668.62	6,752,992,877.84
Other receivables	9	55,681,150,968.06	40,242,407,366.59
Advances to suppliers	10	4,134,668,411.90	3,340,288,957.62
Inventories	11	4,845,022,612.41	5,528,969,551.83
Including:raw materials	12	357,762,002.21	687,033,662.85
Finished goods	13	3,463,256,191.80	4,130,859,623.88
Long-term debt investment	14	-	0.00
Other current assets	15	6,623,921,614.08	5,345,892,528.26
Including: partition hold-for-sale assets	16	45,559,560.18	
Sub-total of current assets	17	133,788,889,670.23	90,819,760,839.92
Non-current assets:	18		
△Available-for-sale financial assets	19	22,228,464,132.84	29,367,047,368.87
△Held-to-maturity investment	20	2,237,877,418.19	2,668,540,062.13
△Investment property	21	0.00	0.00
Long-term equity investment	22	4,489,122,618.25	3,880,373,981.93
△Investment properties	23	8,467,187,317.00	5,621,855,185.18
Fixed assets-cost	24	14,947,959,505.79	13,592,979,480.83
Less:Accumulated depreciation	25	5,893,104,791.75	5,152,607,602.53
Fixed assets-net value	26	9,054,854,714.04	8,440,371,878.30
Less:Impairment of fixed assets	27	32,544,780.00	38,816,970.61
Net value of fixed assets	28	9,022,309,934.04	8,401,554,907.69
Construction in progress	29	6,004,685,512.35	5,796,310,094.50
Project material	30	40,860,746.87	28,740,842.58
Disposal of fixed assets	31	6,106,973.19	6,104,313.30
△Productive biological assets	32	0.00	0.00
△Oil-and-gas assets	33	0.00	0.00
Intangible assets	34	796,820,777.60	659,250,163.78
Including:land use rights	35	325,003,077.33	307,546,816.55
△Development expenditure	36	181,573,490.70	136,390,842.62
△Goodwill	37	6,903,799,381.63	2,353,307,799.81
Long-term prepayments	38	435,072,817.91	156,586,572.08
△Deferred income tax assets	39	133,752,548.67	175,952,329.45
Other non-current assets(Other long-term assets)	40	1,823,936,595.89	2,018,280,234.34
Including:Specially approved reserving materials	41	0.00	0.00
Total non-current assets	42	62,771,570,265.33	61,270,094,718.26
Total Assets	43	196,560,459,935.56	152,089,855,558.18

Chairman: CFO: GM of Finance Department:

Consolidated Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Company Limited | December 31,2015 | Unit: (RMB) Yuan

Liabilities and shareholders' equity	Row No.	Closing balance	Opening Balance
Current Liabilities:	44		
Short-term loans	45	14,690,233,275.36	15,520,716,129.67
Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities	46	1,668,996,284.93	2,500,460,951.08
Derivative financial liabilities	47	16,832,107.99	0.00
Notes payable	48	5,723,574,073.96	4,836,373,804.76
Accounts payable	49	1,684,308,054.34	2,519,455,040.22
Advances from customers	50	948,913,873.36	812,877,372.72
Accrued wages	51	2,249,496,079.03	1,104,728,787.89
Including:Accrued payroll	52	2,127,068,723.64	1,012,220,840.20
Including:Welfare expenses payable	53	52,970,238.66	41,844,431.12
Taxes and dues payable	54	273,703,801.30	547,918,202.02
Including:Taxes payable	55	265,087,909.12	542,482,171.77
Accrued interest payable	56	1,881,615,242.71	322,846,761.38
Dividends payable	57	8,957,781.78	8,957,781.78
Other amounts payables	58	21,689,272,991.06	11,803,118,001.42
Partition hold-for-sale liabilities	59	0.00	
Long-term liabilities due within a year	60	704,566,341.12	511,965,038.03
Other current liabilities	61	22,644,513,532.89	22,586,758,195.78
Sub-total of current liabilities	62	**74,184,981,439.83**	**83,076,176,066.75**
Non-current liabilities:	63		
Long-term borrowings	64	6,848,196,780.78	8,769,492,598.03
Bonds payable	65	54,667,815,285.85	28,150,225,299.49
Long-term payables	66	763,351,812.59	690,493,857.28
Long-term accrued wages	67	13,000,404.35	
Special payable	68	1,908,942,916.60	1,480,293,692.81
Estimated liabilities	69	306,151,267.39	200,848,764.38
Deferred revenue	70	126,335,520.54	
△Deferred income tax liabilities	71	1,721,538,677.94	1,394,869,117.53
Other non-current liabilities	72	2,316,210,699.34	2,071,773,963.21
Including:Special reserve fund	73		0.00
Total non-current liabilities	74	**68,670,543,365.38**	**40,757,997,292.73**
Total liabilities	75	**142,855,524,805.21**	**103,834,173,359.48**
OWNERS' EQUITY (**stockholder's equity**):	76		
Paid-in capital (or stock)	77	1,102,528,600.00	1,050,000,000.00
Including:National capital	78	771,770,000.00	735,000,000.00
Collective capital	79	0.00	
Legal person's capital	80	330,758,600.00	315,000,000.00
Including:State-owned legal person's capital	81		
Collective legal person's capital	82		
Personal capital	83		
Foreign businessmen's capital	84		
Other equity instruments	85	0.00	
Capital surplus	86	2,534,588,753.82	2,534,588,753.82
Less;treasury stock	87	0.00	
Other comprehensive income	88	6,238,784,939.69	5,186,081,251.98
Including:translation reserve	89	29,994,838.83	19,530,428.06
Surplus reserve	90	391,180,286.72	391,180,286.72
△Generic Risk Reserve	91	0.00	
Undistributed profit	92	10,274,544,184.31	9,409,281,461.79
Including:cash dividends	93	0.00	
Total owners' equity attributable to the parent company	94	**20,541,626,764.54**	**18,571,131,754.31**
*Minority interests	95	33,163,308,365.81	29,684,550,444.39
Total shareholder"s equity	96	**53,704,935,130.35**	**48,255,682,198.70**
# Less:assets loss	97		
Total owners' equity (excluding the asset loss)	98	**53,704,935,130.35**	**48,255,682,198.70**
Total liabilities and owners' equity	99	**196,560,459,935.56**	**152,089,855,558.18**

Chairman: | CFO: | GM of Finance Department:

4

Consolidated Income Statement

Corporate accounting statement 02

Prepared by: Peking University Founder Group Company Limited　　For the year ended December 31,2015　　Unit: (RMB) Yuan

	Row No.	Current Year Cumulative	Last Year Cumulative
I.Gross revenue	1	**80,511,288,420.52**	**74,754,395,755.08**
Including:operating revenue	2	80,511,288,420.52	74,754,395,755.08
Including:prime operating revenue	3	79,986,270,577.31	74,250,969,209.22
Other operating revenue	4	525,017,843.21	503,426,545.86
II.Total operating costs	5	**82,124,902,024.92**	**76,271,332,844.59**
Including:operating costs	6	69,138,821,465.26	68,548,793,151.64
Including:prime operating revenue	7	68,828,606,883.43	68,261,275,667.98
Other operating cost	8	310,214,581.83	287,517,483.66
Business tariff and annex	9	1,106,367,719.71	552,618,630.97
Marketing expenses	10	2,201,047,596.55	2,094,869,357.48
General and administrative expenses	11	3,324,488,550.46	1,154,788,883.68
Including:business entertainment expenses	12	198,061,579.38	130,882,258.94
Research and development expense	13	305,845,699.60	293,762,925.89
Financial expenses	14	5,671,210,735.87	3,700,274,154.83
Including:Interest expense	15	5,941,623,962.44	3,932,812,392.25
Interest revenue ("+")	16	356,064,363.04	363,696,277.45
Exchange net loss ("-" for net income)	17	-19,822,388.99	57,391,133.96
ΔImpairment losses on assets	18	682,965,957.07	219,988,665.99
Add: Gain on the change of fair value ("-" for loss)	19	1,190,994,367.09	120,924,809.96
Income from investment ("-" for loss)	20	6,397,480,192.76	3,843,068,840.08
Including: Income from investment in associates and joint ventures	21		
III.Operating profit (loss with "-")	22	**5,974,860,955.45**	**2,447,056,560.53**
Plus: non-operating revenue	23	403,827,263.19	782,211,441.89
Including: non-current asset disposal profits	24	111,464,094.65	263,701,012.96
Non-monetary asset exchange profits (non-monetary transactions revenue)	25	-	-
Government subsidies (subsidize revenue)	26	187,988,326.48	434,202,930.41
Debt restructuring profits	27	-	
Less: non-operating expense	28	266,868,942.92	185,902,334.05
Including: non-current asset disposal losses	29	14,177,074.74	14,187,495.29
Non-monetary asset exchange losses (non-monetary transactions losses)	30	-	-
Debt restructuring losses	31	-	-
IV.Total profit ("-" for loss)	32	**6,111,819,275.72**	**3,043,365,668.37**
Less: Income tax	33	1,794,313,260.41	1,096,920,186.83
Add:* # Unrecognised profit and loss on investments	34		
V.Net profit ("-" for loss)	35	**4,317,506,015.31**	**1,946,445,481.54**
Less: *Minority interests	36	3,064,147,138.18	1,809,884,703.60
VI.Net profit attributable to owners of the parent	37	**1,253,358,877.13**	**136,560,777.94**
VII.Other comprehensive income after-tax net income	38	**1,754,089,852.76**	**-1,258,090.47**
Other comprehensive income after-tax net income attributable to owners of the parent	39	**1,052,703,687.71**	**-270,488,251.42**
(I)Other comprehensive income which can not be reclassified into the gains and losses afterwards	40		
1.Remeasure and define benefit plan net debt or net asset changes	41		
2.The share of other comprehensive income owned when the invested entity cannot be reclassified into the gains and losses afterwards under the equity method	42		
(II)Other comprehensive income which can be reclassified into the gains and losses afterwards	43	1,052,703,687.71	-270,488,251.42
1、The share of other comprehensive income owned when the invested entity can be reclassified into the gains and losses afterwards under the equity method	44	639,605,033.02	-1,016,829,639.25
2.Available-for-sale financial assets fair value changes gains and losses	45	402,634,242.46	729,746,723.48
3.Held-to-maturity investments reclassified as available-for-sale financial assets gains and losses	46		
4.Effective part of the cash flow hedging gains and losses	47		
5.The translation of foreign currency financial statements.	48	10,464,410.78	16,594,864.35
6. Others	49	1.45	-
Other comprehensive income after-tax net income attributable to minority shareholders	50	**701,386,165.05**	**269,230,160.96**
VIII.Total consolidated income	51	**6,071,595,868.07**	**1,945,187,391.07**
Total consolidated income attributable to owners of the parent	52	2,306,062,564.84	-133,927,473.48
Total consolidated income attributable to minority shareholders	53	3,765,533,303.23	2,079,114,864.55
IX.Earnings per share	54		
(I) basic earnings per share	55		
(II) diluted earnings per share	56		

Chairman:　　CFO:　　GM of Finance Department:

Consolidated Statement of Cash Flows

Prepared by: Peking University Founder Group Company Limited

For the year ended December 31,2015

Corporate accounting statement 03

Unit: RMB Yuan

	Row No.	Current period	Corresponding period of last year	Supplemental Information	Row No	Current period
I. Cash flows from operating activities:	1			1. Reconciliation of net income to cash flows from operating activities:	41	
Cash received from the sale of goods and rendering of services	2	90,749,838,281.74	69,846,689,805.07	Net profit	42	4,317,506,015.31
Refunds of taxes received	3	211,644,132.73	147,054,613.34	Less: * unrecognized losses on investments	43	
Other cash receipts relating to operating activities	4	2,339,194,453.21	2,038,435,125.56	Plus: Provision for impairment of assets	44	682,965,957.07
Subtotal of cash inflows from operating activities	5	93,300,676,867.68	72,032,179,544.57	Depreciation of fixed assets, productive biological assets and depletion of oil and natural gas assets	45	740,497,189.22
Cash paid for goods and services	6	81,234,744,251.80	63,182,360,080.98	Amortization of intangible assets	46	88,862,180.53
Cash paid to and for employees	7	4,744,912,032.97	3,755,402,009.75	Amortization of long-term deferred expenses	47	59,788,810.90
Taxes paid	8	3,945,423,627.04	1,973,120,349.78	Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	48	-97,406,164.48
Other cash payments relating to operating activities	9	2,165,491,470.26	1,983,004,668.95	Losses on scrapping of fixed assets ("-" for gains)	49	119,144.57
Subtotal of cash outflows from operating activities	10	92,110,571,382.07	70,893,887,109.44	ΔLosses on changes of fair value ("-" for gains)	50	-1,180,994,367.09
Net cash flows from operating activities	11	1,190,105,485.61	1,138,292,435.13	Financial expenses ("-" for gains)	51	5,671,210,735.87
II. Cash flows from investing activities	12			Losses on investment ("-" for gains)	52	-6,397,480,192.70
Cash received from disposal of investments	13	9,535,628,550.25	10,848,865,405.09	Decrease in deferred income tax assets ("-" for increases)	53	42,189,780.78
Cash received from returns on investments	14	807,618,289.70	910,497,835.80	Increase in deferred income tax liabilities ("-" for decreases)	54	326,669,560.41
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	15	47,688,290.44	52,333,493.91	Decrease in inventories ("-" for increases)	55	683,946,939.42
Net cash received from disposal of subsidiaries and other business units	16	-	-	Decrease in operating receivables ("-" for increases)	56	-3,907,220,509.32
Other cash receipts relating to investing activities	17	14,218,777,050.40	2,555,814,891.89	Increase in operating payables ("-" for decreases)	57	171,440,405.18
Subtotal of cash inflows from investing activities	18	24,609,712,180.79	14,367,511,626.69	Others	58	
Cash paid for pruchase of fixed assets, intangible assets and other long-term assets	19	2,692,694,523.72	3,713,057,269.72	Net cash flows from operating activities	59	1,190,105,485.61
Cash paid for investments	20	28,167,814,875.40	17,363,668,910.59		60	
Net cash received from subsidiaries and other business units	21	-	-	2. Investing and financing activities that do not involve cash receipts and payments	61	
Other cash payments relating to investing activities	22	69,864,753.22	142,297,077.98	Conversion of debts into capital	62	
Subtotal of cash outflows from investing activities	23	30,930,374,152.34	21,219,023,258.29	Convertible bonds to be expired within 1 year	63	
Net cash flows from investing activities	24	-6,320,661,971.55	-6,851,511,631.60	Fixed assets under finance lease	64	
III. Cash flows from financing activities:	25				65	
Cash received from capital contributions	26	396,423,831.47	807,676,185.71	3. Net increase in cash and cash equivalents:	66	
Including:cash received by subsidiaries from minority shareholders' capital contributions	27			Cash at the end of the period	67	29,454,911,529.68
Cash received from borrowings	28	90,342,368,313.95	54,464,648,057.27	Less: Cash at the beginning of the period	68	23,079,532,862.45
Other cash receipts relating to financing activities	29	-	-	Add: Cash equivalents at the end of the period	69	
Subtotal of cash inflows from financing activities	30	90,738,791,945.42	55,362,324,242.98	Less: Cash equivalents at the beginning of the period	70	
Cash paid upon repayments of borrowings	31	68,991,858,579.82	39,753,033,275.02	Less: the amount of deducting non-cash equivalents like deposit	71	
Distribution of dividends or profits and interests payments	32	5,967,900,657.45	3,999,393,732.87	Net increase in cash and cash equivalents	72	6,375,378,667.23
Including:dividends or profits and interests paid by subsidiaries to minority shareholders	33	-				
Other payments relating to financing activities	34	4,399,805,381.67	5,619,478,591.12			
Subtotal of cash outflows from financing activities	35	79,359,562,618.94	49,371,905,599.01			
Net cash flow from financing activities	36	11,379,229,326.48	5,990,418,643.97			
IV. Effect of exchange rate changes on cash	37	126,705,826.69	-22,958,877.94			
V. Net increase in cash and cash equivalents	38	6,375,378,667.23	254,240,569.56			
Add: the balance of cash and cash equivalents at the beginning of the period	39	23,079,532,862.45	22,825,292,292.89			
VI. The balance of cash and cash equivalents at the ending of the period	40	29,454,911,529.68	23,079,532,862.45			

Chairman: CFO: GM of Finance Department:

Consolidated Statement of Changes in Equity

Corporate accounting statement 04

Prepared by: Peking University Founder Group Company Limited

For the year ended December 31,2015

Unit:(RMB) Yuan

Item	Row No.	Current amount										
		Total owners' equity attributable to the parent company										
		Paid-in capital (share capital)	Other equity instruments			Capital reserve	Other comprehensive income	Surplus reserve	Generic Risk Reserve	Undistributed profit	Minority equity	Total owners' equity
			Preferred stock	Perpetual bond	Other							
I. Balance at the end of last year	1	1,050,000,000.00				2,534,588,753.82	5,185,081,251.98	391,180,286.72	-	9,409,281,461.79	29,684,550,444.39	48,255,682,198.70
Add: Changes in accounting policies	2											-
Prior period errors adjustments	3											-
Others	4									-388,096,154.61		-388,096,154.61
II. Balance at the beginning of the current year	5	1,050,000,000.00	-	-	-	2,534,588,753.82	5,185,081,251.98	391,180,286.72	-	9,021,185,307.18	29,684,550,444.39	47,867,586,044.09
III. Increase (decrease) during the current period ("-" for loss)	6	52,528,600.00	-	-	-	-	1,052,703,687.71	-	-	1,253,358,877.13	3,478,757,921.42	5,837,349,086.26
(I) Net profit for the current period	7									1,253,358,877.13	3,064,147,138.18	4,317,506,015.31
(II) Profits and losses directly credited to owners' equity	8	-	-	-	-	-	1,052,703,687.71	-	-	-	701,386,165.05	1,754,089,852.76
1. ΔNet change in fair value of available-for-sale financial assets	9						402,634,242.46				709,540,209.59	1,112,174,452.05
2. Other owner's equity changes consequences related to the invested enterprise under the enquity method	10						639,605,033.02					639,605,033.02
3. Income tax consequences related to items credited to owners' equity	11											-
4. Others	12						10,464,412.23				-8,154,044.54	2,310,367.69
Subtotal of (I)and (II)	13	-	-	-	-	-	1,052,703,687.71	-	-	1,253,358,877.13	3,765,533,303.23	6,071,595,868.07
(III)Capital contributions and reductions from owners	14	52,528,600.00	-	-	-	-	-	-	-	-	-268,785,761.81	-216,257,161.81
1. Capital contributions during the current period	15	52,528,600.00									175,923,631.47	228,452,231.47
2. Other equity instruments owner capital contributions (The new subsidiary item)	16											-
3. The amount of shared-based payment credited to owners' equity	17											-
4. Others	18										-444,709,393.28	-444,709,393.28
(IV) Profit distribution for the current period	19	-	-	-	-	-	-	-	-	-	-17,989,620.00	-17,989,620.00
1. Withdrawls of surplus reserves	20											-
Including:legal accumulation fund	21											-
Optional accumulation fund	22											-
2. Withdrawls of generic risk reserve (completed by financial enterprises)	23											-
3. Distribution of the owner (or shareholder)	24										-17,989,620.00	-17,989,620.00
Including state-owned enterprises profit payable (state-owned shares dividends or profits)	25											-
Ordinary stock dividend	26											-
Ordinary stock dividend converted into share capital (capital)	27											-
4. Others	28											-
(V) Transfer within owners' equity	29	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserve conversion into capital (share capital)	30											-
2. Surplus reserve conversion into capital (share capital)	31											-
3. Surplus reserve to recover losses	32											-
4 Others	33											-
IV. Balance at the end of the current period	34	1,102,528,600.00	-	-	-	2,534,588,753.82	6,238,784,939.69	391,180,286.72	-	10,274,544,184.31	33,163,308,365.81	53,704,935,130.35

Chairman: CFO: Department:

Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Company Limited December 31,2015 Unit: (RMB) Yuan

Assets	Row No.	closing balance	opening balance
Current assets:	1		
Monetary funds	2	4,131,079,551.25	5,651,371,363.48
Measured at fair value and the changes are recorded into the profits and losses of the current financial assets	3	-	
Derivative financial assets	4	-	
Notes receivable	5	-	4,500,000.00
Dividend receivable	6	-	
Interest receivable	7	-	
Accounts receivable	8	281,624,532.71	235,704,363.95
Other receivables	9	32,386,260,427.05	29,575,638,610.09
Advances to suppliers	10	89,029,625.66	53,554,118.88
Inventories	11	401,143,873.66	378,374,394.43
Including:raw materials	12	-	
Finished goods	13	401,143,873.66	378,374,394.43
Long-term debt investment	14	-	
Other current assets	15	-	10,277,374.56
Including: partition hold-for-sale assets	16		
Sub-total of current assets	17	37,289,138,210.33	35,909,318,425.39
Non-current assets:	18		
△Available-for-sale financial assets	19	692,875,521.00	564,439,333.98
△Held-to-maturity investment	20		
△Investment property	21		
Long-term equity investment	22	26,335,586,106.67	27,750,896,230.23
△Investment properties	23	1,391,897,760.00	1,377,596,235.00
Fixed assets-cost	24	123,582,316.05	120,639,174.22
Less:Accumulated depreciation	25	84,170,610.13	76,237,915.52
Fixed assets-net value	26	39,411,705.92	44,401,258.70
Less:Impairment of fixed assets	27		
Net value of fixed assets	28	39,411,705.92	44,401,258.70
Construction in progress	29		2,205,000.00
Project material	30		
Disposal of fixed assets	31	6,104,313.30	6,104,313.30
△Productive biological assets	32		
△Oil-and-gas assets	33		
Intangible assets	34	47,816,984.41	38,676,173.17
Including:land use rights	35	3,666,560.00	3,804,056.00
△Development expenditure	36		
△Goodwill	37		
Long-term prepayments	38		
△Deferred income tax assets	39		
Other non-current assets (Other long-term assets)	40		
Including:Specially approved reserving materials	41		
Total non-current assets	42	28,513,692,391.30	29,784,318,544.38
Total Assets	43	65,602,830,601.63	65,693,636,969.77

Chairman: CFO: GM of Finance Department:

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Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Company Limited | December 31,2015 | Unit: (RMB) Yuan

Liabilities and shareholders' equity	Row No.	closing balance	opening balance
Current Liabilities:	44		
Short-term loans	45	10,329,000,000.00	8,581,000,000.00
Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities	46		
Derivative financial liabilities	47		
Notes payable	48	2,879,455,000.00	2,977,155,000.00
Accounts payable	49	292,137,195.48	116,432,067.50
Advances from customers	50	328,531,231.29	84,185,616.50
Accrued wages	51	61,666,112.92	63,041,762.62
Including:Accrued payroll	52	38,152,700.33	38,152,700.40
Including:Welfare expenses payable	53	23,488,764.95	24,864,414.48
Taxes and dues payable	54	-7,836,343.52	-3,470,412.14
Including:Taxes payable	55	-7,870,096.21	-3,610,090.45
Accrued interest payable	56		
Dividends payable	57		
Other amounts payables	58	14,242,382,377.69	10,670,358,433.31
Partition hold-for-sale liabilities	59		
Long-term liabilities due within a year	60		
Other current liabilities	61	8,503,072.22	202,082,690.19
Sub-total of current liabilities	62	**28,133,838,646.08**	**22,690,785,157.88**
Non-current liabilities:	63		
Long-term borrowings	64	4,016,453,172.37	4,290,607,780.80
Bonds payable	65	16,407,230,833.32	22,319,888,333.28
Long-term payables	66		
Long-term accrued wages	67		
Special payable	68	52,384,451.44	53,145,251.44
Estimated liabilities	69		
Deferred revenue	70		
△Deferred income tax liabilities	71	400,807,877.40	334,848,374.83
Other non-current liabilities	72		
Including:Special reserve fund	73		
Total non-current liabilities	74	**20,875,876,334.63**	**26,998,489,740.35**
Total liabilities	75	**49,009,714,980.61**	**49,689,274,898.23**
OWNERS' EQUITY (stockholder's equity):	76		
Paid-in capital (or stock)	77	1,102,528,600.00	1,050,000,000.00
Including:National capital	78	771,770,000.00	735,000,000.00
Collective capital	79		
Legal person's capital	80	330,758,600.00	315,000,000.00
Including:State-owned legal person's capital	81		
Collective legal person's capital	82		
Personal capital	83		
Foreign businessman's capital	84		
Other equity instruments	85		
Capital surplus	86	87,112,555.89	87,112,555.89
Less:treasury stock	87		
Other comprehensive income	88	5,059,443,712.39	4,424,726,837.97
Including:translation reserve	89		
Surplus reserve	90	325,339,139.47	325,339,139.47
△Generic Risk Reserve	91		
Undistributed profit	92	10,218,691,613.27	10,117,183,538.21
Including:cash dividends	93		
Total owners' equity attributable to the parent company	94	**16,793,115,621.02**	**16,004,362,071.54**
*Minority interests	95		
Total shareholder"s equity	96	**16,793,115,621.02**	**16,004,362,071.54**
# Less:assets loss	97		
Total owners' equity (excluding the asset loss)	98	**16,793,115,621.02**	**16,004,362,071.54**
Total liabilities and owners' equity	99	**65,802,830,601.63**	**65,693,636,969.77**

Chairman: CFO: GM of Finance Department:

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Income Statement

Corporate accounting statement 02

Prepared by: Peking University Founder Group Company Limited — For the year ended December 31.2015 — Unit: (RMB) Yuan

Item	Row No.	Current Year Cumulative	Last Year Cumulative
I.Gross revenue	1	7,426,826,410.07	11,296,844,027.01
Including:operating revenue	2	7,426,826,410.07	11,296,844,027.01
Including:prime operating revenue	3	7,382,351,290.92	11,215,473,803.76
Other operating revenue	4	44,475,119.15	81,370,223.25
II.Total operating costs	5	10,607,226,384.36	13,862,696,429.88
Including:operating costs	6	7,239,082,937.69	10,987,308,856.36
Including:prime operating revenue	7	7,233,966,029.97	10,982,191,948.64
Other operating cost	8	5,116,907.72	5,116,907.72
Business tariff and annex	9	152,695,552.86	7,320,381.46
Marketing expenses	10	5,021,722.92	7,961,823.23
General and administrative expenses	11	222,595,514.98	309,015,728.20
Including:business entertainment expenses	12	1,746,765.55	3,520,018.20
Research and development expense	13		
Financial expenses	14	2,987,830,655.91	2,551,089,642.63
Including:interest expense	15	3,031,814,368.77	2,618,052,411.54
Interest revenue ("+")	16	110,892,442.13	106,673,889.79
Exchange net loss ("-" for net income)	17	22,362.85	
ΔImpairment losses on assets	18		
Add: Gain on the change of fair value ("-" for loss)	19	14,301,525.00	117,527,281.50
Income from investment ("-" for loss)	20	3,645,323,129.24	3,357,156,087.74
Including: Income from investment in associates and joint ventures	21		
III.Operating profit (loss with '-')	22	479,224,679.95	908,830,966.37
Plus: non-operating revenue	23	27,752,976.01	28,188,641.50
Including: non-current asset disposal profits	24	450.00	141,571.06
Non-monetary asset exchange profits (non-monetary transactions revenue)	25		
Government subsidies (subsidize revenue)	26	6,561,050.00	3,661,150.00
Debt restructuring profits	27		
Less: non-operating expense	28	12,115,216.86	61,492,004.96
Including: non-current asset disposal losses	29	69,248.81	2,348.14
Non-monetary asset exchange losses (non-monetary transactions losses)	30		
Debt restructuring losses	31		
IV.Total profit ("-" for loss)	32	494,862,439.10	875,527,502.91
Less: Income tax	33	5,258,209.43	31,064,648.55
Add:* # Unrecognised profit and loss on investments	34		
V.Net profit ("-" for loss)	35	489,604,229.67	844,462,854.36
Less: *Minority Interests	36		
VI.Net profit attributable to owners of the parent	37	489,604,229.67	844,462,854.36
VII.Other comprehensive income after-tax net income	38	634,716,874.42	-1,031,842,665.44
Other comprehensive income after-tax net income attributable to owners of the parent	39	634,716,874.42	-1,031,842,665.44
(I)Other comprehensive income which can not be reclassified into the gains and losses afterwards	40		
1.Remeasure and define benefit plan net debt or net asset changes	41		
2.The share of other comprehensive income owned when the invested entity cannot be reclassified into the gains and losses afterwards under the equity method	42		
(II)Other comprehensive income which can be reclassified into the gains and losses afterwards	43	634,716,874.42	-1,031,842,665.44
1、The share of other comprehensive income owned when the invested entity can be reclassified into the gains and losses afterwards under the equity method	44	566,981,980.54	-930,319,901.56
2.Available-for-sale financial assets fair value changes gains and losses	45	67,734,893.88	-101,522,763.88
3.Held-to-maturity investments reclassified as available-for-sale financial assets gains and losses	46		
4.Effective part of the cash flow hedging gains and losses	47		
5.The translation of foreign currency financial statements.	48		
6. Others	49		
Other comprehensive income after-tax net income attributable to minority shareholders	50		
VIII.Total consolidated income	51	1,124,321,104.09	-187,379,811.08
Total consolidated income attributable to owners of the parent	52	1,124,321,104.09	-187,379,811.08
Total consolidated income attributable to minority shareholders	53	-	
IX.Earnings per share	54		
(I) basic earnings per share	55		
(II) diluted earnings per share	56		

Chairman: CFO: GM of Finance Department:

Statement of Cash Flows

Prepared by: Peking University Founder Group Company Limited

For the year ended December 31,2015

Corporate accounting statement 03

Unit: RMB Yuan

Item	Row No	Current period	Corresponding period of last year
I. Cash flows from operating activities:	1		
Cash received from the sale of goods and rendering of services	2	8,629,751,856.10	12,089,896,937.94
Refunds of taxes received	3		
Other cash receipts relating to operating activities	4	178,577,498.68	788,593,016.30
Subtotal of cash inflows from operating activities	5	8,808,329,354.78	12,878,489,954.24
Cash paid for goods and services	6	7,121,622,995.72	11,063,014,298.89
Cash paid to and for employees	7	106,788,993.11	311,914,465.19
Taxes paid	8	561,565,494.37	27,475,564.71
Other cash payments relating to operating activities	9	847,694,326.46	1,270,829,082.65
Subtotal of cash outflows from operating activities	10	8,637,671,809.66	12,673,233,411.44
Net cash flows from operating activities	11	170,657,545.12	205,256,542.80
II. Cash flows from investing activities	12		
Cash received from disposal of investments	13	468,884,422.90	4,119,208,590.77
Cash received from returns on investments	14	59,524,885.64	162,128,976.46
Net cash received from disposal of fixed assets, intangible assets and other long-	15	18,000.00	430,508.00
Net cash received from disposal of subsidiaries and other business units	16		
Other cash receipts relating to investing activities	17		
Subtotal of cash inflows from investing activities	18	528,427,308.54	4,281,766,075.23
Cash paid for pruchase of fixed assets, intangible assets and other long-term assets	19	619,642.00	3,801,688.00
Cash paid for investments	20	229,500,000.00	358,000,000.00
Net cash received from subsidiaries and other business units	21		
Other cash payments relating to investing activities	22		
Subtotal of cash outflows from investing activities	23	230,119,642.00	361,801,688.00
Net cash flows from investing activities	24	298,307,666.54	3,919,964,387.23
III. Cash flows from financing activities:	25		
Cash received from capital contributions	26		35,714,285.71
Including:cash received by subsidiaries from minority shareholders' capital contributions	27		
Cash received from borrowings	28	40,727,302,630.38	29,210,442,342.70
Other cash receipts relating to financing activities	29	3,317,964,133.58	
Subtotal of cash inflows from financing activities	30	44,045,266,763.96	29,246,156,628.41
Cash paid upon repayments of borrowings	31	43,002,687,056.23	22,333,000,000.00
Distribution of dividends or profits and interests payments	32	3,031,814,368.77	2,618,052,411.54
Including:dividends or profits and interests paid by subsidiaries to minority	33		
Other payments relating to financing activities	34		7,745,441,737.43
Subtotal of cash outflows from financing activities	35	46,034,501,425.00	32,696,494,148.97
Net cash flow from financing activities	36	-1,989,234,661.04	-3,450,337,520.56
IV. Effect of exchange rate changes on cash	37	-22,362.85	
V. Net increase in cash and cash equivalents	38	-1,520,291,812.23	674,883,409.47
Add: the balance of cash and cash equivalents at the beginning of the period	39	5,651,371,363.48	4,976,487,954.01
VI. The balance of cash and cash equivalents at the ending of the period	40	4,131,079,551.25	5,651,371,363.48

Supplemental information	Row No.	Current period
1. Reconciliation of net income to cash flows from operating activities	41	
Net profit	42	489,804,229.87
Less: * unrecognized losses on investments	43	-
Plus: Provision for impairment of assets	44	-
Depreciation of fixed assets, productive biological assets and depletion of oil and natural gas assets	45	7,932,694.61
Amortization of intangible assets	46	5,356,701.10
Amortization of long-term deferred expenses	47	-
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	48	68,798.81
Losses on scrapping of fixed assets ("-" for gains)	49	-
ΔLosses on changes of fair value ("-" for gains)	50	-14,301,525.00
Financial expenses ("-" for gains)	51	2,987,830,655.91
Losses on investment ("-" for gains)	52	-3,645,323,129.24
Decrease in deferred income tax assets ("-" for increases)	53	-
Increase in deferred income tax liabilities ("-" for decreases)	54	65,959,502.57
Decrease in inventories ("-" for increases)	55	-22,769,479.23
Decrease in operating receivables ("-" for increases)	56	-118,010,065.87
Increase in operating payables ("-" for decreases)	57	414,309,161.79
Others	58	
Net cash flows from operating activities	59	170,657,545.12
	60	
2. Investing and financing activities that do not involve cash receipts and payments	61	
Conversion of debts into capital	62	
Convertible bonds to be expired within 1 year	63	
Fixed assets under finance lease	64	
	65	
3. Changes in cash and cash equivalents:	66	
Cash at the end of the period	67	4,131,079,551.25
Less: Cash at the beginning of the period	68	5,651,371,363.48
Add: Cash equivalents at the end of the period	69	
Less: Cash equivalents at the beginning of the period	70	
Less: the amount of deducting non-cash equivalents like deposit	71	
Net increase in cash and cash equivalents	72	-1,520,291,812.23

Chairman: CFO: GM of Finance Department:

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Statement of Changes in Equity

Corporate accounting statement 04

Prepared by: Peking University Founder Group Company Limited | For the year ended December 31,2015 | Unit: Yuan

Item	Row No	Paid-in capital (share capital)	Other equity instruments: Preferred	Other equity instruments: Perpetual	Other equity instruments: Other	Capital reserve	Other comprehensive	Surplus reserve	Generic Risk Reserve	Undistributed profit	Total owners' equity
I. Balance at the end of last year	1	1,050,000,000.00				87,112,555.89	4,424,726,837.97	325,339,139.47	-	10,117,183,538.21	16,004,362,071.54
Add: Changes in accounting policies	2										-
Prior period errors adjustments	3										-
Others	4									-388,096,154.61	-388,096,154.61
II. Balance at the beginning of the current year	5	1,050,000,000.00	-	-	-	87,112,555.89	4,424,726,837.97	325,339,139.47	-	9,729,087,383.60	15,616,265,916.93
III. Increase (decrease) during the current period ("-" for loss)	6	52,528,600.00	-	-	-	-	634,716,874.42	-	-	489,604,229.67	1,176,849,704.09
(I) Net profit for the current period	7									489,604,229.67	489,604,229.67
(II) Profits and losses directly credited to owners' equity	8	-	-	-	-	-	634,716,874.42	-	-	-	634,716,874.42
1. △Net change in fair value of available-for-sale financial assets	9						67,734,893.88				67,734,893.88
2. Other owner's equity changes consequences related to the invested enterprise under the enquity method	10						566,981,980.54				566,981,980.54
3. Income tax consequences related to items credited to owners' equity	11										-
4. Others	12										-
Subtotal of (I)and (II)	13	-	-	-	-	-	634,716,874.42	-	-	489,604,229.67	1,124,321,104.09
(III)Capital contributions and reductions from owners	14	52,528,600.00	-	-	-	-	-	-	-	-	52,528,600.00
1. Capital contributions during the current period	15	52,528,600.00									52,528,600.00
2. Other equity instruments owner capital contributions(The new subsidiary	16										-
3. The amount of shared-based payment credited to owners' equity	17										-
4. Others	18										-
(IV) Profit distribution for the current period	19	-	-	-	-	-	-	-	-	-	-
1. Withdrawls of surplus reserves	20										-
Including:legal accumulation fund	21										-
Optional accumulation fund	22										-
2. Withdrawls of generic risk reserve(completed by financial enterprises)	23										-
3. Distribution of the owner (or shareholder)	24										-
Including:state-owned enterprises profit payable(state-owned shares dividends or profits)	25										-
Ordinary stock dividend	26										-
Ordinary stock dividend conversed into share capital (capital)	27										-
4. Others	28										-
(V) Transfer within owners' equity	29	-	-	-	-	-	-	-	-	-	-
1. Capital reserve conversion into capital (share capital)	30										-
2. Surplus reserve conversion into capital (share capital)	31										-
3 Surplus reserve to recover losses	32										-
4.Others	33										-
IV. Balance at the end of the current period	34	1,102,528,600.00	-	-	-	87,112,555.89	5,059,443,712.39	325,339,139.47	-	10,218,691,613.27	16,793,115,521.02

Chairman: | CFO: | GM of Finance Department:

Peking University Founder Group Co., Ltd.
Notes to the Consolidated Financial Statements
For the year end of 2015

(All amounts are stated in RMB Yuan unless otherwise stated)

I. CORPORATE BASIC INFORMATION

Peking University Founder Group Co., Ltd (hereinafier referred to as "the Company") was incorporated by Beijing Municipal Administration of Industry and Commerce in December 12, 1992 with its registration No. 91110108101974963M. As of April 29, 2016, its registered capital amounted to 1,102,528,600.

Type: Other limited liability company

Registered Address: No.298, Chengfu Road, Haidian District, Beijing Municipality

Legal Person: Xiao Jianguo

Founder is engaged in Founder electronics publishing system, Founder-SUPPER Han card, computer hardware and software and related equipment, communications equipment, instrumentation, office automation equipment; technology development and transfer, tecbnical consulting, technical services and technology promotion; investment management, financial advisory (excluding conducting business without special approval, such as auditing, verifying capital, assessing, consulting auditor and bookkeeping as well as presenting corresponding written materials); sales of electronic products, self-developed products, computers, software and auxiliary equipment, instrumentation, machinery and equipment, non-metallic ores, metal ores, metal materials, building materials, chemical products (excluding hazardous chemicals and 1st catalogue precursor chemicals; import and export of products, agent and technology; loading and unloading services; warehousing services; packAgeing services; real estate development; property management.

II. SIGNIFICANT ACCOUNTING POLICY, ACCOUNTING ESTIMATE AND PRIOR PERIOD ERRORS

(I) Basis of financial statement preparation

On the basis of sustainable operation and actual transactions and items, financial statements are prepared according to *Accounting Standard for Business Enterprises- Basic Standard* and other specific provisions.

(II) Statement complied with the *Accounting Standards for Business Enterprises*

The financial statements of Founder for the twelve months ended December 31, 2015 are in compliance with the *Accounting Standards for Business Enterprises*, and truly and completely present the financial position, financial performance, cash flows and other information for the year then ended.

(III) Accounting Year

Founder's accounting year starts on January 1st and ends on December 31st.

(IV) Recording currency

The recording currency is Renminbi(CNY).

(V) Accounting treatment of business combination under same control and not under same control

1. Business combination under same control

A business combination under common control is a transaction in which all of the combining entities or businesses are ultimately controlled (not temporarily) by the same party or parties both before and after the transaction.

The assets and liabilities acquired by Founder as combining party in the business combination are measured at the book value of the combined party on the combination date. When it comes to the long-term equity investment formed under the same control, Founder shall take the share of the owner's equity of the combined party as the initial investment cost. The related accounting treatment is referred to the long-term equity investment. The assets and liabilities under the same control are accounted at the original book value of the combined party. So long as there is difference between the carrying amount of net assets obtained by Founder and the carrying amount of the paid combination (or the total amount of the issued shares), capital reserve shall be adjusted accordingly. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted.

The direct costs by Founder as the combining pany in business combination, including the audit fees paid, assessment fees and legal services fees, are included in current profit and loss.

The bonds for combination, handling fees and commission for other debts shall be recognized in the initial measurement of issued bonds and other debts. Fees and commissions in the issuance of equity securities during business combination shall be reduced by the premium income of the equity securities. If the premium income is insufficient to offset, the retained earnings shall be offset.

As to consolidation under same control with parent-subsidiary relationship, parent company prepares consolidated financial statements at the combination date, including the consolidated balance sheet, the consolidated income statement and the consolidated cash flow statement.

The consolidated balance sheet shall be included in the consolidated financial statements at the carrying value of the assets and liabilities of the combined party. The transactions between the combining party and combined party on the combining date and prior period shall be treated as internal transactions which will be offset in accordance with the principles in the *Consolidated Financial Statements*. The consolidated income statement and the cash flow statement include the net profit and the cash flow generated by the combining party and the combined party from the beginning of current period to the combining date. The cash flows arising from the transactions and internal dealings between both parties in the current period shall be offset in accordance with relevant principles of the consolidated financial statements.

2. Business combinations not under the same control

A business combination not under the same control is a business combination in which the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination.

Determining the cost of business combination: The combination cost includes the fair values, on the acquisition date, of the cash or non-cash assets paid, the liabilities incurred or assumed, the equity securities issued by the acquirer in exchange for the control as well as the total direct costs incurred in the business combination. For a business combination realized step by step through multiple exchange transactions, combination cost is the sum of each individual transaction cost.

In a long-term equity investment obtained not under same control, Founder adopts combination cost at purchase date (excluding cash dividends and profits received from the investee) as the initial investment in the long-term equity investment from acquiree. The identifiable assets and liabilities, which are recognized under the control of the Company, are confirmed as the assets and liabilities of the Company pursuant to the fair value on the acquisition date. As the disposal profits and losses of the assets, the positive balance between the fair value of the non-monetary assets and its carrying amount, is included in the consolidated income statement at current period when Founder obtains the control right or identifiable assets and liabilities from the acquiree at the consideration of non-monetary assets.

In a business combination not under same control, when combination cost is more than the fair value of identifiable net assets obtained from acquiree, the positive balance is recognized as business goodwill. In the consolidation, the balance is recognized as goodwill in the individual financial statements of the parent company. In the combination, however, the balance is stated as goodwill in the consolidated financial statements.

When combination cost is less than the fair value of identifiable net assets obtained from the acquiree, the balance is recorded in the profit and loss (non-operating income) at current period. In the case of merger, the balance shall be recorded in individual income statement of the current consolidated parent company. In the case of combination, the difference shall be recorded in the consolidated income statement at the current period.

(VI) Criteria for cash and cash equivalents

The short-term, highly liquid investments that are easily convertible into known cash and are subject to little risk in value change are recognized as cash equivalents.

(VII) Foreign Currency Transactions and Translation of Foreign Currency Statements

1. Exchange rate determination and its accounting treatment

In initial dealing, foreign currency uses the spot exchange rate on the transaction date as the translation rate, translating foreign currency into accounting foreign currency. The capital received from the investor in foreign currency is translated with spot exchange rate at the transaction date.

At the balance sheet date, the following situations shall be handled:

(1) Monetary items denominated in foreign currency are translated pursuant to the spot exchange rate at the balance sheet date. The exchange balance incurred by the difference between the spot exchange rate at the balance sheet date and the previous or initial one shall be included into the financial expenses.

(2) Non-monetary items denominated in foreign currency, which are measured by historical cost, are translated at the spot exchange rate on the transaction date. The amount of functional currency be not changed at the balance sheet date.

(3) Non-monetary items of foreign currency, which are measured by fair value, are translated at the spot exchange rate on the date when the fair value is determined. The balance between the amount of the functional currency after conversion and the original amount is recorded into the profits and losses at current period as a change in the fair value. In the case of non-monetary items available for sale, remittance differences arising are recognized in other comprehensive income.

2. Translation of foreign currency items on the balance sheet date and accounting treatment of foreign currency statements translation

Items of assets and liabilities in the balance sheet are translated by the spot exchange rate at the balance sheet date. Except for the items of "undistributed profits", other items are translated at the spot exchange rate on the simultaneous date.

Income and expense items in the income statement are translated at the spot exchange rate on the transaction date.

The translation differences are presented separately as "translation differences of foreign currency statements" under the item of owners' equity in the consolidated balance sheet when the consolidated financial statements are prepared.

(Ⅷ) Financial Instruments

Classification, confirmation basis and measurement of financial instruments

(1) Classification of financial instruments: Financial instruments refer to the contracts that form the financial assets of an enterprise and financial liabilities or equity instruments of other units, including: financial assets and liabilities, equity instruments.

Founder's financial assets and financial liabilities are classified into four categories: financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investment, receivables and available-for-sale financial assets.

(2) Confirmation and measurement of financial instruments

① Financial assets or financial liabilities at fair value through profit or loss

Confirmation basis:

Such financial assets or financial liabilities may be further classified into financial assets or financial liabilities directly designated at fair value through profit or loss.

Financial assets or financial liabilities at fair value through profit or loss are mainly the stocks, bonds and funds held by enterprises for sale in the near future, as well as derivative instruments that are not valid hedging instruments or financial liabilities assumed by short-term repurchases in the near future. It mainly designated by enterprises on the basis of risk management, strategic investment.

Measurement method:

Financial assets or financial liabilities at fair value through profit or loss are acquired at the fair value(after deducting cash dividends declared but not yet paid or interest paid but not yet received), which is recognized as the initially recognized amount.

Interests or cash dividends received during the holding period are recognized as investment income. At the balance sheet date, changes in fair value are recognized in profit or loss for the current period.

At the time of disposal, the balance between the fair value and the initially recognized amount is recognized as investment income. Meanwhile gains and losses of fair value are adjusted accordingly.

② Held to maturity investment

Recognition basis: it refers to fixed or determinable non-derivative financial assets such as fixed-rate government bonds and floating-rate corporate bonds, which the Company has the definite intention and capability to hold to maturity.

Measurement method: At the time of acquisition, the sum of fair value (after deducting the interest paid but not yet received) and relevant transaction expenses is taken as the initially recognized amount.

When the holding interest is measured by amortized cost, the interest income is calculated and recorded into the investment income using the effective interest rate method. If the difference between the effective interest rate and the nominal interest rate is small, nominal interest rate method is adopted.

When the effective interest rate is determined at the time of acquisition, it remains constant for the expected duration or the applicable shorter period.

At the time of disposal, the balance between the price paid and the book value of the investment shall be recognized in the investment income.

If the Company sells or reclassifies a larger amount of held-to-maturity investments before maturity (larger amounts refer to the total amount prior to sale or reclassification), the Company will reclassify such remaining investments into available-for-sale financial assets. And the financial asset is no longer classified as held-to-maturity investments during the current accounting period and for the two subsequent full fiscal years. The following dates are excluded: If within three months prior to maturity, the changes of market interest rate have no significant impact on the fair value of the investment; as all initial principal will be withdrawn in fixed term or early repayment according to the Contract, the remaining will be sold or reclassified, which is caused by an independent matter beyond the control of the Company, not expected to recur and difficult to be reasonably predicted.

③Receivable

Basis for recognition: receivables formed by the Company's sales of goods or provision of labor services shall be recognized as the initial recognition amount according to the contract or agreement price receivable from the purchaser.

Measurement method: during holding period, receivables shall be measured at amortized cost, using effective interest rate method.

At the time of withdrawal or disposal, the difference between the price paid and the book value of the receivable shall be recorded into the profits and losses of the current period.

④ **Available-for-sale financial assets**

Recognition basis: it refers to the financial assets that the Company does not classify as financial assets measured at fair value through profit or loss, held-to-maturity investments or receivables.

Measurement method: At the time of acquisition, the sum of fair value (deducting cash dividend declared but not yet issued or interest paid but not yet received) and related transaction expenses represents the initial recognition amount.

Interest or cash dividends received during the holding period are recognized as investment income.

On the balance sheet date, changes in fair value are included in other comprehensive income.

At the time of disposal, the balance between the obtained price and the book value of the financial asset shall be recorded into the profit and loss of investment. Meanwhile, the accumulated amount of fair value change in the owner's equity shall be transferred out of the disposal portion as well as recognized in profit and loss.

(IX) Receivable

At the end of the year, if there is objective evidence that the receivables are depreciated, the book value shall be reduced to the recoverable amount. The amount of write-down shall be recognized as loss of asset depreciation and recorded into the current profit and loss.

The recoverable amount is determined by discounting the future cash flows (excluding the credit losses not yet incurred) at the original effective interest rate, taking into account the value of the relevant collateral (after deducting the estimated disposal expenses).

The original effective interest rate is the effective interest rate calculated when the receivable is initially recognized.

If the estimated future cash flows of short-term receivable have little difference from their present value, estimated future cash flows are not discounted when determining the relevant depreciation loss.

The bad account is recognized when the debtor is bankrupt or dead and the tax receivable is not recoverable with the bankrupt property or inheritance, moreover, there are the significant signs indicate the tax receivable cannot be taken back.

Methods of calculating bad debt losses and provision for bad debts: the Company adopts allowance method for bad debts.

As for the accounts receivable at the end of specified period, there is no provision for bad debts except for the related parties. The balance of the accounts receivable is analyzed in light of the financial status and cash flow of the debtor units according to the Ageing-of-accounts method and individual recognition method.

(X) Inventory

1. Classification of Inventories

Inventories are classified as: in-transit goods, raw materials, working materials, stocked goods, products, goods in transit, consigned processing materials, consumable biological assets.

2. Valuation Method of Sending-out Inventory

(1) The inventories are priced at the weighted average method when sending out.

(2) Amortization method of working materials: low-value consumables using the fifty percent amortization method while packAgeing materials adopting the fifty percent amortization method.

(3) Inventory system: perpetual inventory system.

(4) Provision method of inventory depreciation reserve

At the end of the year, when complete check is conducted, the inventories thereof shall be withdrawn or adjusted at the lower cost of inventories and the net realizable value .

In the normal operation, when it comes to goods inventory directly used for the sale, such as the finished goods, goods and materials for sale, the net realizable value of these inventories is subject to that the estimated selling price minus the estimated sales expenses and related taxes. In the normal operation, when it comes to the inventory needed to be processed, the net realizable value of these inventories is subject to that the estimated selling price of the finished products minus the estimated costs to be incurred at the time of completion, the estimated selling expenses and the relevant taxes and charges. The net realizable value of the inventories held for the purpose of the sales contract or the labor contract shall be calculated on the basis of the contract price. If the quantity of the inventories held exceeds the quantity ordered in the sales contract, net realizable value of the excess is calculated on the basis of the general selling price.

At the end of the year, provision for inventory devaluation is made based on a single inventory; however, as for inventories with a large quantity and low unit price, provision is made based on the type; as for inventories with the same or similar end-use, related to same product produced or sold in the same area as well as difficult to separate from other items in measurement, the combined provision for inventory devaluation reserves is made.

If the factors affecting the inventory write-down have disappeared, the amount written down shall be recovered and transferred back to the original provision for inventory devaluation. The transferred amount shall be included into the profits and losses of the current period.

(XI) Long-term Equity Investment

1. The Initial Measurement

(1) Long-term Equity Investment Formed by Business Combination

Business combination under the same control: If the Company combines consideration by taking cash payment, transferring non-cash assets, bearing debts and issuing equity securities, the company takes the share in the book value of owner's equity as the initial investment cost of long-term equity investment.

When there is difference between the initial investment cost and the consideration for payment, the capital reserve shall be adjusted. If the capital reserve is insufficient to offset, the retained earnings thereof shall be adjusted.

The direct costs incurred by the combining party, including the audit fees paid for the combination, assessment fees, legal services, shall be included in the current profits and losses.

Business combination not under same control: the initial investment cost of the long-term equity investment is the combination cost determined by the Company on the acquisition date in accordance with the *Accounting Standard for Business Enterprises No. 20 - Business Combinations.*

(2) Long-term equity investment obtained by other means

As to the long-term equity investment obtained by cash payment, the initial investment cost refers to purchase price actually paid.

As to the long-term equity investment obtained by issuing equity securities, the initial investment cost refers to the fair value of the issued equity securities.

As to long-term equity investment invested by investors, the initial investment costs refers to the value stipulated in the investment contract or agreement, except unfair value agreed by the contract or agreement.

Where a non-monetary asset exchange has the commercial substance and the fair value of the exchanged assets, reliably measured, as to the long-term equity investment exchanged for non-monetary assets, the initial investment cost refers to fair value of exchanged assets, unless there is conclusive evidence that the fair value of assets is more reliable; as to non-monetary assets exchange that does not meet the above requirements, the initial investment cost refers to the book value of the assets to be swapped and the payable taxes.

As to the long-term equity investment obtained through debt restructuring, the initial investment cost is based on its fair value.

2. The Basis of Investee with Joint Control and Significant Influence

When the important financial and operational decisions are agreed by the investors who share the control rights, the control to an economic activity in accordance with the Contract shall be taken as joint control to investee by other party; that an investment enterprise can exert a significant impact on the investee represents that the enterprise has the right to participate in the decision-making of financial and operating decisions, as well as has no control or jointly control to make policies with other parties.

3. Follow-up Measurement and Revenue Recognition

With respect to enterprise that has significant impact on investee unit or joint control, the initial investment cost of the long-term equity investment shall not be adjusted if the initial investment cost is more than the fair value of the investee's identifiable net assets at the time of investment. When the initial investment cost is less than the fair value of the investee's identifiable net assets, the balance shall be included in the profits and losses of the current period.

Long-term equity investments in subsidiaries adopt the cost method. And the consolidated financial statements are adjusted in accordance with the equity method.

Long-term equity investments that do not have joint control or significant influence over the invested entity and which are not quoted in the active market and whose fair value cannot be reliably measured, adopt the cost method.

Long-term equity investments with joint control or significant influence over the investees adopt the equity method.

In view of the equity method, when the Company share the loss incurred by the investee, it shall be treated in the following sequence: First, the carrying value of the long-term equity investment shall be offset. Second, if the carrying value of the long-term equity investment is not sufficient to offset, the carrying value of the long-term equity of the investee shall be recognized as the investment loss and the carrying value of long-term receivable shall be offset.

Finally, after above treatment, as for enterprise to bear additional obligations in accordance with the investment contract or agreement, the estimated liabilities shall be recognized in light of the expected obligations as well as be recorded into the current investment losses

When the investee entity gains profit in later period, after deducting the unrecognized loss share, the Company will write down the book balance of the recognized liabilities, recover the book value of long-term equity and long-term equity investment which substantially constitute the net investment to the investee as well as recognize the investment income.

Treatment of other changes in owner's equity except net gains or losses for the investee: For other changes in owner's equity other than the net profit or loss of the investee, if the shareholding proportion is unchanged, the Company shall calculate the share in light of shareholding proportion, adjust the book value of the long-term equity investment, and increase or decrease the capital reserve (other capital reserve) at the same time.

(XII) Investment real estate

1. Recognition basis: Investment real estate refers to real estate held for generating rent and/or capital appreciation.

Mainly includes: the right to use the land which has been rent; the right to use any land which is held and prepared for transfer after appreciation; the right to use any building which has already been rented.

Investment real estate shall meet the following conditions:

(1) The economic benefits pertinent to this investment real estate are likely to flow into the enterprise; and

(2) The cost of the investment real estate can be reliably measured.

2. Measurement method: the initial measurement of the investment real estate shall be made at its cost.

A follow-up measurement may be made to the investment real estate through the fair value pattern. Where there is no accrual depreciation or amortization made for it, its book value shall be adjusted on the basis of its fair value on the date of the balance sheet, and the difference between the fair value and its original book value shall be included in the current profits and losses. Meanwhile the impact of deferred income tax or deferred income tax liabilities shall be taken into account.

Where the Company has well-established evidence to indicate that the purpose of the real estate has changed, it shall convert the investment real estate to self-use real estate. The fair value represents the book value of self-use real estate on the conversion date and the difference between its fair value and original fair value is included in the current profits and losses.

When any self-use real estate or real estate for inventory is converted to investment real estate to be measured through the fair value, the investment real estate shall valuate at the fair value on the very date of the conversion. If the fair value on the conversion date is less than the original book value, the difference shall be included in current profit and losses. If the fair value on conversion date is more than original book value, the difference shall be included in the owner's equity.

(XIII)Fixed Assets

1. Fixed assets

Fixed assets refer to tangible assets held more than one year for producing goods, providing services, renting or operating and manAgeing.

The fixed assets shall be recognized when the following requirements are meet simultaneously:

(1) The economic benefits pertinent to this fixed asset are likely to flow into the enterprise; and

(2) The cost of this fixed asset can be measured reliably.

2. Classification of fixed assets

Fixed assets are classified into: houses, buildings, machinery and equipment, transportation equipment and electronic equipment.

3. Initial measurement of fixed assets

Initial measurement of fixed assets is made at actual cost at the time of acquisition.

The cost of purchased fixed assets is determined by the purchase price, related taxes and fees as well as transportation charges, handling charges, installation fees and professional service fees attributable to the asset before the fixed asset reaches its intended use.

The purchase price of fixed assets that exceeds the normal credit terms shall be deferred, which features financing nature. The cost of fixed assets is determined based on the present value of purchase price.

The cost of self-constructed fixed assets is determined by the necessary expenses before the construction asset reaches its intended use.

As for fixed asset acquired for debt payment in debt restructuring, its book value is determined on the basis of its book value. The difference between the book value of the restructured debt and the fair value of the fixed assets for debt repayment shall be included into current profit and loss;

Where the non-monetary assets exchange has the commercial substance and the fair value of the exchanged assets can be measured reliably, the book value of recorded fixed assets shall be accounted based on the fair value of the assets surrendered unless there is well-established evidence to indicate that the fair value of the received assets proves more reliable; as for non-monetary assets exchange that does not meet the above requirements, the carrying amount of the assets surrendered and payable taxes shall be recognized as the cost of the received assets. And the gains and losses are not included.

As to the fixed asset acquired through the business combination under the same control, its book value shall be determined at the book value of the combining party. As to the fixed assets acquired through the business combination not under same control, its book value shall be recorded at the fair value.

As to the fixed asset rent by financing, its book value shall be either the fair value of the rent asset from at the time of renting or present value of the minimum lease payment. The lower value is taken as the book value.

4. Method of fixed assets depreciation

Depreciation of fixed asset adopts straight-line method, and the depreciation rate is determined in accordance with its categories, estimated useful life and estimated net residual value rate.

The decoration cost of fixed asset that meets the capitalization shall be depreciated separately by straight-line method in the shorter period between two decoration periods and remaining useful life of fixed assets.

Estimated useful lives and annual depreciation rates for all types of fixed assets are as follows:

Assets	Depreciation Life (years)	Net Residual Rate (%)	Annual Depreciation Rate (%)
Building	8—45 years	0—5	12.50-2.11
Vehicle	5—15 years	0—5	20.00-6.33
Machinery	4—30 years	0—5	25.00-3.17
Electronic Equipment and others	5—30 years	0—5	20.00-3.17

5. Recognition basis and valuation method of financing leased fixed assets

The fixed asset obtained by leasing is finance lease when Company transfers the whole risk and remuneration related to the assets.

The cost produced by leased asset is recognized at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The minimum lease payments are accounted as book value and the difference is taken as unrecognized finance charge.

The fixed assets by finance leases adopt depreciation policy in accordance with the accrued depreciation self-owned assets. If ownership of the leased asset can be reasonably determined at the expiration of the lease term, the depreciation can be accrued within the useful life of the leased asset; if ownership of the leased asset cannot be reasonably determined otherwise, the depreciation can be accrued by the shorter period of the lease term and the remaining useful life of the leased asset.

(XIV) Construction in Progress

1. Category of construction in progress

The constructions in process in the Company are classified by projects approved.

2. Standard and time of construction in progress carrying forward in fixed assets

When construction in process reaches the scheduled status for use, the actual cost is carried forward in the fixed assets. When it reaches the scheduled status for use yet does not complete final accounts, the project under construction should first be carried forward in the fixed assets according to the estimated value. As soon as the projects have complete final accounts, the original temporary estimated value should be adjusted according to the actual cost. But the original accrued depreciation amount be not adjusted.

(XV) Borrowing expenses

1. Content and capitalization

Borrowing expenses include interest, amortization of discounts or premiums, ancillary expenses and exchange differences on foreign currency borrowings.

The borrowing expenses that are directly attributable to the acquisition and construction of capitalized asset shall be capitalized and recorded as part of the cost of the asset. When other borrowing expenses have been incurred, they thereafter are recognized in profit or loss for the current period.

Capitalized assets refer to the assets that need a substantially long period of time to acquire or require production activity available for use or sale. The assets include fixed assets, inventory and investment real estate that require long-term acquisition and production available for use or sale.

2. Capitalization period

Borrowing expenses are capitalized only when the following requirements are met simultaneously: (1) Asset expenditure has occurred; (2) Borrowing expenses have occurred; (3) Necessary acquisition and production activities to make assets available for use or sale have commenced.

3. Suspension of capitalization period

Capitalization of borrowing expenses is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months. The borrowing costs incurred during the interruption period are recognized as expenses and are included in the current profits and losses until the acquisition or construction of assets resumes.

Capitalization of borrowing expenses continues if the interruption is necessary for a qualifying asset to make it ready for its intended use or sale.

The borrowing expenses shall cease to be capitalized when the qualifying assets are ready for their intended use or sale. The subsequent borrowing expenses are recognized as current expenses.

4. Calculation method for capitalized amount of borrowing expenses

Where the Company borrows special loans for assets under acquisition or construction eligible for capitalization, the capitalized amount of borrowing expenses is calculated by the balance of interest expenses incurred during the period of special borrowing and the interest income from the unused borrowing funds deposited in banks or the investment gains from the temporary investment.

Where the Company occupies general borrowings for the assets, the weighted average of the asset expenditures in excess of the specific loans is multiplied by the capitalization rate of the general borrowings, which is used to calculate interest amount of general borrowings for capitalization. The capitalization rate is calculated based on the weighted average interest rate of general borrowings.

(XVI) Intangible assets

1. Accounting: The intangible assets are identifiable non-monetary assets without physical form, which are owned or controlled by the Company, including patents, non-patent technologies, trademarks, copyrights, concessions and land use rights.

2. Measurement: The intangible assets are initially measured at cost.

The Company will determine the useful life of the intangible assets at the time of acquisition through the method for estimated realization of economic benefits. The assets will be fairly amortized during the useful life and the amortization amount shall be accounted into related costs and expenses. The assets with indefinite useful life are not amortized during the holding period. If the assets are uncertain after the re-examination, the impairment test shall be carried out in each accounting period.

As to the intangible asset derived from the contractual right or other legal right, its useful life shall not exceed the stipulated period. If there is no clear contract or legal requirement, the Company shall determine the period through employing relevant experts for talk or comparing with the same industry and the historical experience.

If, through these efforts, the period to bring economic benefits for Company still cannot be defined, the assets will be taken as intangible assets with uncertain useful life.

3. Review of useful life of intangible assets: At the end of each year, the Company reviews the useful life of intangible assets. If there is evidence to indicate that the useful life is different from the previous estimate, amortization period of the intangible assets shall be changed. For the intangible assets with uncertain useful life, if there is evidence to indicate that the useful life is limited, the assets shall be treated according to the Principle.

4. Impairment of intangible assets: At the end of the period, the intangible assets shall be measured at the lower of the book value and the recoverable amount. When the recoverable amount is less than the book value, provision for impairment of intangible assets shall be made.

5. Expenditure for internal research and development projects shall be included in the current profits and losses.

If the expenditures in the development phase meet the requirements of capitalization, they shall be recognized as intangible assets. The requirements for capitalization are as follows: ① Technically, this intangible asset can be completed to be available for use or sale; ② This asset is intended to be completed and then used, sold. ③ This intangible asset may produce possible future economic benefits. ④ Company has sufficient technical, financial and other resources to develop intangible assets, and the ability to use or sell the intangible assets. ⑤ Expenditures attributable to the development of the intangible asset can be measured reliably.

6. Accounting of land use rights: the land use rights acquired by the Company, or paid by land transfer payments are initially measured at cost. When the land use right acquired by the Company is used to develop commercial houses, its book value is transferred to the development cost. When it is used to

construct a self-use project, the book value of the land use right is not combined with the value of above buildings to calculate costs. Its book value is still calculated as intangible assets, which is separately amortized.

(XVII) Long-term prepaid expenses

Long-term prepaid expenses refer to expenses that have been incurred by the Company but should be recognized over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period. of which:

The rent of fixed asset by prepaid operating is amortized on the straight-line basis in accordance with the period in the Contract.

Improvement expenses of fixed assets by operating lease are amortized on the straight-line basis over the shorter period of the remaining lease and the remaining useful life.

The cost of the fixed assets by the finance leases shall be amortized on a shorter period among the two renovation intervals, the remaining lease period and the remaining useful life.

(XIII). Estimated liabilities

The obligation is recognized as the estimated liabilities if the following are met: (1) The obligation is the present obligation undertaken by the enterprise; (2) Performing the obligation is likely to cause economic benefits to flow out of the enterprise; (3) The amount of obligation can be measured reliably.

The Company shall make initial measurement according to the best estimate of the expenses, review the predicted liabilities on the balance sheet date and adjust the carrying amount according to the current best estimate.

(XIX) Share-based payment and equity instruments

1. Type of share-based payments

The Company's share-based payment is classified into equity-settled payment and cash-settled payment.

An equity-settled share-based payment is a transaction in which an enterprise takes a share or other equity instrument as a consideration to obtain services. A cash-settled share-based payment is a transaction in which an enterprise pays cash or other assets through shares or other equity instruments to obtain services.

2. Method of determining fair value of equity instruments

The fair value of an equity instrument in an active market is determined based on the quoted price in an active market; if there is no quoted price in an active market, the fair value of the option is determined by referring to the market price of the option with similar terms of trade; there is no similar market condition Price, the use of valuation techniques to determine its fair value.

3. Confirm the basis for the best estimate of the equity instrument

At each balance sheet date in the waiting period, the Company makes the best estimate based on the latest information such as the number of employees and so on, and revises the number of equity instruments expected to be exercisable. On the vesting day, the final estimate of the number of vested equity instruments is consistent with the actual number of vesting rights.

4. Implementation, modification, termination of the relevant accounting treatment of share-based payment plan

Equity-settled share-based payment in exchange for services provided by employees shall be measured at the fair value of the equity instruments granted to employees. If the right can be exercised immediately after the grant, the fair value of the equity instrument shall be recognized in the relevant cost or expense, and the capital reserve shall be increased accordingly. If the service is completed within the waiting period or the required performance is achieved, at the balance sheet date, based on the best estimate of the number of vesting rights, the services obtained in the current period shall be recorded into the related costs or expenses and the capital reserve at the fair value of the equity instruments.

The cash-settled share-based payments are measured at the fair value of the liabilities determined by the enterprise based on the calculation of shares or other equity instruments. If the right is exercised immediately after the grant, the fair value of the liability assumed by the enterprise shall be charged to the relevant cost or expense and the corresponding liabilities shall be increased. If the service is completed within the waiting period or the required performance is achieved, at the balance sheet date, based on the best estimate of the number of vesting rights, the services obtained in the current period are included in the relevant costs or expenses and corresponding liabilities according to the fair value of liabilities assumed by the enterprise.

(XX) Income

1. Sales of goods

The Company has transferred the principal risks and rewards of ownership of the goods to the purchaser; the Company has neither retained the continuing right of management associated with the ownership nor effective control over the goods sold; the amount of the revenue can be measured reliably; Of the economic benefits are likely to flow into the enterprise; related to the cost of occurred or to be reliably measured, the recognition of sales of goods to achieve.

2. Provision of labor services

If the results of the labor service transaction can be reliably estimated at the balance sheet date, the incomes from the provision of labor services shall be confirmed by the percentage of completion method.

The progress of the completion of the labor service transaction shall be determined according to the measurement of the completed work (or the proportion of the labor services already provided to the total amount of labor to be provided or the proportion of the cost incurred to the estimated total cost).

In accordance with the received or receivable contract or agreement to determine the price of the total revenue of services rendered, but the received or receivable contract or agreement price is not fair except.

At the balance sheet date, the amount of service income is recognized by the total amount of services received, and the amount of service income is deducted after deducting accumulated revenue from services provided in previous accounting periods. At the same time, according to estimated total cost of services rendered by the completion schedule, deducted from the previous accounting period The amount of labor costs that have been recognized, the carrying-over of labor costs in the current period.

If the results of the labor service transaction cannot be reliably estimated at the balance sheet date, the following situations shall be handled:

(1) If the cost of labor services incurred is expected to be compensated, the income from providing labor services shall be recognized according to the amount of labor costs incurred, and the labor costs shall be carried forward at the same amount.

(2) If the cost of labor services incurred is not expected to be compensated, the cost of labor services incurred shall be recognized in profit or loss for the current period.

3. Transfer of asset use rights

The economic benefits associated with the transaction are likely to flow into the enterprise and the amount of the revenue can be reliably measured.

(XXI) Government grants

1. Government subsidies are divided into asset-related government grants and income-related government subsidies.

2. If the government subsidy is a monetary asset, it shall be measured according to the amount received or

receivable. If the government subsidy is a non-monetary asset, it shall be measured at fair value. If the fair value cannot be obtained reliably, it shall be measured at the nominal amount.).

3. Government grants related to assets are recognized as deferred income and are distributed evenly over the useful life of the relevant assets and recorded in profit or loss for the current period.

Government grants measured at the nominal amount are directly included in the current profits and losses. Relevant government grants related to income are used to compensate the related expenses or losses of the enterprise in the subsequent period, and recognized as deferred income. During the period of confirming relevant expenses, Included in the current profits and losses; used to compensate the enterprise has occurred in the related costs or losses, directly included in the current profit and loss

(XXII) Deferred income tax assets / deferred income tax liabilities

Deferred tax assets Deferred income tax liabilities are recognized as deferred income tax assets and deferred income tax liabilities on the basis of the temporary difference between assets and liabilities and the applicable income tax rate.

Deferred income tax assets

(1) Where there is deductible temporary difference between the book value of assets and liabilities and its tax base, the taxable income is likely to be used in the future period to deduct the deductible temporary difference. Assets or liquidation of the liability within the applicable tax rate, are calculated by the deductible temporary differences arising from the deferred income tax assets.

Deferred tax assets should not be recognized if sufficient taxable income is not available to make use of the effect of deductible temporary differences so that the economic benefits related to deductible temporary differences cannot be realized.

(2) On the balance sheet date, the enterprise shall review the book value of deferred income tax assets.

If it is probable that sufficient taxable income will not be available for future use to take advantage of the economic benefits arising from the deductible temporary differences, the carrying amount of the deferred income tax assets is reduced. If it is probable that sufficient taxable income will be available, the amount written down shall be reversed.

Deferred income tax liabilities

Where the carrying amount of assets and liabilities and their tax bases are subject to taxable temporary differences, the deferred income tax liabilities arising from the recognition of taxable temporary differences shall be calculated and calculated in accordance with the applicable tax rate for the period in which the asset is expected to be recovered or the liability is settled.

(XXIII). Operating leases, finance leases

Leasing companies in the beginning of the lease is divided into financial leases and operating leases.

(1) If one of the following criteria is satisfied, it shall be deemed as a finance lease: (1) When the lease term expires, the ownership of the leased asset is transferred to the lessee; (2) The lessee has the option to purchase the leased asset; Which is much lower than the fair value of the leased asset at the time of exercise of the option; (3) The lease term accounts for 75% or more of the useful life of the leased asset at the beginning of the lease; (4) The present value of the minimum lease payment is approximately equal to the lease date Fair value; ⑤ special nature of the leased asset, if not for a larger transformation, only the lessee can use.

On the beginning of the lease term, the Company takes the lower of the fair value of the leased asset and the present value of the minimum lease payment as the recorded value of the leased asset, and takes the minimum lease payment as the book value of long-term payables. The difference is recognized as unrecognized finance charges.

Unrecognized financing charges are amortized over the lease term using the effective interest method.

(2) Leases other than financial leases are operating leases.

Rentals for operating leases are included in the cost of the underlying assets or the profits and losses of the current period on a straight-line basis over the lease term.

Rental income from operating leases is recognized as profit or loss for the current period in each period of the lease term according to the straight-line method.

(XXIV) Changes in major accounting policies and accounting estimates

1. Changes in accounting policies: As of December 31, 2015, the Company did not disclose any undisclosed accounting policy changes.

2. Changes in accounting estimates: As of December 31, 2015, the Company did not disclose undisclosed accounting estimates.

(XXV) Correction of accounting errors

As of December 31, 2015, the Company did not disclose the undisclosed amount of the previous accounting errors.

III. TAX

Major taxes and rates

Taxes	Tax base	Tax rate
VAT	Sales revenue	17%、13%
Business tax	Turnover	5%、3%
Urban maintenance and construction tax	Turnover tax payable	7%、1%
Educational surcharge	Turnover tax payable	3%
Local educational surcharge	Turnover tax payable	2%
Key traffic construction surcharge	Turnover tax payable	5%
Culture educational surcharge	Media income and expenses, net	4%
River project construction and maintenance fee	Turnover tax payable	0.50%
Corporate income tax	Income taxable	25%、15%

IV. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL ATATEMETNS

The consolidated financial statements are carried out in accordance with the Accounting Standard for Business Enterprises No. 33 - Consolidated Financial Statements.

All the subsidiaries controlled by the Company are included in the consolidation scope of the consolidated financial statements.

The consolidated financial statements are prepared by the parent company based on the parent company and the individual financial statements of subsidiaries included in the consolidated scope and based on other relevant information and adjusted the long-term equity investment in the subsidiary according to the equity method.

In the consolidation, the internal equity investment is offset with the owner's equity, the internal investment income and the profit distribution of the subsidiary, the internal transaction, the internal creditor's rights and debts.

(1) Subsidiaries within the scope of business combination

Company name	Registered capital (ten thousand Yuan)	Merger or not	Direct investment ratio%	Final Consolidation Ratio%
Peking Founder Industry and Commerce corp.	1,000.00	Yes	100.00	100.00
Founder Industry Holdings Co., Ltd	120,000.00	Yes	94.17	94.17
Founder Securities Co., Ltd	823,210.14	Yes	27.75	29.20
Pku Healthcare	250,000.00	Yes	85.60	85.60
PKU Founder investment Co.,	15,000.00	Yes	80.00	100.00

Company name	Registered capital (ten thousand Yuan)	Merger or not	Direct investment ratio%	Final Consolidation Ratio%
Ltd.				
Shenzhen Founder Microelectronics International Co., Ltd	43,583.02	Yes	63.69	63.69
PKU Founder Training Centre	500.00	Yes	100.00	100.00
PKU Founder Group Finance Co., Ltd	500,000.00	Yes	50.00	100.00
Founder Capital Holding Co., Ltd.	20,000.00	Yes	70.00	100.00
PKU Founder Information Industry Group Co., Ltd	100,000.00	Yes	100.00	100.00
China Hi-tech Group Co., Ltd	29,332.80	Yes	20.01	20.01
PKU Founder Life Insurance Co., Ltd	193,000.00	Yes	51.00	51.00
Founder Group Corp (HK) Co., Ltd.	18,294.06	Yes	100.00	100.00

(II) Compared with the previous year, the consolidation scope of this year was reduced by one Founder East Asia Trust Company Limited.

V. Notes to the consolidated financial statements

1. Cash and cash equivalents

Item	Dec. 31, 2015	Jan. 1, 2015
I. Cash	**4,648,002.68**	**4,421,395.93**
1: Renminbi (CNY)	4,310,337.68	4,118,521.84
2: United States dollar (USD)	236,550.60	234,472.09
3: Hong Kong dollar (HKD)	94,259.60	60,229.31
4: Other currencies	6,854.80	8,172.69
II. Bank deposits	**23,752,349,358.58**	**16,652,056,271.74**
1: Renminbi (CNY)	21,087,745,957.73	15,180,272,958.25
2: United States dollar (USD)	2,264,937,372.55	1,388,957,309.25
3: Hong Kong dollar (HKD)	357,119,867.78	81,273,964.38
4: Other currencies	42,546,160.52	1,552,039.86
III. Other Cash and cash equivalents	**5,697,914,168.42**	**6,423,055,194.78**
1: Renminbi (CNY)	4,839,606,565.42	4,631,572,451.34
2: United States dollar (USD)	834,308,927.99	1,669,481,283.39
3: Hong Kong dollar (HKD)	23,998,675.01	121,993,125.53
4: Other currencies		8,334.52
Total	**29,454,911,529.68**	**23,079,532,862.45**

2. Financial assets accrued by fair value

Item	Fair value in Dec. 31, 2015	Fair value in Jan. 1, 2015
Equity investment	25,060,811,843.47	5,719,726,330.77
Total	**25,060,811,843.47**	**5,719,726,330.77**

3. Bill receivables

Category of bills	Dec. 31, 2015	Jan. 1, 2015
Commercial acceptance bills	1,725,604.40	157,855,339.67
Banker acceptance bills	820,787,633.41	716,575,368.28
Total	**822,513,237.81**	**874,430,707.95**

4. Interest receivables

Category	Dec. 31, 2015	Jan. 1, 2015
Interest receivables	1,591,561,919.20	935,260,766.30
Total	**1,591,561,919.20**	**935,260,766.30**

5. Account receivables

(1)Analysis on receivables Ageing

Ageing structure	Dec. 31, 2015		
	Book balance		provision for bad debts
	Amount	Percentage (%)	
Within 1 year (inclusive)	5,228,455,987.46	89.16	96,115,012.47
1-2 years (inclusive)	206,692,077.92	3.52	12,479,895.05
2-3 years (inclusive)	153,321,272.42	2.61	12,295,771.29
Over 3 years	275,808,557.94	4.70	207,612,548.31
Total	**5,864,277,895.74**	**100.00**	**328,503,227.12**

Ageing structure	Jan. 1, 2015		
	Book balance		Provision for bad debts
	Amount	Percentage (%)	
Within 1 year (inclusive)	5,460,349,395.21	90.29	71,963,383.44
1-2 years (inclusive)	156,450,277.98	2.59	10,625,483.80
2-3 years (inclusive)	172,642,426.42	2.85	13,117,361.49
Over 3 years	258,437,939.68	4.27	199,180,932.72
Total	**6,047,880,039.29**	**100.00**	**294,887,161.45**

(2) Account receivables from the top five customers

Item	Amount	Ageing	Percentage (%)
Peking University Resources Group Co., Ltd.	330,000,000.00	Within 1 year (inclusive)	5.63
Shanghai Fu Tang Trade Development Co., Ltd	184,223,754.73	Within 1 year (inclusive)	3.14
Fees and commissions receivable	115,969,452.66	Within 1 year (inclusive)	1.98
Shenzhen Zhongxing Kangxun Electronics Co., Ltd	83,468,788.37	Within 1 year (inclusive)	1.42
Dongguan City, Kim Ming Electronics Co	77,189,290.32	Within 1 year (inclusive)	1.32
Total	**790,851,286.08**		**13.49**

6. Other receivables

(1)Analysis on other receivables ageing

Ageing structure	Dec. 31, 2015		
	Book balance		provision for bad debts
	amount	Percentage (%)	
Within 1 year (inclusive)	53,034,884,814.14	93.84	52,753,400.24
1-2 years (inclusive)	2,421,227,793.61	4.28	536,273,011.84
2-3 years (inclusive)	598,990,666.95	1.06	3,547,563.67
Over 3 years	463,382,007.81	0.82	244,760,338.70
Total	**56,518,485,282.51**	**100.00**	**837,334,314.45**

Ageing structure	Jan. 1, 2015		
	book balance		provision for bad debts
	amount	Percentage (%)	
Within 1 year (inclusive)	39,414,251,816.43	97.29	52,241,607.89
1-2 years (inclusive)	583,393,565.16	1.44	7,973,067.00
2-3 years (inclusive)	104,308,911.13	0.26	5,160,811.52
Over 3 years	410,576,411.16	1.01	204,747,850.88
Total	**40,512,530,703.88**	**100.00**	**270,123,337.29**

(2) Other receivables from the top five customers

Item	Amount	Ageing	Percentage (%)
Out of Funds	31,398,074,850.11	Within1year (inclusive)	55.55
Wuhan Financial Holding (Group) Co., Ltd	5,000,000,000.00	Within1year (inclusive)	8.85
Refundable deposits	2,478,209,392.27	Within1year (inclusive)	4.38
Huarong Securities Co., Ltd	1,252,388,666.68	Within1year (inclusive)	2.22
Asset management Plan	1,000,000,000.00	1-2years (inclusive)	1.77
Total	**41,128,672,909.06**		72.77

7. Prepayments

(1) Prepayments through ageing

Ageing structure	Dec. 31, 2015		Jan. 1, 2015	
	Amount	Percentage(%)	Amount	Percentage(%)
Within1 year (inclusive)	3,719,044,247.88	89.95	2,917,888,682.98	87.35
1-2 years (inclusive)	234,832,064.64	5.68	245,153,603.44	7.34
2-3 years (inclusive)	131,023,178.55	3.17	129,634,717.36	3.88
Over 3 years	49,768,920.83	1.20	47,611,953.84	1.43
Total	4,134,668,411.90	100.00	3,340,288,957.62	100.00

(2) Prepayments from the top five customers

Item	Amount	Ageing	Reason for not prepayment
Shanghai Liaoyun Trading Co., Ltd	387,653,642.01	Within 1 year (inclusive)	Business contact
Guangxi sugar sugar wholesale market limited liability company	118,330,902.48	Within 1 year (inclusive)	Business contact
Shanghai Jiushi Metal Material Co., Ltd	97,227,479.81	Within 1 year (inclusive)	Business contact
Louis Dreyfus Commodities Suisse Sa	95,490,952.03	Within 1 year (inclusive)	Business contact
Anglo American Marketing Limited Singapore Branch	93,474,260.16	Within 1 year (inclusive)	Business contact
Total	792,177,236.49		

8. Inventories

Item	Dec. 31, 2015		
	Book balance	Impairment provision	Carrying amount
Raw materials	392,309,383.19	34,547,380.98	357,762,002.21
Inventories	3,502,981,279.78	39,725,087.98	3,463,256,191.80
Products in Transit	59,479,710.19	14,495,463.50	44,984,246.69
Semi-finished products	357,544,398.04	24,123,469.03	333,420,929.01
Low value consumables	5,562,286.66	512,650.54	5,049,636.12
Package	239,167.00		239,167.00
Others	640,310,439.58		640,310,439.58
Total	4,958,426,664.44	113,404,052.03	4,845,022,612.41

Item	Jan. 1, 2015		
	Book balance	Impairment provision	Carrying amount
Raw materials	722,068,357.26	35,034,694.41	687,033,662.85
Inventories	4,169,958,681.70	39,099,057.82	4,130,859,623.88
Products in Transit	90,917,232.25	15,529,621.61	75,387,610.64
Semi-finished products	402,068,317.50	38,463,096.50	363,605,221.00
Low value consumables	5,222,485.04	607,226.77	4,615,258.27
Package	1,109,411.02	113,720.72	995,690.30
Others	266,472,484.89		266,472,484.89
Total	**5,657,816,969.66**	**128,847,417.83**	**5,528,969,551.83**

9. Other current assets

Item	Dec. 31, 2015	Jan. 1, 2015
Total	**6,623,921,614.08**	**5,345,892,528.26**

Details

Details	Dec. 31, 2015
Financial assets purchased under resale agreements	5,534,275,243.41
Financial product	792,000,000.00
Pledge loan	134,975,590.98
Independent account assets	25,379,858.82
Prepaid expenses and others	137,290,920.87
Total	**6,623,921,614.08**

10. Available-for-sale Financial Assets

Item	Dec. 31, 2015	Jan. 1, 2015
Equity investment	22,228,464,132.84	29,367,047,368.87
Total	**22,228,464,132.84**	**29,367,047,368.87**

11. Held-to-maturity investments

Item	Dec. 31, 2015	Jan. 1, 2015
Bonds	2,237,877,418.19	2,668,540,062.13
Total	**2,237,877,418.19**	**2,668,540,062.13**

12. Long-term equity investments

Item	Dec. 31, 2015	Jan. 1, 2015
Long-term equity investments	4,489,122,618.25	3,880,373,981.93
Long-term bond investments		
Total	**4,489,122,618.25**	**3,880,373,981.93**

Investees	Dec. 31, 2015
① **Breakdown of external investments made by the parent of the members of the Group upon consolidation and offsetting**	
1. Founder International Leasing Co., Ltd.	16,300,000.00
2. Peking University Resource Group Co., Ltd.	1,680,136,928.57
3. Kunshan Hi-Tech Electronic Arts Creative Industry Development Co., Ltd.	38,000,000.00
4. Peking University Science Park Co., Ltd.	30,000,000.00
5. Founder Information (Hong Kong) Limited	24,873,473.90
6. Founder BEA Trust Co., Ltd	466,068,333.10
7. Beijing Renhe Lian'an Real Estate Development Co., Ltd.	5,000,000.00
Total	**2,260,378,735.57**
②**External investment amounts made by the subsidiaries to be consolidated**	
1. PKU Founder Investment Co., Ltd.	153,349,745.67
2.Founder Industry Holdings Co., Ltd.	864,896,630.66
3. PKU Healthcare	606,661,608.58
4. Founder Securities Co., Ltd.	46,749,480.08
5. Peking Founder Industrial Development Co., Ltd.	4,500,000.00
6. Founder Group (Hong Kong) Co., Ltd.	104,566,048.51
7. China Hi-tech Group Co., Ltd.	86,136,716.68
8. PKU Founder Information Industry Group Co., Ltd.	361,883,652.50
Total	**2,228,743,882.68**

13. Investment properties

Category	Jan. 1, 2015	Increase (decrease)	Dec. 31, 2015
I. Total original cost	5,621,655,185.18	2,845,532,131.82	8,467,187,317.00
House and buildings	5,621,655,185.18	2,845,532,131.82	8,467,187,317.00
II. Accumulated depreciation			
House and buildings			
III. Total accumulated impairment provisions			
IV. Total value of investment properties	**5,621,655,185.18**	**2,845,532,131.82**	**8,467,187,317.00**

14. Fixed assets

Category	Dec. 31, 2015	Jan. 1, 2015
(1) Original value of fixed assets		
House and buildings	4,873,731,735.24	4,339,622,434.30
Machinery	6,658,525,920.46	6,605,540,361.06
Electronic	1,170,346,444.20	770,797,394.97
Transportation equipment	280,907,100.11	265,991,132.98
Office equipment	131,354,366.78	109,823,386.87
Others	1,833,093,939.00	1,501,204,770.65
Original value of fixed assets summation	**14,947,959,505.79**	**13,592,979,480.83**
(2) Accumulated depreciation		
House and buildings	1,318,551,553.20	1,150,209,863.19
Machinery	2,928,913,306.37	2,720,575,380.68
Electronic	572,923,275.64	530,070,585.52
Transportation equipment	351,238,044.78	169,105,311.90
Office equipment	123,133,417.24	83,260,803.88
Others	598,345,194.52	499,385,657.36
Accumulated depreciation summation	**5,893,104,791.75**	**5,152,607,602.53**
Net value of fixed assets	**9,054,854,714.04**	**8,440,371,878.30**
Impairment reserve	**32,544,780.00**	**38,816,970.61**
Net amount of fixed assets	**9,022,309,934.04**	**8,401,554,907.69**

15. Construction in progress

Item	Dec. 31, 2015	Jan. 1, 2015
PKU Healthcare Project	5,042,287,026.23	4,912,449,123.39
Southwest Pharmaceutical Project	573,400,344.34	552,881,827.15
Founder Technology Technological Upgrading Project	15,706,039.72	61,420,948.08
Suzhou Steel Group Technological Upgrading	73,647,265.30	71,999,012.20
Founder Broadband Network Project	174,158,905.23	101,693,781.65
Microelectronic Project	91,977,969.97	69,705,326.70
Other	33,507,961.56	26,160,075.33
Total	6,004,685,512.35	5,796,310,094.50

16. Construction supplies

Item	Dec. 31, 2015			Jan. 1, 2015		
	Book balance	Impairment reserve	Net book value	Book balance	Impairment reserve	Net book value
Construction supplies	40,860,746.87		40,860,746.87	28,740,842.58		28,740,842.58
Total	40,860,746.87	0.00	40,860,746.87	28,740,842.58	0.00	28,740,842.58

17. Intangible assets

Category	Dec. 31, 2015	Jan. 1, 2015
Land use right	325,003,077.33	307,546,816.55
Patent technology	47,645,106.94	31,678,113.99
Software	212,609,572.93	133,832,788.03
Patent	68,909,670.96	101,944,671.03
Technology without patent	81,001,662.40	77,501,937.05
Others	61,651,687.04	6,745,857.13
Total	796,820,777.60	659,250,183.78

18. Development expenditure

Name	Jan. 1, 2015	Increase	Decrease	Dec. 31, 2015
J. product	4,427,120.84		4,427,120.84	
Public security core business platform	2,234,789.87	2,543,669.94	4,778,459.81	
Public information service platform	1,083,843.74	9,788,541.34	43,800.20	10,828,584.88
Core business systems supporting research and development	2,041,346.81	11,618,367.00	13,659,713.81	
Frame-based ACC products		2,279,262.84		2,279,262.84
A network resource analysis method and device		640,003.26		640,003.26
A Network Resource Push and Device		921,130.99		921,130.99
A door opening method and device for a smart cabinet are disclosed		410,837.14		410,837.14
A Network Resource Push and Device		709,245.34		709,245.34
Bank Accounting and Analysis System		72,203.58	72,203.58	
Fingerprint Algorithms and R & D Projects		1,695,585.46		1,695,585.46

Name	Jan. 1, 2015	Increase	Decrease	Dec. 31, 2015
Other Information Business Platform Project	3,468,850.84	13,288,470.34	4,048,152.23	12,709,168.95
Other drug project	123,134,890.52	29,530,280.27	1,285,498.95	151,379,671.84
Total	**136,390,842.62**	**73,497,597.50**	**28,314,949.42**	**181,573,490.70**

19. Goodwill

Item	Jan. 1, 2015	Increase	Decrease	Dec. 31, 2015
Goodwill	2,353,307,799.81	4,550,491,582.02		6,903,799,381.83
Total	**2,353,307,799.81**	**4,550,491,582.02**	**0.00**	**6,903,799,381.83**

20. Long-term deferred expenses

Category	Dec. 31, 2015	Jan. 1, 2015
Start-up costs	30,234,333.87	6,438,576.16
Renovation costs	220,722,229.77	123,165,590.81
Software, etc.	7,680,188.43	10,906,576.16
Others	176,436,065.84	16,075,828.95
Total	**435,072,817.91**	**156,586,572.08**

21. Deferred income tax assets

Item	Dec. 31, 2015	Jan. 1, 2015
Deferred income tax assets	133,752,548.67	175,952,329.45
Total	**133,752,548.67**	**175,952,329.45**

22. Other non-current assets

Item	Dec. 31, 2015	Jan. 1, 2015
Medium- and long-term loans	792,000,000.00	1,485,000,000.00
Medium- and long-term trust investment plan	968,000,000.00	485,000,000.00
Equipment prepayments	40,419,966.64	24,763,605.09
Relocation assets to be compensated	23,516,629.25	23,516,629.25
Total	**1,823,936,595.89**	**2,018,280,234.34**

23. Provisions for assets impairment

Category	Opening balance	Provision	Decrease/ reversal	Closing balance
Provisions for bad debts	565,010,498.74	615,785,725.64	14,958,682.81	1,165,837,541.57
Provisions for inventories impairment	128,847,417.83	25,223,776.44	40,667,142.24	113,404,052.03
Impairment provisions for available-for-sale financial assets	35,192,580.38	4,178,972.57	5,587,800.85	33,783,752.10
Impairment provisions for long-term investments	6,015,471.87			6,015,471.87
Reserve for held-to-maturity investment impairment				
Impairment provisions for fixed assets	38,816,970.61	16,309,470.15	22,581,660.76	32,544,780.00
Impairment provisions for construction in progress				
Reserve for Intangible Assets Impairment	73,329,500.00	26,581,570.73		99,911,070.73
Provision for goodwill impairment				
Total	847,212,439.43	688,079,515.53	83,795,286.66	1,451,496,668.30

24. Short-term borrowings

Loan category	Dec. 31, 2015	Jan. 1, 2015
Guaranteed borrowings	12,672,459,281.37	12,569,773,035.27
Secured borrowings	244,000,000.00	1,695,782,151.31
Pledged borrowings	897,017,011.35	208,160,927.92
Credit borrowings	876,756,982.64	1,047,000,015.17
Total	14,690,233,275.36	15,520,716,129.67

25. Bill payables

Category	Dec. 31, 2015	Jan. 1, 2015
Commercial acceptance bills	150,330,000.00	175,100,000.00
Bank acceptance bills	5,573,244,073.96	4,345,750,482.82
Letter of credit		315,523,321.94
Total	5,723,574,073.96	4,836,373,804.76

26. Account payables

(1) Ageing structure

Ageing analysis	Dec. 31, 2015		Jan. 1, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	1,326,098,079.64	78.73	2,403,134,037.52	95.38
1-2 years (inclusive)	318,948,678.36	18.94	80,544,741.13	3.20
2-3 years (inclusive)	12,593,384.19	0.75	8,566,147.14	0.34
Over 3 years	26,665,912.15	1.58	27,210,114.43	1.08
Total	**1,684,306,054.34**	**100.00**	**2,519,455,040.22**	**100.00**

(2) Accounts payable to the top five creditors

Name of creditor company	Amount	Ageing	Reason
Acer Computer (Shanghai) Co.	309,598,932.64	Within 1 year (inclusive)	Payment for goods
Shanghai Changwen Industry Co., Ltd.	220,000,000.00	Within 1 year (inclusive)	Payment for goods
Anglo American Norte S.A	170,184,336.09	Within 1 year (inclusive)	Payment for goods
Shanxi Lu'an Yitai International Trade Co., Ltd.	158,987,934.42	Within 1 year (inclusive)	Payment for goods
Minera Escondida Ltd.A	153,313,916.27	Within 1 year (inclusive)	Payment for goods
Total	**1,012,085,119.42**		

27. Receipts in advance

(1) Ageing analysis

Ageing analysis	Dec. 31, 2015		Jan. 1, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	747,526,382.59	78.78	648,074,029.10	79.73
1-2 years (inclusive)	195,436,717.85	20.60	160,667,834.36	19.77
2-3 years (inclusive)	3,808,775.93	0.40	2,523,433.26	0.30
Over 3 years	2,141,996.99	0.23	1,612,076.00	0.20
Total	**948,913,873.36**	**100.00**	**812,877,372.72**	**100.00**

(2) Advances received from the top five creditors

Name of creditors	Amount	Ageing	Reason
Neighborhoods Income Bandwidth Fee	223,409,051.48	Within 1 year	Payment for goods
Lu'an Zhuo Tai Xianghe Metal Technology Yixing Co., Ltd	123,999,999.90	Within 1 year	Payment for goods
Fujian Fangxing Chemical Co., Ltd.	79,416,802.50	Within 1 year	Payment for goods
MAG RESOURCES LIMITED	60,932,602.67	Within 1 year	Payment for goods
Fu Hao (Shanghai) International Trade Co., Ltd	51,701,988.21	Within 1 year	Payment for goods
Total	**539,460,444.76**		

28. Accrued employee benefits

Item	Dec. 31, 2015	Jan. 1, 2015
1.Salaries, bonuses, allowances and subsidies	2,127,068,723.64	1,012,220,840.20
2. Employee welfare	52,970,238.66	41,844,431.12
3. Social insurance	30,173,734.80	22,118,594.67
Of which: medical insurance	5,483,018.25	2,999,668.95
Basic old - age insurance premium	22,679,085.58	17,756,864.49
Unemployment insurance premium	1,544,242.43	1,122,930.70
Work injury insurance	166,917.42	110,499.88
Maternity insurance	300,471.12	128,630.65
4. Housing provident fund	4,143,447.88	3,158,180.29
5. Other	35,139,934.05	25,386,741.61
Total	**2,249,496,079.03**	**1,104,728,787.89**

29. Tax payable

Category	Dec. 31, 2015	Jan. 1, 2015
Value-added tax	-182,962,750.27	-117,410,431.40
Business tax	88,475,437.22	59,987,530.51
Urban maintenance and construction tax	11,409,271.12	7,263,485.97
Corporate income tax	266,875,348.97	453,401,784.11
Individual income tax	50,042,939.56	45,563,180.76
Other taxes	39,863,554.70	99,112,652.07
Total	**273,703,801.30**	**547,918,202.02**

30. Dividends payable

Category	Dec. 31, 2015	Jan. 1, 2015
Dividends payable	8,957,781.78	8,957,781.78
Total	8,957,781.78	8,957,781.78

31. Interest payable

Category	Dec. 31, 2015	Jan. 1, 2015
Interest payable	1,881,615,242.71	322,846,761.38
Total	1,881,615,242.71	322,846,761.38

32. Other payables

(1) Ageing analysis

Ageing analysis	Dec. 31, 2015		Jan. 1, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	21,136,522,294.41	97.45	11,414,135,899.82	96.70
1-2 years (inclusive)	196,299,127.45	0.91	364,924,610.62	3.09
2-3 years (inclusive)	336,840,223.49	1.55	6,840,223.49	0.06
Over 3 years	19,611,345.71	0.09	17,217,267.49	0.15
Total	21,689,272,991.06	100.00	11,803,118,001.42	100.00

(2) Other payables to the top five creditors

Creditors	Amount	Ageing	Reason
Entrust and Structural Financing Payment	17,356,206,731.79	Within 1 year	Financing payments
Peking University Resources Group Co	2,710,936,960.31	Within 1 year	Between
Beijing Peking University Medical Bank of the equity investment center (limited partnership)	600,000,000.00	Within 1 year	Between
Shenzhen In-long Investment Holding Co., Ltd.	230,000,000.00	2-3years	Guarantee money
Ping An Bank - gold lease payments	192,321,200.00	Within 1 year	Guarantee money
Total	21,089,464,892.10		

33. Non-current liabilities due within one year

Item	Dec. 31, 2015	Jan. 1, 2015
Long-term borrowings due within one year	509,680,495.75	489,072,056.85
Deferred payables due within one year	181,331,902.86	15,357,063.11
Deferred income due within one year	13,553,942.51	7,535,918.07
Total	704,566,341.12	511,965,038.03

34. Other current liabilities

Item	Dec. 31, 2015	Jan. 1, 2015
Other current liabilities	22,644,513,532.89	22,586,758,195.78
Total	22,644,513,532.89	22,586,758,195.78

35. Long-term borrowings

Categories	Dec. 31, 2015	Jan. 1, 2015
Guaranteed loan	5,134,436,719.09	6,704,336,587.90
Credit loan	423,729,000.00	1,156,121,200.00
Pledged loan	164,000,000.00	
Secured loan	1,126,031,061.69	909,034,810.13
Total	6,848,196,780.78	8,769,492,598.03

36. Bonds payable

(1) Book value

Item	Dec. 31, 2015	Jan. 1, 2015
Bonds payables-nominal value	54,269,820,000.00	25,833,300,000.00
Bonds payables-interest	397,995,285.85	316,925,299.49
Total	54,667,815,285.85	26,150,225,299.49

(2) Nominal value of bonds

Category	Nominal value	Issuance date	Duration
Medium-term notes	1,500,000,000.00	2011/1/27	5year
Medium-term notes	1,480,000,000.00	2011/11/18	7year
Medium-term notes	1,020,000,000.00	2011/11/18	7year
Medium-term notes	2,000,000,000.00	2012/3/7	7year
Medium-term notes	2,000,000,000.00	2012/9/10	5year
Private bond	1,000,000,000.00	2013/12/11	3year
Private bond	2,000,000,000.00	2014/4/16	3year
Private bond	1,000,000,000.00	2014/8/25	3year
Private bond	1,000,000,000.00	2014/2/26	3year
Private bond	2,000,000,000.00	2015/10/16	3year
Private bond	1,000,000,000.00	2015/10/20	3 year

Category	Nominal value	Issuance date	Duration
China High - Tech Group Co., Ltd. 2010 Corporate Bonds	280,000,000.00	2010/2/2	7 year
Non-public Issuance of Corporate Bonds 2015 (Phase I)	500,000,000.00	2015/11/10	5 year
14 Founder debt	3,000,000,000.00	2014/4/28	5 year
15 Founder 01	2,800,000,000.00	2015/4/10	2 年
15 Founder 02	10,000,000,000.00	2015/5/18	2 年
15 Founder 03	10,000,000,000.00	2015/6/29	2 年
15Minzu Securities01 subordinated bond	3,000,000,000.00	2015/5/14	2 年
15Founder D2short-term corporate bond	1,800,000,000.00	2015/4/23	365 天
Revenue voucher	6,889,820,000.00		Within 1 year
Total	**54,269,820,000.00**		

37. Long-term payables

Item	Dec. 31, 2015	Jan. 1, 2015
Fixed assets by financing lease	763,351,812.59	690,493,857.28
Total	**763,351,812.59**	**690,493,857.28**

38. Special payables

Project	Jan. 1, 2015	Increase	Decrease	Dec. 31, 2015
Deposits and investments	1,188,682,076.59	379,720,089.39	19,493,643.30	1,548,908,522.68
Relocation payments	187,860,607.87			187,860,607.87
Government grants for environment relocation		64,651,202.29	1,948,548.85	62,702,653.44
Composite publishing project	53,145,251.44	1,544,000.00	2,304,800.00	52,384,451.44
Government technical updating project	20,000,000.00			20,000,000.00
Finance bureau of Chongqing municipality	8,400,000.00	1,500,000.00		9,900,000.00
Immigration bureau of Yubei district in Chongqing	9,039,300.00			9,039,300.00
Project of "integration of TV and Internet to develop system application for demonstration and promotion"	3,750,000.00		3,750,000.00	
State-owned cultural asset supervision administration office	3,380,000.00		3,380,000.00	
Other	6,036,456.91	12,110,924.26		18,147,381.17
Total	**1,480,293,692.81**	**459,526,215.94**	**30,876,992.15**	**1,908,942,916.60**

39. Estimated liabilities

Item	Jan. 1, 2015	Increase	Decrease	Dec. 31, 2015
Pending litigation	200,848,764.38	79,151,235.62		280,000,000.00
Accrued fines		26,151,267.39		26,151,267.39
Total	**200,848,764.38**	**105,302,503.01**	**0.00**	**306,151,267.39**

40. Liabilities of deferred income tax

Item	Dec. 31, 2015	Jan. 1, 2015
Liabilities of deferred income tax	1,721,538,677.94	1,394,869,117.53
Total	**1,721,538,677.94**	**1,394,869,117.53**

41. Other non-current liabilities

Item	Jan. 1, 2015	Increase	Decrease	Dec. 31, 2015
Insurance reserve	1,881,404,181.84	646,546,440.15	212,739,922.65	2,315,210,699.34
Deferred income	183,974,452.27		183,974,452.27	
others	6,395,329.10		6,395,329.10	
Total	**2,071,773,963.21**	**646,546,440.15**	**403,109,704.02**	**2,315,210,699.34**

42. Paid-in capital

Company name	Dec. 31, 2015		Jan. 1, 2015	
	Investments	Percentage (%)	Investments	Percentage (%)
Peking University Asset Management Company Limited	771,770,000.00	70.00	735,000,000.00	70.00
Beijing Zhaorun Investment Management Co., Ltd	330,758,600.00	30.00	315,000,000.00	30.00
Total	**1,102,528,600.00**	**100.00**	**1,050,000,000.00**	**100.00**

43. Capital surplus

Item	Jan. 1, 2015	Increase	Decrease	Dec. 31, 2015
Capital reserve	2,534,588,753.82			2,534,588,753.82
Total	**2,534,588,753.82**	**0.00**	**0.00**	**2,534,588,753.82**

44. Surplus reserves

Item	Jan. 1, 2015	Increase	Decrease	Dec. 31, 2015
Statutory surplus reserve	260,786,857.81			260,786,857.81
Statutory public welfare fund	130,393,428.91			130,393,428.91
Total	391,180,286.72	0.00	0.00	391,180,286.72

45. Undistributed profits

Item	Amount	Percentage (%)
Undistributed profits before adjustment	9,409,281,461.79	
Undistributed profits during adjustment(increase+, decrease-)	-388,096,154.61	
Undistributed profits after adjustment	9,021,185,307.18	
Plus: net profit attributable to owner of the parent	1,253,358,877.13	
Less: withdrawing statutory surplus reserve		10
Undistributed profits in Dec. 31, 2015	10,274,544,184.31	

46. Other comprehensive income

Item	Opening balance(attributable to the parent)	Income before tax	Less: gains and losses recorded in other comprehensive income in the beginning	Less: income tax expenses	Post-tax income attributable to the parent	Post-tax income attributable to the minority	Closing balance(attributable to the parent)
1. Other comprehensive income that will not be reclassified into profit or loss							
1. Re-measure net assets or liabilities of benefit plan							
2. Other comprehensive incomes that are not reclassified under equity method							
3. Other comprehensive income that will be reclassified into profit or loss	5,186,081,251.98	2,141,020,961.82	198,823,192.39	188,107,916.67	1,052,703,687.71	701,386,165.05	6,238,784,939.69
4. Other comprehensive income that will be reclassified under equity method	3,497,752,135.65	639,605,033.02	-	-	639,605,033.02	-	4,137,357,168.67
5. Gains and losses from changes in fair value of available-for-sale financial assets	1,583,072,120.15	1,499,105,561.11	198,823,192.39	188,107,916.67	402,634,242.46	709,540,209.59	1,985,706,362.61
6. Gains and losses on available-for-sale by held-to-maturity investments	-	-	-	-	-	-	-
7. Gains and losses from effective cash flow	-	-	-	-	-	-	-
8. Conversion of foreign currency financial statements	19,530,428.05	2,310,362.47	-	-	10,464,410.78	-8,154,048.31	29,994,838.83
9. Other	85,726,568.13	5.22	-	-	1.45	3.77	85,726,569.58
Total	5,186,081,251.98	2,141,020,961.82	198,823,192.39	188,107,916.67	1,052,703,687.71	701,386,165.05	6,238,784,939.69

47. Operating income and cost

Item	Current period		Corresponding period of last year	
	Income	Cost	Income	Cost
Main business	79,986,270,577.31	68,828,606,883.43	74,250,969,209.22	68,261,275,667.98
Other business	525,017,843.21	310,214,581.83	503,426,545.86	287,517,483.66
Total	**80,511,288,420.52**	**69,138,821,465.26**	**74,754,395,755.08**	**68,548,793,151.64**

48. Less: Business taxes and surcharges

Item	Current period	Corresponding period of last year	Standard
Business tax	869,487,878.68	427,068,181.97	3%-5%
Urban maintenance and construction tax	83,925,602.34	51,175,070.19	7%
Educational surcharge	53,212,553.99	27,381,342.78	4.50%
others	99,741,684.70	46,994,036.03	
Total	**1,106,367,719.71**	**552,618,630.97**	

49. Financial expenses

Item	Current period	Corresponding period of last year
Interest expense	5,941,623,962.44	3,932,812,392.25
Less: Interest income	356,064,363.04	363,696,277.45
Exchange net gain or loss	-19,822,388.99	57,391,133.96
Handling fees	105,473,525.46	73,766,906.07
Total	**5,671,210,735.87**	**3,700,274,154.83**

50. Investment income

Item	Current period	Corresponding period of last year
Long-term equity investment income under equity method	178,576,882.98	481,111,800.45
Investment income in disposal of long-term equity	3,601,875,536.80	1,604,583,353.03
Investment income in financial instruments	1,380,899,450.67	848,390,744.43
Income in disposal of financial instrument	955,393,961.95	410,052,954.92
Futures income	280,734,360.36	498,929,987.25
Total	**6,397,480,192.76**	**3,843,068,840.08**

51. Non-operating income

Item	Current period	Corresponding period of last year
1. Sub-total of gains from disposal of non-current assets	111,464,094.65	263,701,012.96
of which : Gain from disposal of fixed assets	111,464,094.65	126,792,212.96
Gain from disposal of intangible assets		136,908,800.00
2. Gain from debt restructuring		
3. Gain from exchange of non-monetary assets		
4. Donation received		
5. Government grants	187,988,326.48	434,202,930.41
6. Others	104,374,842.06	84,307,498.52
Total	**403,827,263.19**	**782,211,441.89**

52. Non-operating expenses

Item	Current period	Corresponding period of last year
1.Sub-total of losses from disposal of non-current assets	14,177,074.74	14,187,495.29
of which: Loss from disposal of fixed assets	14,177,074.74	11,073,549.50
Loss from disposal of intangible assets		3,113,945.79
2.Loss from debt restructuring		
3.Loss from exchange of non-monetary assets		
4.Donation	12,642,750.01	18,147,727.91
5.Others	240,049,118.17	153,567,110.85
Total	**266,868,942.92**	**185,902,334.05**

53. Income tax expenses

Item	Current period	Corresponding period of last year
current income tax expenses	1,733,699,300.07	1,150,718,729.43
Deferred income tax expenses	60,613,960.34	-53,798,542.60
Total	**1,794,313,260.41**	**1,096,920,186.83**

VI. RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

1. Controlling Shareholder and Ultimate Controlling Shareholder

Name	Relationship with the Issuer	Registered Location	Legal representative	Nature of business	Ultimate Controlling Shareholder	Registered capital (CNY '0000)	Shareholding Percentage (%)
Peking University Asset Management Company Limited	Wholly state-owned company	Beijing	Hu Xinlong	Investment holding	Peking University	307,227.67	70.00%
Beijing Zhaorun Investment Management Co., Ltd	Investing party	Beijing	Wei Xin	Investment management		1,000.00	30.00%

2. Related Parties with Controlling Relationship

Name	Registered capital (CNY'0000)	Consolidation	Direct Investment Percentage (%)	Final Consolidation Rate (%)
Peking Founder Industry and Commerce corp.	1,000.00	Yes	100.00	100.00
Founder Industry Holdings Co., Ltd	120,000.00	Yes	94.17	94.17
Founder Securities Co., Ltd	823,210.14	Yes	27.75	29.20
Pku Healthcare	250,000.00	Yes	85.60	85.60
PKU Founder investment Co., Ltd.	15,000.00	Yes	80.00	100.00
Shenzhen Founder Microelectronics International Co., Ltd	43,583.02	Yes	63.69	63.69
PKU Founder Training Centre	500.00	Yes	100.00	100.00
PKU Founder Group Finance Co., Ltd	500,000.00	Yes	50.00	100.00
Founder Capital Holding Co., Ltd.	20,000.00	Yes	70.00	100.00
PKU Founder Information Industry Group Co., Ltd	100,000.00	Yes	100.00	100.00
China Hi-tech Group Co., Ltd	29,332.80	Yes	20.01	20.01
PKU Founder Life Insurance Co., Ltd	193,000.00	Yes	51.00	51.00
Founder Group Corp (HK) Co., Ltd.	18,294.06	Yes	100.00	100.00

3. Related-Parties without Controlling Relationship

Name	Relationship with the Issuer
Peking University Science Park Co., Ltd.	Investee of the Issuer
Found International Leasing Co., Ltd.	Investee of the Issuer
Kunshan Hi-Tech Electronic Arts Creative Industry Development Co. Ltd.	Investee of the Issuer
Peking University Resource Group Co., Ltd	Investee of the Issuer
Founder Information (Hong Kong) Ltd.	Investee of the Issuer
Beijing Renhe Lian'an Real Estate Development Co. Ltd.	Investee of the Issuer
Founder BEA Trust Co., Ltd.	Investee of the Issuer

4. Related Party Transactions

(1) Other Receivables with Related Parties

Name	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015
Peking University Science Park Co., Ltd.	753,431,278.00	453,431,278.00	453,431,278.00
Peking University Resource Group Co., Ltd.	4,029,935,816.45	4,882,638,126.71	-2,710,936,960.31
Peking University Science Park Construction Development Co., Ltd	17,023,060.00	17,023,060.00	17,023,060.00

Note: -2,710,936,960.31(Yuan) of Peking University Resource Group Co., Ltd. shall be listed in other payable.

(2) Guarantee by Related Parties (unit: CNY hundred million Yuan)

Guaranteed party	Type of Guarantee	Currency	Term	Guarantee Balance
Peking University Resource Group Co., Ltd.	Warranty guarantee	CNY	2014-2020	155.25
Peking PKU Science Park Construction and Development Co., Ltd.	Warranty guarantee	CNY	2014-2019	9.72
Founder International Leasing Co., Ltd.	Warranty guarantee	CNY	2014-2017	4.41
	RMB Total			**169.38**

VII. Contingencies

1. Pending Litigation and Arbitration

(1) Dispute of entrusting and financing

In January, 2001, under the *Agreement of Asset Entrusting Management* and *Supplement Agreement of Asset Entrusting Management* signed by original Hunan Security LLC Limited Liability Company (later renamed as Taiyang Security and hereinafter referred to as "Taiyang Security") and Aerospace Solid Carrier Rocket Limited Company (hereinafter referred to as "Rocket Company"). Rocket Company entrusted Taiyang Security to manage cash assets of RMB 200million Yuan and the annual earnings were 15%. On September 29, 2007, Rocket Company sent *Letter About Returning Entrusting Management Money* to Taiyang Security, requiring Taiyang Security to return capital of RMB 0.23 billion Yuan before December 31, 2007. On December 24, 2007, Rocket Company took legal action against Taiyang Security in respect of this entrusting money management dispute by submitting to Hunan Province Superior People's Court and required it to return the principal and interest with respect of its cash assets under management. On March 25, 2008, Hunan Province Superior People's Court issued the (2008) Hunan Superior Court Civil Second Initial Version No 2-1 Civil Ruling Paper, and decided that "since this case relates to the crime of manipulating the transaction price of securities, suspected of being involved by Plaintiff General Manager Chen Jun and Defendant original President Li Xuanmin", this case would be suspended pursuant to the laws.

On March 14, 2012, Hunan Province Superior People's Court issued a written notice that this case had been transferred to Economic Crime Investigation Corp. of Hunan Province Public Security Department for disposal and therefore the entrusting money management civil case accepted by Hunan Province Superior People's Court had concluded.

In July of 2013, China Aerospace Science & Industry Corporation Assets Management Limited Company (hereinafter referred to as "Aerospace Assets Management Company") took legal action against Rocket Company for the reason that it failed to recover debt within 60 days of agreement validation after signing *Agreement of Debt Transfer* with Rocket Company, and it applied to the Beijing First Intermediate People's Court to add Founder Securities as the first-mentioned defendant in August 2013 and asked for Founder Securities to repay it RMB238,885,700 Yuan and bank loan interest (five-year loan interest rate 5.76% in the corresponding period) in the corresponding period based on principal of RMB0.2 billion Yuan from January 10, 2002. This amounted to RMB124,480,000 Yuan when temporarily calculated up to October 31, 2012. Aerospace Assets Management Company also sought for the second-mentioned defendant Rocket Company to undertake related responsibility of guarantee for above debt.

Founder Securities stands objection to the jurisdiction of the Court. And with retrial, the Supreme People's Court ruled that the case was transferred to the Beijing Higher People's Court for retrial. In August 7, 2015 (the verdict on August 14 signed), Beijing High Court presented verdict that Founder Securities lost. In September, 2015, Founder Securities Appeal to the Supreme Court and the case was heard in December 2, 2015 for trial. As of April 22, 2016, the Supreme Court has not yet made a final decision on the case.

（2）Founder Securities sued Zhengquan Securities, disputing over contract for purchase of commodity house

In October 2013, Founder Industrial Holdings Co,.Ltd ("Industrial Holdings") signed a contract for commodity house with Beijing Zhengquan Holdings Co,.Ltd (hereinafter referred to as " Zhengquan Holdings "), about purchasing housing in Jinquan Square with amount of 670 million Yuan. Industrial Holdings paid all the money. However, the two parties terminated the Contract with the refund of 230 million yuan from Zhengquan Holdings, 440 million yuan (principal) needed to be returned. Therefore, Industrial Holdings appealed to Beijing High Court for the principle and interests. The case was heared for testimony in April 14, 2016 and is now still ongoing..

（3） Zhengquan Securities sued Founder Securities, confirming that the board of directors resolution invalid

May 14, 2015, Founder Securities, the second largest shareholder of Founder Securities, sued the company in the name of determining the effectiveness of political decisions in resolving disputes. The company required the content of the "motion on the election of the chairman of the board," in the March 12, 2015 announcement number 2015-038 "Founder Securities Co., Ltd. the second session of the Sixteenth Meeting of the Board resolution" is invalid. Subsequently, Founder Securities filed a challenge to the court jurisdiction. On June 10, 2015, the Court of First Instance Beijing Xicheng District People's Court ruled that the case would be transferred to the Tianxin District, Changsha City, Hunan People's Court jurisdiction. As of April 22, 2016, the case has not yet been concluded.

（4） Housing contract dispute between Founder Group and National Geographic Information Technology Industrial Park Group Co., Ltd. housing contract dispute

In 2011, Founder Group and Geophysical Geographic Information Technology Industrial Park Group Co., Ltd. (hereinafter referred to as "National Geographic") signed a housing subscription agreement, however National Geographic did not submit housing to Founder Group after that. On April 15, 2015, Founder Group filed a lawsuit to Beijing High Court, asking the company to return the purchase price and the committed funds and overdue funds occupancy fees, totaling about 737 million yuan. On May 7, 2015, the Beijing High Court accepted the case, and organized evidence cross-examination on July 17, 2015 . On March 11, 2016, the case was mediated under the auspices of the Court. National Geographic was ordered to return the purchase price by installments.

(5) Dispute over pre-selling commodity house between Beijing Wanshunda and six citizens, including Liu Yuxia

Beijing Wanshunda Real Estate Development Co., Ltd. (hereinafter referred to as "Wanshunda") is a holding subsidiary of China Gaoke Group. Liu Yuxia and other six citizens (hereinafter referred to as "plaintiff ") purchased 34 properties of commercial land and medical service facilities from Wanshunda. Both parties signed the *Beijing Commodity Housing (commercial and office housing) Presale Contract* (hereinafter referred to as the "Presale Contract"). The six citizens appealed litigation to Haidian Court. Plaintiffs believe that: Wanshunda delayed the delivery of housing and the housings had deficiency in construction design defects, Wanshunda refused to rectify the housings according to the clients, all of which caused losses to the plaintiffs. As a result, they required that Wanshunda should compensate loss for overdue submission of housing losses, the loss of rectification expenses, income losses due to delay, which amounted to about 143 million yuan. And Wanshunda filed Haidian Court proceedings. Wanshunda t has filed an objection to jurisdiction to Haidian Court. As of April 22, 2016, the case has not yet been heard

2. Internal guarantee

During the preparation of the financial statement, the internal guarantee amounted to 15.679billion.

Ⅷ. Covenants

As of April 30, 2016, there was no significant event that needed to be disclosed but yet to disclose.

Ⅸ. Subsequent Events Related to Balance Sheet

In December 2015, that Founder Group transfers 57.1% share of Founder East Asia Trust Co,. Ltd. is agreed according to resolution made by Board of Founder.

In April 2016, Founder signed a contract for equity transaction with Wuhan Financial Holdings (Group) Limited. Founder transfers 57.1% share of Founder East Asia Trust to Wuhan Financial Holdings with 5billion yuan, which has already been recorded in 2015 financial statements. Founder receives investment income of 3,248,602,543.58yuan through this transfer. As of April 30 2016, there has been no other subsequent event related to balance sheet.

Ⅹ. ITEMS IN FINANCIAL STATEMENT OF PARENT COMPANY

1. Account payables

(1) Ageing analysis

Ageing	Dec. 31 2015 Book balance		Jan. 1 2015 Book balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	249,054,958.70	88.44	218,331,314.83	92.63
1-2 years (inclusive)	15,265,132.62	5.42	17,373,049.12	7.37
2-3 years (inclusive)	17,304,441.39	6.14		
Over 3 years				
Total	281,624,532.71	100.00	235,704,363.95	100.00

(2) Closing payables cover no shareholders that own less than5% shares(voting right).

(3) Account receivables from the top five customers

Item	Amount	Ageing	Percentage (%)
Shanghai Futang Trading Development Co., Ltd	184,223,754.73	Within 1 year (inclusive)	65.41
Haidian Branch of Beijing PKU Resources Property Management Co., Ltd	17,304,441.39	2-3years	6.14
Sanwujiu Company	12,098,940.60	1-2years	4.30
Jiangsu Tongli Co., Ltd	3,537,056.99	Within 1 year (inclusive)	1.26
Tianjin Municipality Password Administration	3,166,192.02	1-2years	1.12
Total	220,330,385.73		78.23

2. Other payables

(1) Ageing analysis

Ageing	Dec. 31 2015 Book balance	
	Amount	Percentage (%)
Within 1 year (inclusive)	30,026,441,624.39	92.71
1-2 years (inclusive)	1,753,431,278.00	5.41
2-3 years (inclusive)	505,540,527.88	1.56
Over 3 years	100,846,996.79	0.32
Total	32,386,260,427.05	100.00

Ageing	Jan. 1 2015	
	Book balance	
	Amount	Percentage (%)
Within 1 year (inclusive)	28,816,923,304.74	97.43
1-2 years (inclusive)	559,657,654.57	1.89
2-3 years (inclusive)	107,276,762.79	0.36
Over 3 years	91,679,087.99	0.32
Total	**29,575,536,810.09**	**100.00**

(2) Other payables to the top five customers

Major creditors	Amount	Ageing	Percentage (%)
Wuhan Financial Holdings (Group) Co., Ltd.	5,000,000,000.00	Within 1 year	15.44
Founder Industry Holdings Co., Ltd.	1,727,383,685.49	Within 1 year	5.33
PKU Founder Real Estate Group Co., Ltd	1,478,846,405.50	Within 1 year	4.57
Jiangsu Suzhou Steel Group Co., Ltd.	1,156,302,340.54	Within 1 year	3.57
Huarong Securities Co,. Ltd.	1,252,388,666.68	Within 1 year	3.87
Total	**10,614,921,098.21**		**32.78**

XII. APPROVAL OF FINANCIAL STATEMENT

This financial statement will be approved by the Board of Founder in April 30 2016.

Peking University Founder Group Co., Ltd.

April 30 2016

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Asia:Pacific (Group), CPA (Special General Partnership)
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Tel. +86 10 88386966
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www.apag-cn.com

Audit Report

Asia Pacific (Group) B Audit (2017) No.1004

To Peking University Founder Group Co., Ltd.:

We have audited the accompanying consolidated financial statements of PKU Founder Group Co., Ltd (thereafter referred to as 'Founder Group'), which comprises related consolidated balance sheet as of December 31, 2016, consolidated income statement for the year then ended, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and the notes to the financial statements.

Ⅰ. Management's responsibility for the financial statements

Management of Founder Group is responsible for the preparation and fair presentation of financial statements. This responsibility includes: (1) preparing the financial statements, which is fairly presented in accordance with the Accounting Standards for Business Enterprises and its relevant provisions; (2) designing, implementing and maintaining the necessary internal control in order to free financial statements from material misstatement, whether due to fraud or error.

Ⅱ. Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain related audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Opinion

In our opinion, the financial statements of Founder Group have been prepared in accordance with the Accounting Standards for Business Enterprise and its relevant provisions in all material respect, it reflects the merger and financial situation of the Founder Company in December 31, 2016, as well as the merger and the results of operation and the cash flow of the company in the year 2016.

Asia Pacific (Group) CPAs
(special general partnership)

Chinese Certified Public Accountant

Chinese Certified Public Accountant

Beijing·China

April 30, 2017

Consolidated Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Co., Ltd. | December 31,2016 | Unit: (CNY) Yuan

Assets	Row No.	Closing balance	Opening Balance	Notes No.
Current Assets:	1			
Monetary funds	2	28,142,926,476.72	29,454,911,529.68	(VI)1
Measured at fair value and the changes are recorded into the profits and losses of the current financial	3	35,988,100,362.29	25,060,811,843.47	(VI)2
Derivative financial assets	4	438,948.32	34,552,865.00	
Notes receivable	5	489,608,288.45	822,513,237.81	(VI)3
Dividend receivable	6	-	4,000,000.00	
Interest receivable	7	1,566,615,756.69	1,591,561,919.20	(VI)4
Accounts receivable	8	7,103,326,565.76	5,535,774,668.62	(VI)5
Other receivables	9	72,630,428,507.89	55,681,150,968.06	(VI)6
Advances to suppliers	10	3,369,429,984.55	4,134,668,411.90	(VI)7
Inventories	11	5,741,346,277.61	4,845,022,612.41	(VI)8
Including:raw materials	12	429,671,635.36	357,762,002.21	
finished goods	13	4,613,357,523.99	3,463,256,191.80	
Long-term debt investment	14	8,798,768.50	-	
Other current assets	15	13,570,483,541.50	6,623,921,614.08	(VI)9
Including: partition hold-for-sale assets	16	-	45,559,560.18	
Sub-total of current assets	17	166,611,503,478.28	133,788,889,670.23	
Non-current assets:	18			
△Available-for-sale financial assets	19	33,737,761,149.91	22,228,464,132.84	(VI)10
△Held-to-maturity investment	20	1,496,181,083.77	2,237,877,418.19	(VI)11
△Investment property	21	-	-	
Long-term equity investment	22	5,416,851,695.13	4,489,122,618.25	(VI)12
△Investment properties	23	6,742,088,282.82	8,467,187,317.00	(VI)13
Fixed assets-cost	24	19,451,572,353.81	14,947,959,505.79	(VI)14
Less:accumulated depreciation	25	6,664,706,729.61	5,893,104,791.75	
Fixed assets-net value	26	12,786,865,624.20	9,054,854,714.04	
Less:impairment of fixed assets	27	896,790,274.96	32,544,780.00	
Net value of fixed assets	28	11,890,075,349.24	9,022,309,934.04	
Construction in progress	29	1,750,369,184.71	6,004,685,512.35	(VI)15
Project material	30	85,856,383.83	40,860,746.87	(VI)16
Disposal of fixed assets	31	7,932,126.72	6,106,973.19	
△Productive biological assets	32	-	-	
△Oil-and-gas assets	33	-	-	
Intangible assets	34	1,363,757,355.70	796,820,777.60	(VI)17
Including:land use rights	35	872,689,698.96	325,003,077.33	
△Development expenditure	36	227,874,628.98	181,573,490.70	(VI)18
△Goodwill	37	6,903,799,381.83	6,903,799,381.83	(VI)19
Long-term prepayments	38	363,999,277.00	435,072,817.91	(VI)20
△Deferred income tax assets	39	393,838,671.71	133,752,548.67	(VI)21
Other non-current assets(Other long-term assets)	40	2,280,712,415.16	1,823,936,595.89	(VI)22
Including:specially approved reserving materials	41	-	-	
Total non-current assets	42	72,661,096,986.51	62,771,570,265.33	
Total Assets	43	239,272,600,464.79	196,560,459,935.56	

Chairman: CFO: GM of Finance Department:

Consolidated Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Co., Ltd. December 31,2016 Unit: (CNY) Yuan

Liabilities and shareholders' equity	Row No	Closing balance	Opening Balance	Notes No.
Current Liabilities:	44			
Short-term loans	45	18,961,306,724.83	14,690,233,275.36	(VI)24
Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities	46	10,109,468,691.68	1,668,996,284.93	(VI)25
Derivative financial liabilities	47	10,413,478.19	16,832,107.99	
Notes payable	48	1,328,601,310.03	5,723,574,073.96	(VI)26
Accounts payable	49	2,665,119,947.60	1,684,306,054.34	(VI)27
Advances from customers	50	1,773,108,160.69	948,913,873.36	(VI)28
Accrued wages	51	1,563,842,979.73	2,249,496,079.03	(VI)29
Including:accrued payroll	52	1,446,345,533.67	2,127,068,723.64	
Including:welfare expenses payable	53	36,742,401.26	52,970,238.66	
Taxes and dues payable	54	2,044,148,422.92	273,703,801.30	(VI)30
Including:taxes payable	55	2,036,684,079.57	265,087,909.12	
Accrued interest payable	56	1,547,264,554.73	1,881,615,242.71	(VI)31
Dividends payable	57	15,242,473.44	8,957,781.78	(VI)32
Other amounts payables	58	22,675,451,640.01	21,689,272,991.06	(VI)33
Partition hold-for-sale liabilities	59	-	-	
Long-term liabilities due within a year	60	3,934,614,088.51	704,566,341.12	(VI)34
Other current liabilities	61	19,689,221,377.51	22,644,513,532.89	(VI)35
Sub-total of current liabilities	62	**86,317,803,849.87**	**74,184,981,439.83**	
Non-current liabilities:	63			
Long-term borrowings	64	9,091,366,751.89	6,848,196,780.78	(VI)36
Bonds payable	65	79,018,504,046.47	54,667,815,285.85	(VI)37
Long-term payables	66	792,065,914.41	763,351,812.59	(VI)38
Long-term accrued wages	67	11,835,790.60	13,000,404.35	
Special payable	68	2,568,161,902.36	1,908,942,918.60	(VI)39
Estimated liabilities	69	293,797,870.07	306,151,267.39	(VI)40
Deferred revenue	70	299,755,187.78	126,335,520.54	
△Deferred income tax liabilities	71	2,034,707,916.04	1,721,538,677.94	(VI)41
Other non-current liabilities	72	3,391,959,801.27	2,315,210,699.34	(VI)42
Including:special reserve fund	73	-	-	
Total non-current liabilities	74	**97,502,155,180.89**	**68,670,543,365.38**	
Total liabilities	75	**183,819,959,030.76**	**142,855,524,805.21**	
OWNERS' EQUITY (stockholder's equity):	76			
Paid-in capital (or stock)	77	1,102,528,600.00	1,102,528,600.00	(VI)43
Including:national capital	78	771,770,000.00	771,770,000.00	
collective capital	79	-	-	
legal person's capital	80	330,758,600.00	330,758,600.00	
Including:state-owned legal person's capital	81	-	-	
collective legal person's capital	82	-	-	
Personal capital	83	-	-	
Foreign businessmen's capital	84	-	-	
Other equity instruments	85	-	-	
Capital surplus	86	2,547,530,523.99	2,534,588,753.82	(VI)44
Less:treasury stock	87	-	-	
Other comprehensive income	88	5,978,940,095.66	6,238,784,939.69	
Including:translation reserve	89	62,239,162.09	29,994,838.83	
Surplus reserve	90	391,180,286.72	391,180,286.72	(VI)45
△Generic Risk Reserve	91	-	-	
Undistributed profit	92	10,913,412,730.70	10,274,544,184.31	(VI)46
Including:cash dividends	93	-	-	
Total owners' equity attributable to the parent	94	**20,933,592,237.07**	**20,541,626,764.54**	
*Minority interests	95	34,519,049,196.96	33,163,308,365.81	
Total shareholder's equity	96	**55,452,641,434.03**	**53,704,935,130.35**	
# Less:assets loss	97		-	
Total owners' equity (excluding the asset loss)	98	**55,452,641,434.03**	**53,704,935,130.35**	
Total liabilities and owners' equity	99	**239,272,600,464.79**	**196,560,459,935.56**	

Chairman: CFO: GM of Finance Department:

4

Consolidated Income Statement

Corporate accounting statement 02

Prepared by: Peking University Founder Group Co., Ltd. For the year ended December 31,2016 Unit: (CNY) Yuan

Item	Row No.	Current Year Cumulative	Last Year Cumulative	Notes No.
I.Gross revenue	1	82,004,801,789.56	80,511,288,420.52	(VI)48
Including:operating revenue	2	82,004,801,789.56	80,511,288,420.52	
Including:prime operating revenue	3	81,387,569,152.78	79,986,270,577.31	
other operating revenue	4	617,232,636.78	525,017,843.21	
II.Total operating costs	5	88,737,364,398.83	82,124,902,024.92	
Including:operating costs	6	74,604,926,999.79	69,138,821,465.26	
Including:prime operating revenue	7	74,285,356,591.06	68,828,606,883.43	
other operating cost	8	319,570,408.73	310,214,581.83	
Business tariff and annex	9	338,981,833.51	1,106,367,719.71	(VI)49
Marketing expenses	10	2,434,638,945.03	2,201,047,590.55	
General and administrative expenses	11	3,990,923,568.28	3,324,488,550.48	
Including:business entertainment expenses	12	199,213,198.04	198,061,579.38	
research and development expense	13	357,463,769.25	305,845,699.60	
Financial expenses	14	5,985,956,953.91	5,671,210,735.87	(VI)50
Including:interest expense	15	6,829,055,547.62	5,941,623,962.44	
interest revenue ("+")	16	1,005,530,961.77	356,064,363.04	
exchange net loss ("-" for net income)	17	62,726,092.46	-19,822,388.99	
△Impairment losses on assets	18	-1,383,956,078.33	682,965,957.07	
Add: gain on the change of fair value ("-" for loss)	19	-273,942,876.75	1,190,994,367.09	
Income from investment ("-" for loss)	20	12,575,364,450.44	6,397,480,192.76	(VI)51
Including: income from investment in associates and joint ventures	21	91,834,783.22	178,576,882.98	
III.Operating profit (loss with '-')	22	5,568,858,964.42	5,974,860,955.45	
Plus: non-operating revenue	23	411,758,358.27	403,827,263.19	(VI)52
Including: non-current asset disposal profits	24	3,938,474.67	111,464,094.85	
non-monetary asset exchange profits (non-monetary transactions revenue)	25	-	-	
government subsidies (subsidize revenue)	26	249,121,458.51	187,968,326.48	
debt restructuring profits	27	-	-	
Loss: non-operating expense	28	320,723,663.44	266,868,942.92	(VI)53
Including: non-current asset disposal losses	29	7,297,485.08	14,177,074.74	
non-monetary asset exchange losses (non-monetary transactions losses)	30	-	-	
debt restructuring losses	31	-	-	
IV.Total profit ("-" for loss)	32	5,659,893,659.25	6,111,819,275.72	
Loss: Income tax	33	2,663,590,564.76	1,794,313,260.41	(VI)54
Add:* # unrecognised profit and loss on investments	34			
V.Net profit ("-" for loss)	35	2,996,303,094.49	4,317,506,015.31	
Less: *minority interests	36	2,619,582,912.56	3,064,147,138.18	
VI.Net profit attributable to owners of the parent	37	376,720,181.93	1,253,358,877.13	
VII.Other comprehensive income after-tax net income	38	-1,511,338,714.17	1,754,089,852.76	
Other comprehensive income after-tax net income attributable to owners of the parent	39	-259,844,844.03	1,052,703,687.71	-
(I)Other comprehensive income which can not be reclassified into the gains and losses afterwards	40	-	-	
1.Remeasure and define benefit plan net debt or net asset changes	41	-	-	
2.The share of other comprehensive income owned when the invested entity cannot be reclassified into the gains and losses afterwards under the equity method	42	-	-	
(II)Other comprehensive income which can be reclassified into the gains and losses afterwards	43	-259,844,844.03	1,052,703,687.71	-
1、The share of other comprehensive income owned when the invested entity can be reclassified into the gains and losses afterwards under the equity method	44	-11,874,022.00	639,605,033.02	
2.Available-for-sale financial assets fair value changes gains and losses	45	-276,095,779.59	402,634,242.46	
3.Held-to-maturity investments reclassified as available-for-sale financial assets gains and losses	46	-	-	
4.Effective part of the cash flow hedging gains and losses	47	-	-	
5.The translation of foreign currency financial statements.	48	32,244,323.26	10,464,410.78	
6. Others	49	-4,119,365.70	1.45	
Other comprehensive income after-tax net income attributable to minority shareholders	50	-1,251,493,870.14	701,386,165.05	
VIII.Total consolidated income	51	1,484,964,380.32	6,071,595,868.07	-
Total consolidated income attributable to owners of the parent	52	116,875,337.90	2,306,062,564.84	-
Total consolidated income attributable to minority shareholders	53	1,368,089,042.42	3,765,533,303.23	-
IX.Earnings per share	54	-		
(I) basic earnings per share	55	-		
(II) diluted earnings per share	56	-		

Chairman: CFO: GM of Finance Department:

Consolidated Statement of Cash Flows

Corporate accounting statement 03

Prepared by: Peking University Founder Group Co., Ltd. For the year ended December 31,2016 Unit: (CNY) Yuan

Item	Row No.	Current period	Corresponding period	Supplemental Information	Row No.	Current period
I. Cash flows from operating activities:	1			1. Reconciliation of net income to cash flows from operating activities:	41	
Cash received from the sale of goods and rendering of services	2	91,093,777,657.74	90,749,838,281.74	Net profit	42	2,996,303,094.49
Refunds of taxes received	3	159,179,923.77	211,644,132.73	Less: * unrecognized losses on investments	43	-
Other cash receipts relating to operating activities	4	1,821,089,305.92	2,339,194,453.21	Plus: provision for impairment of assets	44	1,383,956,078.33
Subtotal of cash inflows from operating activities	5	93,074,046,887.43	93,300,676,867.68	depreciation of fixed assets; productive biological assets and depletion of oil and natural gas assets	45	1,081,393,130.95
Cash paid for goods and services	6	81,558,874,679.18	81,234,744,251.80	amortization of intangible assets	46	125,880,167.95
Cash paid to and for employees	7	6,105,019,731.69	4,744,912,032.97	amortization of long-term deferred expenses	47	130,577,364.67
Taxes paid	8	1,972,718,754.77	3,945,423,627.04	losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	48	1,619,147.64
Other cash payments relating to operating activities	9	2,158,786,475.49	2,185,491,470.26	losses on scrapping of fixed assets ("-" for gains)	49	1,739,863.37
Subtotal of cash outflows from operating activities	10	91,795,399,641.13	92,110,571,382.07	△Losses on changes of fair value ("-" for gains)	50	273,942,876.75
Net cash flows from operating activities	11	1,278,647,246.30	1,190,105,485.61	financial expenses ("-" for gains)	51	5,985,956,853.91
II. Cash flows from investing activities	12			losses on investment ("-" for gains)	52	-12,575,364,450.44
Cash received from disposal of investments	13	11,918,194,034.14	9,535,028,650.25	decrease in deferred income tax assets ("-" for increases)	53	-260,086,123.04
Cash received from returns on investments	14	13,836,645,871.84	807,618,289.70	increase in deferred income tax liabilities ("-" for decreases)	54	313,169,238.10
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	15	15,507,064.53	47,686,290.44	decrease in inventories ("-" for increases)	55	-896,323,665.20
Net cash received from disposal of subsidiaries and other business units	16	-	-	decrease in operating receivables ("-" for increases)	56	-114,960,274.11
Other cash receipts relating to investing activities	17	4,784,505,697.91	14,218,777,050.40	increase in operating payables ("-" for decreases)	57	2,830,843,842.93
Subtotal of cash inflows from investing activities	18	30,554,852,468.42	24,609,712,180.79	others	58	-
Cash paid for pruchase of fixed assets, intangible assets and other long-term assets	19	2,345,797,742.95	2,692,694,523.72	Net cash flows from operating activities	59	1,278,647,246.30
Cash paid for investments	20	44,296,878,738.73	28,167,814,875.40		60	
Net cash received from subsidiaries and other business units	21	-	-	2. Investing and financing activities that do not involve cash receipts and payments	61	
Other cash payments relating to investing activities	22	19,788,557,413.03	69,864,753.22	Conversion of debts into capital	62	
Subtotal of cash outflows from investing activities	23	66,429,233,892.71	30,930,374,152.34	Convertible bonds to be expired within 1 year	63	
Net cash flows from investing activities	24	-35,874,381,424.29	-6,320,661,971.55	Fixed assets under finance lease	64	
III. Cash flows from financing activities:	25				65	
Cash received from capital contributions	26	1,172,736,371.52	396,423,631.47	3. Net increase in cash and cash equivalents:	66	
Including: cash received by subsidiaries from minority shareholders' capital contributions	27	1,172,736,371.52		Cash at the end of the period	67	26,142,926,476.72
Cash received from borrowings	28	97,356,350,551.82	90,342,368,313.95	Less: cash at the beginning of the period	68	29,454,911,529.68
Other cash receipts relating to financing activities	29	15,319,878,832.11	-	Add: cash equivalents at the end of the period	69	-
Subtotal of cash inflows from financing activities	30	113,848,965,755.45	90,738,791,945.42	Less: cash equivalents of the beginning of the period	70	-
Cash paid upon repayments of borrowings	31	76,253,714,217.57	68,991,850,579.82	Less: the amount of deducting non-cash equivalents like deposit	71	-
Distribution of dividends or profits and interests payments	32	6,383,766,794.85	5,967,900,657.45	Net increase in cash and cash equivalents	72	-3,311,985,052.96
Including: dividends or profits and interests paid by subsidiaries to minority shareholders	33	-	-			
Other payments relating to financing activities	34	-	4,399,805,381.67			
Subtotal of cash outflows from financing activities	35	82,637,481,012.42	79,359,562,618.94			
Net cash flow from financing activities	36	31,211,484,743.03	11,379,229,326.48			
IV. Effect of exchange rate changes on cash	37	72,264,382.00	126,705,826.69			
V. Net increase in cash and cash equivalents	38	-3,311,985,052.96	6,375,378,667.23			
Add: the balance of cash and cash equivalents at the beginning of the period	39	29,454,911,529.68	23,079,532,862.45			
VI. The balance of cash and cash equivalents at the ending of the period	40	26,142,926,476.72	29,454,911,529.68			

Chairman: CFO: GM of Finance Department:

Consolidated Statement of Changes in Equity

Prepared by: Peking University Founder Group Co., Ltd.

For the year ended December 31,2016

Corporate accounting statement 04

Unit: (CNY) Yuan

Item	Row No.	Current amount												
		Total owners' equity attributable to the parent company											Minority interests	Total owners' equity
		Paid-in capital (share capital)	Other equity instruments			Capital reserve	Less:treasury share	Other comprehensive Income	Surplus reserve	Generic Risk Reserve	Undistributed profit	Others		
			Preference shares	Perpetual capital securities	Others									
I. Balance at the end of last year	1	1,102,528,600.00				2,534,588,753.82		6,238,784,939.69	391,180,286.72	-	10,274,544,184.31	-	33,163,308,365.81	53,704,935,130.35
Add: changes in accounting policies	2													-
prior period errors adjustments	3													-
others	4										262,148,364.46		167,479,067.95	429,627,432.41
II. Balance at the beginning of the current year	5	1,102,528,600.00	-	-	-	2,534,588,753.82	-	6,238,784,939.69	391,180,288.72	-	10,536,692,548.77	-	33,330,787,433.76	54,134,562,562.76
III. Increase (decrease) during the current period ("-" for loss)	6	-	-	-	-	12,941,770.17	-	-259,844,844.03	-	-	376,720,181.93	-	1,188,201,763.20	1,318,078,871.27
(I) Net profit for the current period	7										376,720,181.93		2,619,582,912.56	2,996,303,094.49
(II) Profits and losses directly credited to owners' equity	8	-	-	-	-	2,359,598.79	-	-259,844,844.03	-	-	-	-	-1,251,493,870.14	-1,508,979,115.38
1. ΔNet change in fair value of available-for-sale financial assets	9							-276,095,779.59					-1,253,268,474.77	-1,529,364,254.36
2. Other owner's equity changes consequences related to the invested enterprise under the enquity method	10							-11,874,022.00						-11,874,022.00
3. Income tax consequences related to items credited to owners' equity	11													-
4. Others	12					2,359,598.79		28,124,957.56					1,774,604.63	32,259,160.98
Subtotal of (I)and (II)	13	-	-	-	-	2,359,598.79	-	-259,844,844.03	-	-	376,720,181.93	-	1,368,089,042.42	1,487,323,978.11
(III)Capital contributions and reductions from owners	14	-	-	-	-	10,582,171.38	-	-	-	-	-	-	344,012,576.65	354,594,748.03
1. Capital contributions during the current period	15			-		10,582,171.38							193,509,871.52	204,092,042.90
2. Other equity instruments owner capital contributions (The new subsidiary item)	16													-
3. The amount of shared-based payment credited to owners' equity	17													-
4. Others	18												150,502,705.13	150,502,705.13
(IV) Profit distribution for the current period	19	-	-	-	-	-	-	-	-	-	-	-	-523,839,855.87	-523,839,855.87
1. Withdrawls of surplus reserves	20													-
Including:legal accumulation fund	21													-
optional accumulation fund	22													-
2. Withdrawls of generic risk reserve (completed by financial enterprises)	23													-
3. Distribution of the owner (or shareholder)	24												-523,839,855.87	-523,839,855.87
Including:state-owned enterprises profit payable (state-owned shares dividends or profits)	25													-
Ordinary stock dividend	26												-523,839,855.87	-523,839,855.87
Ordinary stock dividend conversed into share capital (capital)	27													-
4. Others	28													-
(V) Transfer within owners' equity	29	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserve conversion into capital (share capital)	30													-
2. Surplus reserve conversion into capital (share capital)	31													-
3. Surplus reserve to recover losses	32													-
4. Others	33													-
IV. Balance at the end of the current period	34	1,102,528,600.00	-	-	-	2,547,530,523.99	-	5,978,840,095.66	391,180,288.72	-	10,913,412,730.70	-	34,519,049,196.96	55,452,641,434.03

Chairman: CFO: GM of Finance Department:

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Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Co., Ltd. December 31,2016 Unit: (CNY) Yuan

Assets	Row No.	Closing balance	Opening balance	Notes No.
Current assets:	1			
Monetary funds	2	5,300,955,256.79	4,131,079,551.25	
Measured at fair value and the changes are recorded into the profits and losses of the current financial assets	3	-		
Derivative financial assets	4	-		
Notes receivable	5	-		
Dividend receivable	6	-		
Interest receivable	7	-		
Accounts receivable	8	383,437,184.33	281,624,532.71	(XI)1
Other receivables	9	49,612,465,258.62	32,386,260,427.05	(XI)2
Advances to suppliers	10	5,513,109.26	89,029,825.66	
Inventories	11	-	401,143,873.66	
Including:raw materials	12	-		
finished goods	13	-	401,143,873.66	
Long-term debt investment	14	-		
Other current assets	15	4,959,389.78		
Including: partition hold-for-sale assets	16			
Sub-total of current assets	17	55,307,330,198.78	37,289,138,210.33	
Non-current assets:	18			
△Available-for-sale financial assets	19	723,448,638.90	692,875,521.00	
△Held-to-maturity investment	20			
△Investment property	21			
Long-term equity investment	22	26,433,483,845.20	26,335,586,106.67	
△Investment properties	23	1,395,533,940.00	1,391,897,760.00	
Fixed assets-cost	24	117,220,526.47	123,582,316.05	
Less:accumulated depreciation	25	83,684,324.95	84,170,610.13	
Fixed assets-net value	26	33,536,201.52	39,411,705.92	
Less:impairment of fixed assets	27			
Net value of fixed assets	28	33,536,201.52	39,411,705.92	
Construction in progress	29			
Project material	30			
Disposal of fixed assets	31	6,046,084.13	6,104,313.30	
△Productive biological assets	32			
△Oil-and-gas assets	33			
Intangible assets	34	55,355,039.89	47,816,984.41	
Including:land use rights	35	3,529,064.00	3,666,560.00	
△Development expenditure	36			
△Goodwill	37			
Long-term prepayments	38			
△Deferred income tax assets	39			
Other non-current assets (Other long-term assets)	40			
Including:specially approved reserving materials	41			
Total non-current assets	42	28,647,403,749.64	28,513,692,391.30	
Total Assets	43	83,954,733,948.42	65,802,830,601.63	

Chairman: CFO: GM of Finance Department:

Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Co., Ltd. | December 31,2016 | Unit: (CNY) Yuan

Liabilities and shareholders' equity	Row No	Closing balance	Opening balance	Notes No.
Current Liabilities:	44			
Short-term loans	45	14,144,680,000.07	10,329,000,000.00	
Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities	46			
Derivative financial liabilities	47			
Notes payable	48	100,000,000.00	2,879,455,000.00	
Accounts payable	49	297,122,190.80	292,137,195.48	
Advances from customers	50	85,976,779.53	328,531,231.29	
Accrued wages	51	60,538,856.14	61,666,112.92	
Including:accrued payroll	52	37,926,920.45	38,152,700.33	
Including:welfare expenses payable	53	22,587,288.05	23,488,764.95	
Taxes and dues payable	54	3,941,573.95	-7,836,343.52	
Including:taxes payable	55	3,941,573.90	-7,879,096.21	
Accrued interest payable	56			
Dividends payable	57			
Other amounts payables	58	13,607,252,228.62	14,242,382,377.69	
Partition hold-for-sale liabilities	59			
Long-term liabilities due within a year	60	2,536,000,000.00		
Other current liabilities	61	38,136,824.17	8,503,072.22	
Sub-total of current liabilities	62	30,873,648,453.28	28,133,838,646.08	
Non-current liabilities:	63			
Long-term borrowings	64	6,131,094,382.87	4,015,453,172.37	
Bonds payable	65	33,196,075,617.14	16,407,230,833.32	
Long-term payables	66			
Long-term accrued wages	67			
Special payable	68	50,276,451.44	52,384,451.44	
Estimated liabilities	69			
Deferred revenue	70			
△Deferred income tax liabilities	71	412,468,030.06	400,807,877.40	
Other non-current liabilities	72			
Including:special reserve fund	73			
Total non-current liabilities	74	39,789,914,481.51	20,875,876,334.53	
Total liabilities	75	70,663,562,934.79	49,009,714,980.61	
OWNERS' EQUITY (stockholder's equity)	76			
Paid-in capital (or stock)	77	1,102,528,600.00	1,102,528,600.00	
Including:national capital	78	771,770,000.00	771,770,000.00	
collective capital	79			
legal person's capital	80	330,758,600.00	330,758,600.00	
Including:state-owned legal person's capital	81			
collective legal person's capital	82			
Personal capital	83			
Foreign businessmen's capital	84			
Other equity instruments	85			
Capital surplus	86	87,112,555.89	87,112,555.89	
Less:treasury stock	87			
Other comprehensive income	88	5,074,774,528.81	5,059,443,712.39	
Including:translation reserve	89			
Surplus reserve	90	325,339,139.47	325,339,139.47	
△Generic Risk Reserve	91			
Undistributed profit	92	6,701,416,189.46	10,218,691,613.27	
Including:cash dividends	93			
Total owners' equity attributable to the parent company	94	13,291,171,013.63	16,793,115,621.02	
*Minority Interests	95			
Total shareholder's equity	96	13,291,171,013.63	16,793,115,621.02	
# Less:assets loss	97			
Total owners' equity (excluding the asset loss)	98	13,291,171,013.63	16,793,115,621.02	
Total liabilities and owners' equity	99	83,954,733,948.42	65,802,830,601.63	

Chairman: CFO: GM of Finance Department:

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Income Statement

Corporate accounting statement 02

Prepared by: Peking University Founder Group Co., Ltd. For the year ended December 31,2016 Unit: (CNY) Yuan

Items	Row No.	Current Year Cumulative	Last Year Cumulative	Notes No.
I.Gross revenue	1	3,022,561,346.13	7,426,826,410.07	
Including:operating revenue	2	3,022,561,346.13	7,426,826,410.07	
Including:primo operating revenue	3	2,970,342,114.92	7,382,351,290.92	
Other operating revenue	4	52,219,231.21	44,475,119.15	
II.Total operating costs	5	6,553,987,095.41	10,607,226,384.36	
Including:operating costs	6	2,981,835,665.37	7,239,082,937.69	
Including:prime operating revenue	7	2,976,718,757.65	7,233,966,029.97	
Other operating cost	8	5,116,907.72	5,116,907.72	
Business tariff and annex	9	10,631,949.70	152,695,552.86	
Marketing expenses	10	916,962.90	5,021,722.92	
General and administrative expenses	11	243,891,742.68	222,595,514.98	
Including:business entertainment expenses	12	799,532.88	1,745,765.55	
research and development expense	13	-	-	
Financial expenses	14	3,129,225,886.04	2,987,830,655.91	
Including:interest expense	15	3,174,323,587.20	3,031,814,368.77	
Interest revenue ("+")	16	81,901,345.19	110,992,442.13	
exchange net loss ("-" for net income)	17	-	22,362.85	
△ Impairment losses on assets	18	187,484,888.72	-	
Add: Gain on the change of fair value ("-" for loss)	19	3,636,180.00	14,301,525.00	
Income from investment ("-" for loss)	20	282,514,320.88	3,645,323,129.24	
Including: Income from investment in associates and joint ventures	21	30,801,202.14	-21,996,259.47	
III.Operating profit (loss with "-")	22	-3,245,275,248.40	479,224,679.95	
Plus: non-operating revenue	23	5,669,974.56	27,752,976.01	
Including: non-current asset disposal profits	24	417,437.77	450.00	
non-monetary asset exchange profits (non-monetary transactions revenue)	25	-	-	
government subsidies (subsidize revenue)	26	1,936,876.32	6,561,050.00	
debt restructuring profits	27	-	-	
Less: non-operating expense	28	143,597,770.31	12,115,216.86	
Including: non-current asset disposal losses	29	191,411.58	69,246.81	
non-monetary asset exchange losses (non-monetary transactions losses)	30	-	-	
debt restructuring losses	31	-	-	
IV.Total profit ("-" for loss)	32	-3,383,203,044.15	494,862,439.10	
Less: Income tax	33	2,591,873.18	5,258,209.43	
Add: # Unrecognised profit and loss on investments	34			
V.Net profit ("-" for loss)	35	-3,385,794,917.33	489,604,229.67	
Less: *minority interests	36		-	
VI.Net profit attributable to owners of the parent	37	-3,385,794,917.33	489,604,229.67	
VII.Other comprehensive income after-tax net income	38	15,330,816.42	634,716,874.42	
Other comprehensive income after-tax net income attributable to owners of the parent	39	15,330,816.42	634,716,874.42	
(I)Other comprehensive income which can not be reclassified into the gains and losses afterwards	40	-	-	
1.Remeasure and define benefit plan net debt or net asset changes	41	-	-	
2.The share of other comprehensive income owned when the invested entity cannot be reclassified into the gains and losses afterwards under the equity method	42	-	-	
(II)Other comprehensive income which can be reclassified into the gains and losses afterwards	43	15,330,816.42	634,716,874.42	
1、The share of other comprehensive income owned when the invested entity can be reclassified into the gains and losses afterwards under the equity method	44	-11,874,022.00	566,981,980.54	
2.Available-for-sale financial assets' fair value changes gains and losses	45	27,204,838.42	67,734,893.88	
3.Held-to-maturity investments reclassified as available-for-sale financial assets gains and losses	46	-	-	
4.Effective part of the cash flow hedging gains and losses	47	-	-	
5.The translation of foreign currency financial statements	48	-	-	
6. Others	49	-	-	
Other comprehensive income after-tax net income attributable to minority shareholders	50	-	-	
VIII.Total consolidated income	51	-3,370,464,100.91	1,124,321,104.09	
Total consolidated income attributable to owners of the parent	52	-3,370,464,100.91	1,124,321,104.09	
Total consolidated income attributable to minority shareholders	53	-		
IX.Earnings per share	54			
(I) basic earnings per share	55			
(II) diluted earnings per share	56			

Chairman: CFO: GM of Finance Department:

Statement of Cash Flows

Prepared by: Peking University Founder Group Co., Ltd.

For the year ended December 31,2016

Corporate accounting statement 03

Unit: (CNY) Yuan

Item	Row No.	Current period	Corresponding preiod of last year	Supplemental information	Row No.	Current period
I. Cash flows from operating activities:	1			**1. Reconciliation of net income to cash flows from operating activities**	41	
Cash received from the sale of goods and rendering of services	2	3,722,762,878.65	8,629,751,856.10	Net profit	42	-3,385,794,917.33
Refunds of taxes received	3	-	-	Less: * unrecognized losses on investments	43	-
Other cash receipts relating to operating activities	4	285,186,370.25	178,577,498.68	Plus: provision for impairment of assets	44	187,484,888.72
Subtotal of cash inflows from operating activities	5	4,007,949,248.90	8,808,329,354.78	depreciation of fixed assets, productive biological assets and depletion of oil and natural gas assets	45	9,417,032.67
Cash paid for goods and services	6	3,199,102,143.10	7,121,622,995.72	amortization of intangible assets	46	6,126,431.88
Cash paid to and for employees	7	120,864,659.82	106,788,993.11	amortization of long-term deferred expenses	47	-
Taxes paid	8	13,216,590.77	561,565,494.37	losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	48	-226,026.19
Other cash payments relating to operating activities	9	501,358,906.17	847,694,326.46	losses on scrapping of fixed assets ("-" for gains)	49	-
Subtotal of cash outflows from operating activities	10	3,834,542,299.86	8,637,871,809.66	Δlosses on changes of fair value ("-" for gains)	50	-3,636,180.00
Net cash flows from operating activities	11	173,406,949.04	170,657,545.12	financial expenses ("-" for gains)	51	3,129,225,886.04
II. Cash flows from investing activities	12			losses on investment ("-" for gains)	52	-282,514,320.88
Cash received from disposal of investments	13	5,426,918,443.64	468,884,422.90	decrease in deferred income tax assets ("-" for increases)	53	-
Cash received from returns on investments	14	230,564,702.47	59,524,885.64	increase in deferred income tax liabilities ("-" for decreases)	54	11,660,152.66
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	15	1,101,238.55	18,000.00	decrease in inventories ("-" for increases)	55	401,143,873.66
Net cash received from disposal of subsidiaries and other business units	16	-	-	decrease in operating receivables ("-" for increases)	56	-344,367,103.38
Other cash receipts relating to invesling activities	17	-	-	increase in operating payables ("-" for decreases)	57	444,887,231.19
Subtotal of cash inflows from investing activities	18	5,658,584,384.68	528,427,308.54	others	58	-
Cash paid for pruchase of fixed assets, intangible assets and other long-term assets	19	1,326,576.94	619,642.00	**Net cash flows from operating activities**	59	173,406,949.04
Cash paid for investments	20	3,086,452.00	229,500,000.00		60	-
Net cash received from subsidiaries and other business units	21	-	-	**2. Investing and financing activities that do not involve cash receipts and payments**	61	-
Other cash payments relating to investing activities	22	26,681,353,800.45	-	Conversion of debts into capital	62	-
Subtotal of cash outflows from investing activities	23	26,685,766,629.39	230,119,642.00	Convertible bonds to be expired within 1 year	63	-
Net cash flows from investing activities	24	-21,027,182,244.73	298,307,666.54	Fixed assets under finance lease	64	-
III. Cash flows from financing activities:	25				65	-
Cash received from capital contributions	26	-	-	**3. Changes in cash and cash equivalents:**	66	-
Including: cash received by subsidiaries from minority shareholders' capital contributions	27	-	-	**Cash at the end of the period**	67	5,300,955,256.79
Cash received from borrowings	28	58,092,844,001.15	40,727,302,630.38	**Less: cash at the beginning of the period**	68	4,131,079,551.25
Other cash receipts relating to financing activities	29	-	3,317,964,133.58	Add: cash equivalents at the end of the period	69	-
Subtotal of cash inflows from financing activities	30	58,092,844,001.15	44,045,266,763.96	Less: cash equivalents at the beginning of the period	70	-
Cash paid upon repayments of borrowings	31	33,617,690,674.22	43,002,687,056.23	Less: the amount of deducting non-cash equivalents like deposit	71	-
Distribution of dividends or profits and interests payments	32	2,451,502,325.70	3,031,814,368.77	**Net increase in cash and cash equivalents**	72	1,169,875,705.54
Including: dividends or profits and interests paid by subsidiaries to minority shareholders	33	-	-			
Other payments relating to financing activities	34	-	-			
Subtotal of cash outflows from financing activities	35	36,069,192,999.82	46,034,501,425.00			
Net cash flow from financing activities	36	22,023,651,001.23	-1,989,234,661.04			
IV. Effect of exchange rate changes on cash	37	-	-22,352.85			
V. Net increase in cash and cash equivalents	38	1,169,875,705.54	-1,520,291,812.23			
Add: the balance of cash and cash equivalents at the beginning of the period	39	4,131,079,551.25	5,651,371,383.48			
VI. The balance of cash and cash equivalents at the ending of the period	40	5,300,955,256.79	4,131,079,551.25			

Chairman: CFO: GM of Finance Department:

Statement of Changes in Equity

Prepared by: Peking University Founder Group Co., Ltd.

For the year ended December 31,2016

Corporate accounting statement 04

Unit:(CNY) Yuan

Item	Row No.	Current amount												
		Total owners' equity attributable to the parent company											Minority interests	Total owners' equity
		Paid-in capital (share capital)	Other equity instruments			Capital reserve	Other comprehensive	Special reserve	Surplus reserve	Generic Risk	Undistributed profit	Others		
			Preference shares	Perpetual capital	Others									
I. Balance at the end of last year	1	1,102,528,600.00				87,112,555.89	5,059,443,712.39		325,339,139.47	-	10,218,691,613.27	-	-	15,793,115,621.02
Add: changes in accounting policies	2													-
prior period errors adjustments	3													-
others	4										-131,480,506.48			-131,480,506.48
II. Balance at the beginning of the current year	5	1,102,528,600.00			-	87,112,555.89	5,059,443,712.39	-	325,339,139.47	-	10,087,211,106.79	-	-	16,661,635,114.54
III. Increase (decrease) during the current period ("-" for loss)	6	-			-	-	15,330,816.42	-	-	-	-3,385,794,917.33	-	-	-3,370,464,100.91
(I) Net profit for the current period	7										-3,385,794,917.33	-	-	-3,385,794,917.33
(II) Profits and losses directly credited to owners' equity	8	-			-	-	15,330,816.42	-	-	-	-	-	-	15,330,816.42
1. ΔNet change in fair value of available-for-sale financial assets	9						27204838.42							27,204,838.42
2. Other owner's equity changes consequences related to the invested enterprise under the enquity method	10						-11874022							-11,874,022.00
3. Income tax consequences related to items credited to owners' equity	11													-
4. Others	12						-							-
Subtotal of (I)and (II)	13	-			-	-	15,330,816.42	-	-	-	-3,385,794,917.33	-	-	-3,370,464,100.91
(III)Capital contributions and reductions from owners	14	-			-	-	-	-	-	-	-	-	-	-
1. Capital contributions during the current period	15													-
2. Other equity instruments owner capital contributions(The new subsidiary item)	16													-
3. The amount of shared-based payment credited to owners' equity	17													-
4. Others	18													-
(IV) Profit distribution for the current period	19	-			-	-	-	-	-	-	-	-	-	-
1. Withdrawls of surplus reserves	20													-
Including:legal accumulation fund	21													-
Optional accumulation fund	22													-
2. Withdrawls of generic risk reserve(completed by financial enterprises)	23													-
3. Distribution of the owner (or shareholder)	24													-
Including:state-owned enterprises profil payable(state-owned shares dividends or profits)	25													-
Ordinary stock dividend	26													-
Ordinary stock dividend conversed into share capital (capital)	27													-
4. Others	28													-
(V) Transfer within owners' equity	29	-			-	-	-	-	-	-	-	-	-	-
1. Capital reserve conversion into capital (share capital)	30													-
2. Surplus reserve conversion into capital (share capital)	31													-
3. Surplus reserve to recover losses	32													-
4.Others	33													-
IV. Balance at the end of the current period	34	1,102,528,600.00			-	87,112,555.89	5,074,774,528.81	-	325,339,139.47	-	6,701,416,189.46	-	-	13,291,171,013.63

Chairman: CFO: GM of Finance Department:

Peking University Founder Group Co., Ltd.
Notes to the Financial Statements
For the year end of 2016

Ⅰ、CORPORATE BASIC INFORMATION

1. Registered Address

Peking University Founder Group Co., Ltd was incorporated by Beijing Municipal Administration of Industry and Commerce in December 12, 1992 with its registration No.（91110108101974963M）. As of December 31, 2016, its registered capital amounted to 1,102,528,600.

Type: Other limited liability company

Registered Address: No.298, Chengfu Road, Haidian District, Beijing Municipality

Legal Representative: Huang Guitian

2. Business Scope

Manufacturing of Founder Electronic Publishing System, Founder-SUPPER Chinese card, computer software and associated equipment, communication equipment, instruments and office automation equipment, technology development, transfer, consulting, promotion and technical services, investment management, financial advisory(Any business needing special approval including audit, capital verification, accounts checking, evaluation, accounting consultation, bookkeeping etc. is prohibited; Any written materials such as audit reports, capital verification reports, evaluation reports is prohibited), the marketing of electronic products, self-produced products, computers, software, auxiliary equipment, instruments, non- metallic and metallic ore, gold products, metal materials, building materials and chemical products(excluding dangerous chemicals and precursor chemicals in Category Ⅰ), importing and exporting of goods, agency and technique, stevedore, storage and packAgeing services, real estate development, property management.

3. Authorization of the financial statements

These financial statements and notes were authorized by the board of directors of the company on April 30, 2017.

Ⅱ. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the No.33 Accounting Standards for Business Enterprises- Consolidated financial statements. The scope of the statements should be recognized based on the control of investing corporations.

Control refers to the controlling power of investing corporations upon invested entities, including the right to enjoy variables returns by participating related activities of invested ones, and the influences on the amount of returns by using their power on the invested.

Entities in the current scope of consolidated financial statements include as follows:

Name of company	Registered capital (ten thousand Yuan)	Merger or not	Direct Investment ratio%	Final Consolidation Ratio%
Peking Founder Industry and Commerce corp.	1,000.00	Yes	100.00	100.00
Founder Industry Holdings Co., Ltd	120,000.00	Yes	94.17	94.17
Founder Securities Co., Ltd	823,210.14	Yes	27.75	29.20
Pku Healthcare	250,000.00	Yes	85.60	85.60
PKU Founder investment Co., Ltd.	15,000.00	Yes	80.00	100.00

Name of company	Registered capital (ten thousand Yuan)	Merger or not	Direct investment ratio%	Final Consolidation Ratio%
Shenzhen Founder Microelectronics International Co., Ltd	43,583.02	Yes	63.69	63.69
PKU Founder Training Centre	500.00	Yes	100.00	100.00
PKU Founder Group Finance Co., Ltd	500,000.00	Yes	50.00	100.00
Founder Capital Holding Co., Ltd.	20,000.00	Yes	70.00	100.00
PKU Founder Information Industry Group Co., Ltd	100,000.00	Yes	100.00	100.00
China Hi-tech Group Co., Ltd	58,665.60	Yes	20.03	20.03
PKU Founder Life Insurance Co., Ltd	193,000.00	Yes	51.00	51.00
Founder Group Corp (HK) Co., Ltd.	18,294.06	Yes	100.00	100.00

1. In the consolidation scope, newly- included operating entities controlled by equity investments during this accounting period.

None

2. During this accounting period, operating entities with special purposes which are no longer included in the consolidation scope loss the control by entrusted operation, renting or other methods.

None

III. PREPARATION BASIS OF FINANCIAL STATEMRNTS

1. Preparation Basis of the Financial Statements

The financial statements are prepared according to the requirements of *the Accounting Standards for Business Enterprises- Basic Principles*, specific accounting standards, application notes, explanation and other stipulations(collectively known as " Accounting Standards for Business Enterprises")

The financial accounting of the company should be conducted based on accrual system. Historical costs are the measurement basis of he financial statements except for some financial instruments and investment property. If impairment incurs in the assets, there must be corresponding impairment provision in the light of relevant regulation.

2. Going-concern Basis

The financial statements should be reported in line with going-concern basis. There will be no events or situation that will arise great doubts on the company's ability to continue as a going concern during the 12 months since the end of the report.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. In Compliance with the Declarations of Accounting Standards for Business Enterprises

The financial statements of Founder for the twelve months ended December 31, 2016 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position, financial performance, cash flows and other information for the year then ended.

2. Accounting Year

The accounting year of the Company is from 1 January to 31 December of each calendar year. The accounting period of financial information of these financial statements is from 1 January to 30 September of 2016.

3. Operating Circle

Normal operating circle refers to the period from the date when the company purchases assets for processing to the date when the company realizes cash or cash equivalents. 12 months are regard as an operating circle which serves as a division standard for the liquidity of assets and liabilities.

4. Recording Currency

The recording currency is Renminbi(CNY).

5.Accounting Methods for Consolidation Under the Same Control or Under Different Control

5.1 Standards for the Package Deal

Terms, conditions and economic effects which conform with one or more following conditions in all transactions involved in the business combination should be realized step by step, that is to say, accounting multiple transactions with a package deal:

A. All transactions are contracted simultaneously or with consideration of mutual impacts;

B. The whole transactions can be used to contract an integrated business results;

C. The occurrence of one transaction depends on the occurrence of another one or more transactions;.

D. One transaction is not economic, but if other transactions are taken into consideration, they become economic.

5.2 Consolidation Under the Same Control

Consolidation under the same control means that obtained assets and liabilities of the merging party are measured at the carrying amounts of the merged party on the combining date, except adjustments due to different accounting policies. The balance between the carrying amount of consideration paid for the consolidation and the carrying amount of the net assets obtained should be adjusted to capital reserve, and if the balance of capital reserve is insufficient to write off the difference and therefore the retained earnings should be adjusted accordingly.

Relevant costs directly attributed to the consolidation should be recorded into the current P& L.

5.3 Consolidation Under Different Control

For consolidation under different control, the costs of combination include the total value of assets, the issued or assumed liabilities, the fair value of equity securities for obtaining control of the aquirees on the acquisition date. On the date, the consolidation costs and assets, liabilities contingent liabilities should be recognized according to the fair value.

Relevant management costs directly attributed to the consolidation, including audit costs, assessment costs, legal costs, advisory costs etc. should be recorded into the current P& L. The transaction costs of equity securities or liability securities as the merger consideration should be included into the initial recognition costs of equity or liabilities securities.

If the costs of consolidation are greater than its share in the fair value of the identifiable net assets of the acquirees, the difference should be recognized as goodwill which is measured subsequently on the basis of its costs minus the accumulative impairment provisions. If the costs of business combination are less than its share in the fair value of the identifiable net assets of the acquirees, the difference should be included into the profits and losses in the current period of consolidation.

In special financial statements, the total amount of the carrying value of equity investments of acquirees before the acquisition date and newly-added investment costs on the acquisition date should be recognized as the initial investment costs of this investment. If the equity investments of the acquirees involve other comprehensive income, when disposing, the share of net liabilities and net assets in the benefit plan that are recalculated by acquirees with equity method should be excluded, and the rest parts should be recorded into the current P& L.

In the consolidated financial statements, consolidation costs are the total amount of the paid consideration on the acquisition date and the fair value of the acquirees' equity on the date obtained before the acquisition date. The acquirees' equity obtained before the acquisition date should be recalculated according to its fair value on the acquisition date. The balance between the fair value and the carrying value is included into the current P& L. If the obtained equity involves other comprehensive income, the share of net liabilities and net assets in the benefit plan should be recalculated by acquirees with equity method and the rest parts should be recorded into the current P& L.

6.Preparation of Consolidated Financial Statements

The consolidation scope of the company's consolidated financial statements shall be recognized in accordance the the control.

Based on the financial statements of the company and subsidiary companies as well as other related information, the consolidated financial statements are prepared by the company. When preparing the statements, accounting policies and period between the company and subsidiary companies should be the same; and major transactions and working balance among companies should be offset.

During the reporting period, if there is newly- entered subsidiary company in the consolidation under the same control, the income, costs and benefits of the subsidiary company from the beginning of the current period to the end of the reporting should be included into the consolidated income statement, the cash flow of the subsidiary company should be included into the cash flow statement, and the beginning balance and comparison balance of the consolidated financial statements should be adjusted. If there is newly- entered subsidiary company in the consolidation under different control, the income, costs and benefits of the subsidiary company from the beginning of the current period to the end of the reporting should be included into the consolidated income statement, the cash flow of the subsidiary company should be included into the cash flow statement, and the beginning balance and comparison balance of the consolidated financial statements should not be adjusted.

The owner's equity of the subsidiary company which is not included in the company should be recognized as minority interests and be listed separately as in the shareholder's equity of the consolidated financial statements. The net current P& L of the subsidiary company which take a share in the minority interests, should be listed as "P& L of minor shareholders" in the project of Net Profit of the consolidated financial statements. If the amount of subsidiary company's losses shared by minor shareholders exceed the amount of their share in the owner's equity of the subsidiary company at the beginning of the period, the balance shall offset the minority interests.

Transactions that purchasing minority stakes of the subsidiary company, or that disposing a portion of equity investments but not losing the control over the subsidiary company, should be calculated as equity transactions. The carrying value of the owner's equity and minor interests of the parent company should be adjusted in order to reflect changes in related equities of the subsidiary company. The balance between the adjustment amount of minor interests and the fair value of paid or received consideration should be adjusted to capital reserve, and if the balance of capital reserve is insufficient to write off the difference and therefore the retained earnings should be adjusted accordingly.

If the company lose the control over the original subsidiary company due to disposing a part of equity investments or other reasons, the residual equity should be recalculated according to the fair value on the date that control ceases. The total amount of consideration obtained by disposing equity and the fair value of residual equity minus the balance between shares of the origiual subsidiary company's net assets calculated continuously from the acquisition date according to original shareholding ratio should be included into the investment returns during the current control-losing period. For other comprehensive income related to the equity investments of the original subsidiary company, the net liabilities in the benefit plan and changes resulting from net assets should be recalculated and reset on the date that control ceases, the rest part will be all included into the current investment returns. Then, subsequent measurement should be conducted in this part on the basis of the No.2 Accounting Standards for Business Enterprises- Long-term Equity Investment, the No.22 Accounting Standards for Business Enterprises-Recognition and Measurement of Financial Instruments and other relevant stipulations.

The company lose control over the subsidiary company due to separated disposal of the equity investment of the subsidiary company. In this situation, the company need to conform if all these transactions belong to a package deal.

If they belong to a package deal, all the transactions should be regarded as a transaction that disposing the subsidiary company to lose control and should have accounting treatments. But, before losing the control, the balance between each disposal price and the share of net assets of the subsidiary company corresponding to disposal investment should be recognized as other comprehensive income in the consolidated financial statements and should be recorded into the current P& L on the date when the control ceases. If they don't belong to a package deal, each transaction should have accounting treatments on the basis of the principle of "partially disposing the long-term equity investment of the subsidiary company without losing its control" and "losing control over the subsidiary company due to disposing a portion of equity investments or other reasons".

7. Classification of Joint Arrangements and Accounting Methods for Joint Operations

7.1 Classification of Joint Arrangements

According to the structure, legal forms, contracted terms and other related facts and situations, the company divides the joint arrangements into joint operations and joint ventures.

Joint arrangements agreed without a separate entity should be classified as joint operations. Joint arrangements agreed with a separate entity should be classified as joint ventures. But if the joint arrangements meet any of the following conditions with concrete evidences or comply with relevant legal regulations:

A. The legal forms of joint arrangements show that the joint venturer enjoy rights and interests and undertake obligations for related assets and liabilities respectively in the arrangements.

B. The contract terms of joint arrangements promise that the joint venturer enjoy rights and interests and undertake obligations for related assets and liabilities respectively in the arrangements.

C. The contract terms of joint arrangements promise that the joint venturer enjoy rights and interests and undertake obligations for related assets and liabilities respectively in the arrangements, for example, the joint venturer enjoy nearly all outputs related to joint arrangements and the payment of liabilities in this joint arrangement continuously depends on the support of the joint venturer.

7.2 Accounting Methods for Joint Operations

The following items related to the company in the profits share of the joint operations recognized by the company should have accounting treatments according to the stipulations of the accounting standards for business enterprises:

A. Recognition of assets with individual holding and of assets with joint holding in line with their shares;

B. Recognition of liabilities with individual assumption and of liabilities with joint assumption in accordance their shares;

C. Recognition of income generated by selling the output share of joint operations;

D. Recognition of income generated by selling outputs of joint operations based on the share;

E. Recognition of costs with individual operations and of costs with joint operations on the basis of the share.

The company contributes or sells assets to joint operations, the portion of assets of other participants in the P& L generated by this transaction, which belong to joint operations should be only recognized before they are sold to the third party by joint operations. If the impairment losses of contributed or selling assets incur in line with related stipulations of the No.8 Accounting Standards for Business Enterprises-Impairment of Assets, they should be recognized as losses in full amount in this part.

The company purchases assets from joint operations(except for those constitute business), the portion of assets of other participants in the P& L generated by this transaction, which belong to joint operations should be only recognized before they are sold to the third party by joint operations. If the impairment losses of purchased assets incur in line with related stipulations of the No.8 Accounting Standards for Business Enterprises- Impairment of Assets, they should be recognized as the losses of this part according to the share of the company.

The company doesn't have joint control over joint operations, if the company enjoys related assets to and assumes relevant liabilities of this joint operation, accounting treatments should be conducted in line with the above principles, otherwise, accounting treatments should be carried out on the basis of stipulations of accounting standards for business enterprises.

8. Recognition Standard for Cash and Cash Equivalents

Cash refers to cash on hand and deposits that are available for payment at any time. Cash equivalents represent short-term and highly liquid investments which are easily converted into cash of the known amount with low valuation risk.

9. Foreign Currency Transactions and Translation of Foreign Currency Statements

9,1When foreign currency transactions occurs in the company, foreign currency amount

Should b e translated to recording currency amount with spot exchange rates on the date of transactions.

The project of foreign currency monetary shall be translated at the spot exchange rate on the balance sheet date. The difference of exchange rate between the spot exchange rate on the balance sheet date and that at initial recognition or the previous balance sheet date should be included into financial costs. The project of foreign currency non-monetary at historical costs shall be translated with spot exchange rates at the date when the transaction incurs. The project of foreign currency non-monetary at fair value should be translated with the spot exchange rate on the recognition date of fair value. The difference between the original and translated recording currency amount should be accounted into the current P& L.

9.2 Translation of Foreign Currency Financial Statements

On the balance sheet date when the company conduct translation on the foreign currency financial statements of the subsidiary company, the projects of assets and liabilities in balance sheets are translated with the spot exchange rate on the balance sheet date, the project of shareholders' equity (excluding the project of undistributed profits") and other projects are translated with the spot exchange rate on the date when transactions incurs.

The income and costs of the income statements are translated with the rate on the date.

All projects in the cash flow statement should be translated with the spot exchange rate on the date when cash incurs.

The amount affected by exchange rate movement on cash should be listed separately as " Influences of exchange movement on cash or cash equivalents" in the cash flow statement.

The difference of foreign currency financial statements resulted from the translation of financial statements should be listed separately as "the difference of translation of foreign currency financial statements" just below the project of shareholders' equity in the balance sheet.

10. Financial Instruments

Financial instruments refer to the contracts that form the financial assets of an enterprise and financial liabilities or equity instruments of other units, including: financial assets and liabilities, equity instruments.

10.1 Confirmation and termination of financial instruments

When the financing meets one of the following conditions, termination of financial instruments:

①The contracted right to collect the cash flow of this financial asset has been terminated;

②This financial asset has been transferred and the transfer also meets the standards for derecognition.

If the present obligations of financial liabilities released wholly or partially, this financial liability or a part of it should be derecognized. And the company(the debtor) should sign an agreement with the creditor, and use new mode of financial liability to replace the present one. If there are essential differences between the new one and the present one, the present financial liabilities should be derecognized and the financial liabilities shall be recognized at the same time.

Buying and selling financial assets in the usual way, and accounting confirming and terminating on the trading day

10.2 Confirmation and measurement of financial assets

In the light of contract terms of the financial instruments issued by the company and economic substance rather legal forms reflected on the instruments, together with the purpose of obtaining financial assets and assuming financial liabilities, financial assets and liabilities can be categorized into 4 groups: Financial assets and financial liabilities at fair value and the variations through profit or loss on the current period, held-to-maturity investment, receivables and available-for-sale financial assets.

Trading financial assets and financial liabilities refer to shares, debentures or funds mainly for sales in the short term, derivatives which are not used as hedging instruments and financial liabilities for repurchase in the short term; Financial assets and financial liabilities at fair value and the variations through profit or loss on the current period are recognized primarily based on risk management and strategic investment needs of the enterprises. Financial assets should be measured with the fair valc at the initial recognition.

Related transaction costs of financial assets at fair value and the variations through profit or loss on the current period should be recorded into the current P& L, and relevant transaction costs of other categories of financial assets shall be recognized as the amount of initial recognition.

Financial Assets at Fair Value and the Variations through Profit or Loss on the Current Period:

Financial assets at fair value through profit or loss include financial assets held for trading and those directly designated as at fair value through profit or loss. Subsequent measurement should be conducted in these assets with the fair value. The profits and losses resulting from fair value variation and relevant dividend and interest income of these assets shall be included into the current P& L.

Held to maturity investment

Held to maturity investments, refers to the maturity date is fixed, recoverable amount is fixed ,and the company has a clear intention and ability to hold to maturity of non derivative financial assets. Held to maturity investment using the real interest rate method, follow-up with the amortized cost of subsequent measurement, the termination of recognition, impairment or amortization of gains or losses, are included in the current profit and loss.

Receivable:

Receivables refer to non- derivative financial assets with no quoted price in an active market and with fixed or definable recoverable amount, which include accounts receivable and other receivables. The profits and losses generated from derecognition, impairment and amortization of the receivables shall be recorded into the current P& L.

Available-for-sale financial assets:

Available-for-sale financial assets are those non-derivative financial assets that are designated on initial recognition as available for sale or those financial assets that are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Available-for-sale financial assets should be measured subsequently with the fair value, the P B of which should be amortized with the effective interest method and be recognized as interest income. Except that exchange differences between impairment losses of assets and cash financial assets in foreign currency are recognized as the current P& L, the fair value variation of available-for-sale financial assets should be recognized as other comprehensive income. Cumulative changes of fair value allocated to the part disposed of, which are previously recognized in other comprehensive income, recognized as the current P& L when these assets end their recognition. Relevant dividends or interest income to available-for- sale financial assets should be included into the current P& L.

10.3 Classification and measurement of financial liabilities

The issuer's financial debt can be classified as follows: financial liabilities which are measured at their fair values, of which the variation is recorded into the profits and losses of the current period and other financial liabilities. For those financial liabilities unclassified into financial liabilities which are measured at their fair values, of which the variation is recorded into the profits and losses of the current period and other financial liabilities, the transaction of them will be accrued into the initial amount

Financial liabilities which are measured at their fair values, of which the variation is recorded into the profits and losses of the current period:

Financial liabilities which are measured at their fair values, of which the variation is recorded into the profits and losses of the current period, consist of held-for-trading financial liabilities and financial liabilities which are measured at their fair values, of which the variation is recorded into the profits and losses of the current period. The financial liabilities mentioned above, are measured by their fair value.The related dividends and the profits and losses caused by the variation of the fair value are accrued into into the profits and losses of the current period.

Other financial liabilities:

Derived financial liabilities related to equity instruments are measured by their costs. Other financial liabilities are measured by effective-interest method. The profits and losses caused by the amortization are accrued into into the profits and losses of the current period.

10.4 Fair value of financial instruments

Financial assets or financial liabilities in the active market, the company will use active market quotation to determine air value..

Where there is no active market for financial instruments, the company uses valuation techniques to determine its fair value. The results obtained using valuation techniques reflect the valuation of the fair value of the transaction price. The valuation techniques include the prices used in the recent market transactions of the parties to the transaction in the light of the familiar and voluntary transactions、refer to the current fair value of other financial instruments、 discounted cash flow method and option pricing model,etc.

The company's choice of market participants generally agreed, and the market price of the actual transaction is verified by the reliability of the valuation techniques to determine the fair value of financial instruments. To determine the fair value of financial instruments using a valuation technique, The Company uses as far as possible the use of market participants in the pricing of financial instruments to consider all the market parameters and the observed trading price of the same financial instruments in the current market to test the effectiveness of valuation techniques.

10.5 Financial Assets Impairment

The company to check on the balance sheet date book value of the financial asset, there is objective evidence that the asset impairment, provision for impairment. Objective evidence proving that the impairment of the financial asset, refers to the actual occurrence of financial assets, after initial recognition of the financial assets is expected to affect future cash flow, and business matters can be reliably measured of the impact.

Financial assets measured by amortized cost:

If the objective evidence indicates that the financial assets have encountered impairment, the carrying value should be re-accrued into the current amount of the advanced cash flow. The difference should be recorded into the profits and losses of the current period. The objective evidence refers to the events which affected the cash flow and can be measured by the issuer.

The issuer should independently measure the single significant financial asset impairment. If the objective evidence indicates that the financial asset have encountered impairment. The issuer should confirm the amount of impairment and record it into the profits and losses of the current period. The independent tested financial assets (single significant and insignificant financial asset inclusive) should be included into the combination of other financial assets with similar credit risk. The issuer should retest the impairment of the combination. The impairment confirmed single significant financial asset shouldn't be included into the combination of other financial assets with similar credit risk.

After the issuer confirms the impairment of financial assets measured by amortized costs, if the objective evidence indicates that the value of financial assets have recovered and the recovery is related to events after the impairment, the confirmed impairment should be turned back and recorded into the profits and losses of the current period.

Available-for-sale financial assets:

If there is objective evidence that the financial assets have been impaired, the accumulated losses directly due to the decline in the fair value of the other comprehensive income shall be transferred into the current profits and losses. The accumulated loss of the transfer is the initial acquisition cost of available for sale financial assets deducting the recovered principal and the amortized amount、 the current fair value and the impairment loss that has been included in the profit or loss.

For the available-for-sale liabilities instruments whose impairment has been confirmed, if the fair value has risen in the following accounting period, the impairment should be turned back and recorded into the profits and losses of the current period.

Financial assets are measured by cost:

If impairment occurs among equity instrument investments without quoted price in an active market nor reliable measurement of the fair value and derivative financial assets that are linked to the equity instrument and have been settled, the balance between the carrying value of the assets and the present value of future cash flow recognized by discounting in accordance with the market profitability of similar financial assets on the date should be recognized as impairment losses and recorded into the current P& L. Once any impairment losses has been recognized, it shall not be switched back.

10.6 Transfer of Financial Assets

Transfer of financial assets means that transferring or delivering financial assets to the other party other than the issuer of the assets.

If the Company has transferred nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, it shall stop recognizing the financial asset. If it retained nearly all of the risks and rewards related to the ownership of the financial asset, it shall not stop recognizing the financial asset.

If the Company does not transfer or retain nearly all of the risks and rewards related to the ownership of the financial asset, it shall deal with it according to the circumstances as follows, respectively: if it gives up its control over the financial asset, it shall cease to recognize the financial asset. If it does not give up its control over the financial asset, it shall, according to the extent of its continuous involvement in the transferred financial asset, recognize the related financial asset and recognize the relevant liability accordingly.

11. Receivables

Receivables include accounts receivable and other receivables.

11.1 Bad Debts of Receivables that are Individually Significant

Recognition or amount criteria of receivables that are individually significant: Those receivables whose balance reaches 20 million or more can be defined as receivables that are individually significant

Provision method for bad debts of receivables that are individually significant: the Company shall assess the significant receivables individually for impairment, and if impairment occurs, recognize the amount of impairment loss at the difference between the present value of future cash flow and the carrying amount through use of bad debt allowance.

If there is no indication of impairment, those receivables together with the receivables that are not individually significant shall be assessed collectively in groups of similar credit risk characteristics.

11.2 Bad Debts of Receivables Assessed Collectively in Groups of Similar Credit Risk Characteristics

Receivables that are not individually significant together with receivables that are individually significant but without impairment after assessing individually shall be assessed collectively in groups of following credit risk characteristics.

Type	Base	Method
Ageing combination	Ageing of accounts	Ageing- of- account method

A. Ratios of provision for ageing combination with ageing- of- account method are as follows:

Account-Age	Ratio of provision for receivables(%)	Ratio of provision for other receivables(%)
Within 1year (including 1 year)	2.00	0.50
1-2 years	7.00	2.00
2-3 years	10.00	5.00
Over 3 years	70.00	20.00

Note: There will no provision for bad debt by the Company and subsidiary companies in transactions of related parties.

12. Inventories

12.1 Classification

Inventories of the Company mainly include raw materials, goods in process, low priced and easily worn articles, packAgeing, stock goods, delivered goods, development costs, products etc.

12.2 Measurement for Delivered Inventories

Inventories of the Company are measured at actual costs when they are obtain. Other kind of inventories such as raw materials, goods in process, stock goods and delivered goods are measured at weighted average method on the delivering date.

12.3 Determination of Net Realizable Value of Inventories and Provision for losses on Realization of Inventories

The net realizable values of inventories refer to the difference of their estimated selling prices in the normal production and operation process less any estimated selling expenses and related tax. When recognizing them, on the basis of the concrete evidences, the purpose of holding inventories and their impacts after the balance sheet date.

As at the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the costs of inventories exceed their net realizable values, provisions for impairment of inventories should be made on such excess or loss. Provisions for impairment of inventories are made based on the excess of the cost of individual item over its net realizable value. On the balance sheet date, the previous factors of write-off inventory values have gone, provisions for impairment of inventories should be switched back within the amounts that have been accrued.

12.4 Record Policy of Inventories

The Company adopts perpetual inventory record policy to account inventories.

12.5 Amortization Method for Low Priced and Easily Worn Articles and PackAgeing

Amortization method is used for low-value consumption goods and packAgeing.

PackAgeing in transit should be measured the costs with amortization method.

13. Long-term equity investment

Long-term equity investments in this part refers to those upon the fully controlled investees, joint-controlled investees or significant influenced investees. Those long-term equity investments upon uncontrolled investees, are regarded as the available-for-sale assets whose variation is recorded into the profits and losses of the current period.

13.1 Confirmation of Investment Costs

For the merger of enterprises under the same control, if the consideration of the merging enterprise is that it makes payment in cash, transfers non-cash assets or bear its debts, it shall, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The difference between the initial cost of the long-term equity investment and the payment in cash, non-cash assets transferred as well as the book value of the debts borne by the merging party shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted.(The joint control obtained by multiple transaction. The issuer should confirm whether those multiple transactions can be combined as one. The consideration of the merging enterprise is that it issues equity securities, it shall, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The total face value of the stocks issued shall be regarded as the capital stock, while the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted.).

For the merger under different control, the merging party shall, on the date of merger, regard the merger costs as the initial cost of the long-term equity investment.The merger costs consist of the assets given, liabilities incurred or assumed by the buyer and the issued equity bonds The joint control obtained by multiple transaction. The issuer should confirm whether those multiple transactions can be combined as one. The consideration of the merging enterprise is that it issues equity securities, it shall, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The total face value of the stocks issued shall be regarded as the capital stock, while the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted.).

The direct cost for the business combination of the combining party shall, including the expenses for audit, assessment and legal services, be recorded into the profits and losses at the current period.

Besides the long-term equity investments formed by the merger of enterprises, long-term equity investments obtained by other means should be measured by the costs. The costs can be divided into payments in cash, fair value of equity securities, value in investment and fair value of the investment itself along with related expense, tax and others necessary expense. For the confirmation of other long-term equity investments, the cost of it should be confirmed according to the codes in the Accounting Standards for Business Enterprises No. 22- Recognition and Measurement of Financial Instruments.

13.2 Confirmation of Subsequent Measurement and the Profits and Losses

The long-term equity investments measured by the cost method

The issuer measures the long-term equity investment to the controlled investees by the cost method and adjusts the costs of the long-term equity investment.

The long-term equity investment measured by the cost method except undistributed dividends in cash and announced dividends in cash and profits by the investees, should be confirmed as investment income and recorded into the profits and losses of the current period.

The long-term equity investments measured by the equity method

A long-term equity investment of the Company for associated enterprises and joint ventures should be measured by employing the equity method. Other equity investments which are similar to indirect holding of entities such as risk investment institutions, mutual funds, trust companies and investment- linked insurance funds should be measured at the fair value, and the variations of which should be included into the profits and losses.

When the Company calculated the long- term equity investments with the equity method, if the initial costs of a long-term equity investment is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial costs of the long-term equity investments may not be adjusted. If the initial costs of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the carrying value of long-term equity investments should be adjusted and the balance shall be included in the current P& L.

After the Company obtains a long-term equity investment, it shall, in accordance with the attributable share of the net profits or losses of the invested entity, recognize the investment profits or losses and adjust the book value of the long-term equity investment. The investing enterprise shall, in the light of the profits or cash dividends declared to distribute by the invested entity, calculate the Percentage (%) it shall obtain, and shall reduce the book value of the long-term equity investments correspondingly. Any change is made to the owner's equity other than the net profits and losses of the invested entity, the carrying value of the long-term equity investments shall be adjusted and be included in the owner's equity.

When the Company calculates long- term equity investments with the equity method, the fair value, accounting policies and accounting period of identifiable assets of the invested enterprises when investments are made on net profits of the invested enterprises. Then, the current P& L should be recognized according to the share of the invested company's net losses that it enjoys or shares.

Profits or losses on internal transactions between the Company and associated enterprises or joint ventures which belong to the share of the Company in accordance with shareholding ratio should be recognized as the profits and losses of investments based on offset.

When the share of the invested entity's losses recognized by the Company, it shall be treated according to the following steps: Firstly, offsetting the carrying value of long- term investments; Secondly, if the carrying value of the investments is insufficient to offset, investment losses shall continue to be recognized with the limits of those that make up the carrying value of the invested company's long- term equity investments substantially and their carrying value of receivable items should be offset. At last, after above treatments, if the enterprises still undertake extra obligations according to the investment contracts or agreements, the estimated liabilities should be recognized in line with estimated obligations and included into the current P&L. If the invested company gains profits in subsequent periods, it should be treated with the adverse order after the Company deducts attributable share of un- recognized losses. Specifically, offsetting the carrying value of the recgnized estimated liabilities, restoring the carrying value of those that make up the invested enterprises' long- term equity and long- term equity investments substantially, and recognizing the investment incomes at the same time. Disposal of the long-term equity investment

When disposing of a long-term equity investments, the difference between the carrying value and the actual purchase price shall be included in the current P& L. When calculating long- term equity investments with the equity method, the investing companies shall, in line with the same basis of directing disposing relevant assets or liabilities of the invested one, do an accounting disposal of the part included into other comprehensive incomes according to a corresponding Percentage (%). The owner's equity recognized by the changes of other owner's equities excluding net profits and losses, other comprehensive income and distribution of profits should be included into the current P& L according to certain Percentage (%). If the investing enterprise losses its joint control or significant influences on the invested ones due to disposal of a portion of equity investments, the calculation of residual equities shall be changed to the standards of the recognition and measurement of financial instruments, and the difference between the fair value and carrying value of these equities should be included into the current P& L on the date that losing joint control or significant influences. Other comprehensive income recognized by adopting the equity method for original equity investments shall undergo an accounting treatment with the same method of disposing relevant assets and liabilities of the invested company after ceasing the adoption of the equity method. If any changes other than the net profits and losses of the invested entity occurs and is included in the owner's equity, the portion previously included in the owner's equity shall, when disposing of a long-term equity investment measured by employing the equity method, be transferred to the current P& L according to a certain Percentage (%).

If the investing company loses its control over the invested one due to disposal of a portion of equity investments, when preparing specific financial statements, the disposed residual equities which can exert joint control over or significant influences upon the invested one, should be calculated with the equity method, and the adoption of the method shall be adjusted to the beginning of obtaining these equities. If the disposed residual equities which cannot exert joint control over or significant influences upon shall be undertake an accounting treatment according relevant stipulations of the standards of financial instruments' recognition and measurement, and the balance between the fair value and the carrying value on the date that losing its control shall be included into the current P& L.

Disposed equities are obtained through consolidation due to additional investments. When preparing specific financial statements, the disposed residual equities shall be calculated with the cost method or the equity method. Other comprehensive income and other owner's equity recognized by the calculation of equity investments before the purchasing date with the equity method should be carried forward .

13.3 The Standard of Joint Control and Significant Influences

The term "joint control" refers to the control over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties of the economic activity with one an assent on sharing the control power over the relevant important financial and operating decisions, which should be regarded as joint-operated decision

When the joint-operated decisions are made by the independent entitle, the entitle should be regarded as a co-operative enterprise, whose net assets are measured by equity method. The related events should be disposed according to the codes in the *Accounting Standards for*

Business Enterprises.

The term "significant influences" refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies. The standard of significant influences are confirmed as follows:

A. Sending representatives to the Board of investees or in the similar executive structure.

B. Significant business contacts with the investees

C. Sending management executives to the investees

D. Conducting impairment test and impairment provisions of the investees

On balance sheet date,if the carrying value of long-term investment is more than that of the investees' equity, the issuer will conduct impairment test according to the codes in the Accounting Standard for Business Enterprises No. 8 - Impairment of Assets. The recoverable amount less than the carrying value of the long-term investments, should be recorded into impairment provisions.

14. Investment Property

Investment property is a property held either to generate external rental income or capital gain income or both of them. Investment property of the Company includes the right to use and land which has already been rented, the right to use any land which is held and prepared for transfer after appreciation and the right to use any building which has already been rented.

An investment property by acquisition should be measured initially in accordance with its costs when it is obtained. The cost of an investment property by acquisition consists of the acquisition price, relevant taxes and other expenses directly attributable to the asset; the cost of a self-built investment property composes of the necessary expenses incurred before building the asset to the intended use.

the Company measures subsequently the investment property through the fair value pattern.

When investment property is disposed, out of use permanently, unable to acquire economic benefits any more, recognition of the investment property should be ceased.

The fair value should be recognized according the assessed value at the same period in the statements.

15.Fixed Assets

15.1 Recognition

Fixed assets are defined as the tangible assets that have been used for more than one accounting year, and are held for the purpose of producing goods, rendering services, leasing or operation and management.

Fixed assets shall be recognized unless economic benefits included in fixed assets will probably flow into companies and the costs of fixed assets can be measured reliably.

Fixed assets obtained should be measured initially on the basis of the actual costs.

15.2 Depreciation

Depreciation of the fixed assets is calculated using the straight-line method. Provision should begin when fixed assets have reached estimated serviceable conditions and cease when the assets end recognition or divide available- for- sale non- current assets. Without consideration of impairment provision, annual depreciation rates of various fixed assets of the Company, based on the category of the fixed assets and the estimated useful life, net of the residual values, are as follows:

Asset category	Useful life(year)	Residual value rate (%)	Annual depreciation rate (%)
House and buildings	8-45 years	0—5	12.50-2.11
Transportation Equipment	5-15 years	0—5	20.00-6.33
Machinery	4-30 years	0—5	25.00-3.17
Electronic Equipment and others	5-30 years	0—5	20.00-3.17

Fixed assets with impairment provision should be recognized as depreciation rate after deducting the accumulated amounts for fixed assets with impairment provision.

15.3 Test Methods for the Impairment and Impairment Provision of Fixed Assets can be Found in the Ⅳ 19 of the Notes.

15.4 Recognition Standard and Calculation Method for Fixed Assets Under Financing Lease

If the acquired fixed assets meet any one following standards or more, they should be recognized as fixed assets under financing lease:

A. The ownership of the leased assets is transferred to the Company when the term of lease expires.

B. The Company has purchased the options of the leased assets and the contracted purchased prices are estimated far less than the fair value of the assets when exercising options, so on the beginning of lease, we can rationally recognize the options will be exercised by the Company.

C. Even though the ownership of the assets are not transferred, lease term still takes up large parts of the useful life of the leased assets.

D. The lowest present value of payment for leasing on the date of lease is nearly equal to the fair value of the assets on the date.

E. Leased assets are very special, if there are no great transformation of them, they can only be used by the Company.

The lower one between the fair value of the assets and the lowest present value of payment on the leasing date should be recognized as the entry value, The lowest payment for lease are recognized as the entry value of long-term payment. The balance between them should be defined as the unconfirmed financing costs. The initial direct expenses which belong to service charges, attorney fees, travel expenses and stamp taxes should be included into the leased assets value during the period lease negotiations are undergoing and lease contracts are under signing. The confirmed financing costs should be shared with the effective interest method during the various leasing period.

The impairment provision for fixed assets under financing lease should adopt the same policies with those of the self-owned fixed assets. If the ownership of the leased assets are surely obtained when the lease term expires, depreciation of the assets should be calculated with the useful life. If the ownership of the assets are not sure to be acquired when the lease term expires, depreciation should be calculated within the shorter period between the lease term and the useful life of the assets.

15.5 The Company shall re-check the useful life of the fixed assets, estimated net residual value and depreciation methods at the end of the year.

If there is a difference between the estimates of useful life and the original estimates, the useful life of the fixed assets should be adjusted. If there is a difference between estimates of estimated net residual value and the original estimates, the estimated net residual value should be adjusted.

16. Construction in progress

The costs of construction in progress are recognized according to the actual expenses of projects, including the necessary expenditures of each project and other capitalized borrowing costs and relevant costs of the project upon completion and the expected conditions for use.

All expenses of the project upon completion and delivery for use shall be recognized as the entry value of fixed assets. The assets of the construction in progress with availability but without final settlement of its completion shall, since the date when they reach the conditions for use, be included into fixed assets according to the estimated value on the basis of the budgeting, construction costs and actual costs of the project. The depreciation of the fixed assets should be calculated in line with the depreciation policies of the Company's fixed assets. After finishing the final settlement, the temporary estimated value con be adjusted according to the actual costs, but the accrued amounts of depreciation cannot be adjusted.

Measures of impairment provision for construction in progress can be found in Ⅳ 19 of the notes.

17. Borrowing Costs

17.1 Recognition Principle for the Capitalization of the Borrowing Costs

The borrowing costs incurred to an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized and recorded into the costs of relevant assets. Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses. The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

A.The asset disbursements have already incurred, which shall include the cash, transferred non-cash assets or interest bearing debts paid for the acquisition and construction or production activities for preparing assets eligible for capitalization;

B.The borrowing costs has already incurred;

The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

17.2 Capitalization Period of Borrowing Costs

If the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased. If each part of a qualified asset under acquisition and construction or production is completed separately and is ready for use or sale individually, the capitalization of the borrowing costs in relation to this part of asset shall be ceased. If each part of a asset under acquisition and construction or production is completed separately and is ready for use or sale during the continuing construction of other parts, but it can not be used or sold until the asset is entirely completed, the capitalization of the borrowing costs shall be ceased when the asset is completed entirely. The borrowing costs incurred after the qualified asset under acquisition and construction or production is ready for the intended use or sale shall be recognized as expenses at the incurred amount when they are incurred, and shall be recorded into the profits and losses of the current period.

17.3 Suspension of Capitalization Period

The acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. If the interruption is a necessary step for making the qualified asset under acquisition and construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue. The borrowing costs incurred during such period shall be recognized as expenses, and shall be recorded into the profits and losses of the current period, till the acquisition and construction or production of the asset restarts. If the borrowing costs are interrupted normally, the capitalization of the borrowing costs shall continue.

17.4 Calculation of the Amount of the Borrowing Costs to be Capitalized

If interest expenses of specific borrowing(deducting the interest income generated from undeployed borrowing assets in bank and investment income obtained for temporary investments) and other supporting costs of assets in construction or production eligible for capitalization, is ready for the intended use or sale, they shall be capitalized.

The interest amounts of general borrowing to be capitalized should be recognized according to the weighted average of asset expenditures for the amounts that cumulative asset expenditures exceed specific borrowing multiplies capitalization rate of used general borrowing. Capitalization rate should be calculated and recognized in accordance with the weighted average interest rate of general borrowing.

18. Intangible Assets

18.1 Classification, Valuation Method, Useful Life and Impairment Test of Intangible Assets

Intangible assets which include land-use right, production and business operation license, know-how, software and so on, should be calculated initially according to the costs.

With regard to intangible assets with limited useful life, its amortization amount shall be amortized systematically and reasonably according to the realization methods of economic income relevant to the assets. If it is unable to determine the expected realization pattern reliably, intangible assets shall be amortized by the straight-line method. The amortization periods are as follows:

Items	Amortization Period(year)
Land- use right	50
Production and business operation license	10
Trademark and know-how	10
Software	3-10

Intangible assets of the Company include: land- use right, patent right, know-how, software, production and business operation license etc.

Intangible assets should be measured initially in line with the costs and their useful life shall be analyzed and judged when they are obtained. With regard to intangible assets with limited useful life, they should be amortized within the useful life according to the estimated realization methods of economic income. If it is unable to determine the expected realization pattern reliably, intangible assets shall be amortized by the straight-line method. For intangible assets with a limited useful life, its residual value shall not be amortized.

Impairment provision for intangible assets can be found in Ⅳ 19 of the notes.

19. Impairment of Long-term Assets

Such assets impairment of the Company as long-term equity investments on subsidiary companies, associated enterprises and joint ventures, investment property, fixed assets, construction in progress, intangible assets and goodwill etc. (excluding investment property, deferred income tax assets and financial assets measured subsequently with fair value model) should be recognized as follows:

Enterprise shall, on the date of balance sheet, make a judgment on whether there is any sign of possible assets impairment. If exists, the Company will estimate the recoverable amounts and conduct impairment tests. No matter whether there is any sign of possible assets impairment, the business reputation formed by the merger of enterprises and intangible assets with uncertain useful lives shall be subject to impairment tests every year.

The recoverable amounts of asset group shall be recognized based on the asset group they belong to. The recognition of an asset groups shall base on whether the main cash inflow generated by the asset groups is independent of those generated by other assets or other group assets.

An asset's recoverable amounts is lower than its carrying value, the carrying value of the assets shall be recorded down to the recoverable amounts, and the reduced amounts shall be recognized as the losses of asset impairment and be recorded as the current P& L. Simultaneously, a provision for the assets impairment shall be made accordingly.

For impairment tests for goodwill, when an enterprise makes an impairment test of assets, it shall, as of the purchasing day, apportion the carrying value of the business reputation formed by consolidation to the relevant asset groups by a reasonable method. Where it is difficult to do so, it shall be apportioned to the relevant combinations of asset groups. Relevant asset groups or assets combination is those can benefit from business consolidation and the amount of those is less than those of reportable segment recognized by the Company.

When making an impairment test on the relevant asset groups or combination of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the enterprise shall first make an impairment test on the asset groups or combinations of asset groups not containing goodwill, calculate the recoverable amounts, compare it with the relevant carrying value and recognize the corresponding impairment losses. Then the enterprise shall make an impairment test of the asset groups or combinations of asset groups containing goodwill, and compare the carrying value of these asset groups or combinations of asset groups with the recoverable amounts. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the goodwill.

20. Long-term Deferred Expenses

Long-term deferred expenses in the Company should be valuated in accordance with the actual costs and averagely amortized within the expected benefit period. If the long-term deferred expenses are unable to benefit the future accounting period, the amortized value of which should be included into the current P& L.

21. Employee Compensation

The term "employee compensation" refers to all kinds of payments and other relevant expenditures given by the Company in exchange of the services offered by the employees. It includes short- term compensation, post- employment benefits, termination benefits and other long- term employee benefits.

21.1 Short- term Compensation

Short- term compensation refers to the employee compensation(excluding post- employment benefits and termination benefits) paid by the Company twelve months after the annual report period during which employees provide services. The actual short- term compensation will be recognized as the liabilities and included into the current P& L or related costs of assets during the accounting period when employees provide services. During the accounting period when employees provide services, the Company shall calculate the medical and insurance, endowment insurance, unemployment insurance, work injury insurance, maternity insurance and other social insurances, as well as the housing accumulation fund, which are paid by the Company to the employee, on the basis of a certain Percentage (%) in the total amount of wages.

Non-monetary employee benefits should be measured according ti the fair value.

21.2 Termination Benefits

Termination benefits are a kind of compensation paid by the Company if it cancels the labor relationship with any employee prior to the expiration of the relevant labor contract or brings forward any compensation proposal for the purpose of encourAgeing the employee to accept a layoff and should be included into the current P& L when the situation occurs. Employees' compensation liabilities generated from termination benefits should be recognized and recorded into the current P& L when the Company is unable to unilaterally withdraw the plan on the cancellation of labor relationship or the layoff proposal and when the Company recognized the costs and fees related to the recombination of termination benefits payment.

21.3 Post- employment Benefits

Post- employment benefits refer to compensation and benefits(excluding short- term compensation and termination benefits) provided by the Company after employees retire or sever labor relations. Post- employment benefits cam be classified as defined contribution plans and defined benefit plans.

Defined contribution plans

The Company pays the basic old- age insurance, unemployment insurance for its employees in line with relevant rules of the local government. During the accounting period when employees provide the Company services, payable amounts measured based on defined contribution plans should be recognized as liabilities and included into the current P& L or relevant costs of assets.

Except for basic old- age insurance, the Company also establishes supplementary pension on the basis of pension system of state enterprises. Th Company pays the insurances to local social security institutions according to the certain percentage of the total amount of employees' wages and related expenditures should be included into the current P& L or relevant costs of assets.

22. Revenues

22.1 General Principles

Selling goods:

Revenue from selling goods may be recognized unless the following conditions are met simultaneously: a. The significant risks and rewards of ownership of the goods have been transferred to the buyer by the Company; b. The Company retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; c. The relevant amount of revenue can be measured in a reliable way; d. The relevant economic benefits may flow into the Company; e. The relevant costs incurred or to be incurred can be measured in a reliable way.

Providing Labor Services:

If an enterprise can, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the labor services it provides(meanwhile, the amount of revenue can be measured in a reliable way; the relevant economic benefits are likely to flow into the enterprise; the schedule of completion under the transaction can be confirmed in a reliable way; the costs incurred or to be incurred in the transaction can be measured in a reliable way.), it shall recognize the revenue from providing services employing the percentage-of-completion method and recognize the revenues and expenses in the light of the stage of completion under a transaction concerning the providing of labor services. If an enterprise can not, on the date of the balance sheet, measure the result of a transaction concerning the providing of labor services in a reliable way, and the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount. If the cost of labor services incurred is not expected to compensate, the cost incurred should be included in the current P& L, and no revenue from the providing of labor services may be recognized.

Abalienating of Right to Use Assets

If abalienating of right to use assets simultaneously meets that relevant economic income possibly inflows and the amount of interest revenue can be measured reliably, the income of abalienating of right to use assets shall be recognized. Interest income should be recognized according to the time and actual interest rates generated from the use of monetary funds of the Company by others. Royalty revenues should be recognized in line with chargeable time and measures of related contracts or agreements.

22.2 Specific Measures for Income Recognition

Medical industry of the Company mainly provides medical services. The income should be recognized when the Company offer labor services. As for the manufacturing and circulation of drugs, the Company sells mainly on meropenem and Cefminox Sodium for injection. Income from domestic products should meet the following conditions: The Company has transferred products to the buyer based on the contracts or agreements; The amount of products marketing has been measured; The receivable payments, obtained receiving vouchers and relevant economic benefits may flow into the Company; The costs of products can be measured in a reliable way. Income from products for export should meet the following conditions: The Company declare products according to the contacts or agreements; The amount of products marketing has been measured; The receivable payments, obtained receiving vouchers and relevant economic benefits may flow into the Company; The costs of products can be measured in a reliable way.

22.2.1 Selling goods:

The realization of income from commodity sales can be recognized if following situations happen: The significant risks and rewards of ownership of the goods have been transferred to the buyer by the Company;The Company retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; The relevant amount of revenue can be measured in a reliable way; The relevant economic benefits may flow into the

Company; The relevant costs incurred or to be incurred can be measured in a reliable way.

22.2.2 Abalienating of Right to Use Assets

If relevant economic income of abalienating of right to use assets can flow into the Company and the amounts of the income can be measured reliably, the Company will recognize the income.

23. Government Subsidies

Recognition Criterion and Accounting Treatment Methods of Government Subsidies Pertinent to Assets:

The government subsidies pertinent to assets mean the government assets that are obtained by enterprises used for purchase or construction, or forming the long-term assets by other ways. The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. But the government subsidies measured at their nominal amounts shall be directly included in the current profits and losses.

Recognition Criterion and Accounting Treatment Methods of Government Subsidies Pertinent to Income:

Government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income. Those government subsidies pertinent to income used for compensating the related future expenses or losses of the Company shall be recognized as deferred income and shall included in the current P& L during the period when the relevant expenses are recognized. Those subsidies used for compensating the related expenses or losses incurred to the Company shall be directly included in the current P& L.

A government subsidy means the monetary or non-monetary assets obtained free by an enterprise from the government, but excluding the capital invested by the government as the owner of the enterprise. Government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income.

The government subsidies pertinent to assets shall be measured at their nominal amounts shall be directly included in the current P& L. If a government subsidy is a non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount(1 yuan).

The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current P& L. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: Those subsidies used for compensating the related expenses or losses incurred to the enterprise shall be directly included in the current P& L; Those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall included in the current P& L during the period when the relevant expenses are recognized; Those subsidies measured at their normal amount should be included into the current P& L.

If it is necessary to refund any government subsidy which has been recognized, it shall be treated respectively in accordance with the circumstances as follows: If there is the deferred income concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current P& L; and if there is no deferred income concerned to the government subsidy, it shall be directly included in the P& L.

24. Deferred Income Tax Assets and Deferred Income Tax Liabilities

Income taxes include current income taxes and deferred income taxes. They all should be included into the current P& L except that adjusted goodwill is generated by consolidation and that the income taxes of the current period and deferred income tax related to the transactions or events directly recorded in the owner's rights and interests shall be recorded into the owner's rights and interests.

Deferred income taxes should be recognized with balance sheet method on the basis of the difference between the carrying amount of an asset or liability and its tax base.

Except for the deferred income tax liabilities arising from the following transactions, an enterprise shall recognize the deferred income tax liabilities arising from all taxable temporary differences:

A.The initial recognition of business reputation or the initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following; The transaction is not business combination; At the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

B.For the taxable temporary differences related to the investments of subsidiary companies, associated enterprises and joint enterprises, the investing enterprise can control the time of the reverse of temporary differences; and the temporary differences are unlikely to be reversed in the excepted future.

For deductible losses and tax losses that are able to deduct temporary difference and be carried forward to later years, the Company shall recognize the deferred income tax assets arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. However, the deferred income tax assets shall not be recognized unless deductible temporary difference is generated from following transactions:

This transaction is not business combination, and at the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

If the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises can meet the following requirements simultaneously, the Company shall recognize the corresponding deferred income tax assets: The temporary differences are likely to be reversed in the expected future; and it is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

On the balance sheet date, the deferred income tax assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled, and deferred income tax liabilities shall reflect the effect of the expected asset recovery or liability settlement .

The carrying amount of deferred income tax assets shall be reexamined on balance sheet date. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred income tax assets, the carrying amount of the deferred income tax assets shall be written down. If it is probable to obtain sufficient taxable income taxes, such write-down amount shall be subsequently reversed.

25. Significant Accounting Judgment and Estimates

During the process of exercising accounting policies, the Company should make judgment, estimates and assumptions for the carrying value of projects in the statements that are unable to measured precisely due to the uncertainties of operating activities. These judgment, estimates and assumptions are made based on past experience of the Company's management and other factors. They will affect the reported amounts of income, costs, assets and liabilities as well as disclosure of contingent liabilities on the balance sheet date. However, results from these estimated uncertainties may cause great adjustments for the carrying amount of assets and liabilities influenced in the future.

The Company will conduct continuous evaluations on the above judgment, estimates and assumptions on the basis of the going concern. If accounting estimate changes only affect the current period of change, the influence number should be recognized during the period of change. If they influence both the current period and future period of change, they should be recognized during the current or future period of change.

On balance sheet date, significant accounting estimates and key assumptions that may result in great adjustment risks for the carrying value of assets and liabilities in the next accounting year.

25.1 Provision for Bad Debts:

The Company will, based on the accounting policies of receivables, calculate the bad debt losses with the allowance method. Impairment of receivables shall be calculated in line with the collectability of receivables. The difference between the actual result and the original estimates will affect the carrying value of receivables and the provision and reversal for bad debts of receivables during the period when estimates are changed.

25.2 Inventory Falling Price Reserves:

Inventories shall be measured according the inventory accounting policies and the lower between the costs and the net realizable value. If the costs of inventories exceed the net realizable value as well as old and unsalable inventories, provision for inventory impairments should be conducted. The amounts of inventories deduct to that of the net realizable value in line with the estimates of inventories' merchantability and their net realizable value. Impairment of inventories should be judged and estimated only when the management of the Company obtain concrete evidences, consider the purpose of holding inventories and future influences of projects in the balance sheet. The difference between the actual result and the original estimates will affect the carrying value of receivables and the provision and reversal for bad debts of receivables during the period when estimates are changed.

25.3 Fair Value of Financial Instruments:

If the financial instruments don't exist in an active trading market, the Company will recognized their fair value with various valuation methods which include the analysis on discount cash flow model. When evaluating, the Company should estimate future cash flow, credit risks, market volatility and relevant factors and choose appropriate discount rate. The changes of these related assumptions with uncertainties will influence the fair value of financial instruments.

25.4 Held-to-maturity Investments:

The Company classified non-derivative financial assets with fixed or certain payment amount and fixed maturity date as well as clear purpose and ability of holding the investments to maturity. A great number of estimates are involved in the classification. When judging the investments, the Company will assess the the will and ability of holding the assets to maturity. Except for particular cases (for example, selling non- significant amount of investment near the maturity date), if the Company is unable to holding the assets to the maturity date, all these kind of investments should be reclassified to available- for- sale financial assets and shall not be classified as held- to- maturity investments in this accounting year and the future two accounting years. If this situation occurs, they may exert significant impacts on the value of relevant financial assets listed in the financial statements as well as the risk management strategy of the Company's financial instruments.

25.5 Impairment of Held- to- maturity Investments:

Impairment of held- to- maturity investments incurs largely depend on the judgment of the Company's management. Objective evidences of the impairment include the financial assets that can no longer continue to be traded in the active markets due to serious financial difficulties of the issuer and the contracted terms that are unable to fulfill(for example, interests payment and default of principals). When judging the investments, the Company shall assess the influences of the objective evidences of the impairment on the estimated future cash flow of the investments.

25.6 Impairment of Available- for- sale Financial Assets:

Impairment available- for- sale financial assets incurs largely depend on the judgment of the Company's judgment and assumptions. They shall be recognized whether they are impairment in the income statement. When judging and assuming the assets, the Company should assess the degree and duration that the fair value of the Investments lower than their costs, including industrial conditions, technological change, credit rating, default rate and counterparty risks.

25.7 Impairment Provision for Non- financial and Non- current Assets:

The Company will make a judgment on the non- current assets excluding financial assets to make sure whether there is sign for impairment on the balance sheet date. For intangible assets with uncertain length of useful life, impairment tests should be conducted each year, moreover, when there is a sign for impairment, impairment tests should also be conducted on them. Impairment tests should be conducted on other non- current assets excluding financial assets if there is a sign for the unrecoverability of the carrying amounts.

If the carrying value of assets or asset groups exceeds recoverable amounts, or there exist a higher one between the net amounts calculated by the fair value minus disposal expenses and the present value of expected future cash flow, it shows that impairment occurs.

The net amounts calculated by the fair value minus the disposal expenses should be recognized according to the contracted prices of similar assets sold in the fair transactions or observable market value minus the increment costs that directly belong to the disposal of the assets.

When estimating the future cash value, the Company should make important judgments on the output, price, relevant operating costs and discount rate that used in the calculation of the present value. When estimating recoverable amounts, the Company will use all information available, including the prediction about the output, price and relevant operating costs according to rational and supportable assumptions.

The Company will conduct the impairment test on goodwill each year. Ir requires that estimations should be conducted on the future cash flow of asset groups and combination of asset groups with goodwill. When estimating the present value of the future cash flow, the Company will estimate the cash flow of the future asset groups or the combination of asset groups, and meanwhile, choose suitable discount rate to recognize the present value of the future cash flow.

25.8 Depreciation and Amortization:

After taking the residual values of inventory properties, fixed assets and intangible assets, the Company will calculate the depreciation and amortization at the straight- line method within the useful life. The Company will recheck the useful life in order to decide the amount of depreciation and amortization costs in each report period. The useful life is recognized based on past experience of similar assets and expected technology innovation. If there is a great change in the previous estimates, depreciation and amortization costs will be adjusted in the future.

25.9 Income Taxes:

In normal operating activities of the Company, tax treatment and calculation of some transactions are uncertain. Some projects that need approvals of tax authorities are able to report before taxes. If there is a difference between the ultimate results and the original estimates, the difference will exert impacts on current and deferred income taxes during the ultimate recognition period.

26. Changes of Significant Accounting Policies and Accounting Estimates

26.1 Changes of Significant Accounting Policies

There is no disclosure of changes of accounting policies that need to disclose but fail to do so by December 31, 2016.

26.2 Changes of Significant Accounting Estimates

There is no disclosure of changes of accounting estimates that need to disclose but fail to do so by December 31, 2016.

27. Early Corrections of Accounting Errors

There is no disclosure of early corrections of accounting errors that need to disclose but fail to do so by December 31, 2016.

V. The major taxes and tax rates

Tax	Tax base	Tax rate
Value added tax	Sales revenue	17%、13%、6%、3%
Business tax	Turnover	5%、3%
Urban maintenance and construction tax	Turnover tax payable	7%，5%、1%
Educational surcharge	Turnover tax payable	3%
Local educational surcharge	Turnover tax payable	1%、1.5%、2%、3%
Key traffic construction surcharge	Turnover tax payable	5%
Culture educational surcharge	Media income and expenses, net	4%
River project construction and maintenance fee	Turnover tax payable	0.50%

Tax entitles in the enterprise income tax preferential program

subject of tax payment	Income tax rate	preferential policies
Shanghai Founder Digital Publicity Co., Ltd	25%	High Technology Enterprise
Founder Holdings Co., Ltd	16.50%	16.5% tax rate for enterprise located in Hongkong
Founder Tuo Kang (Hongkong) Trading Co., Ltd.	16.5%	
Shanghai Founder Technology (Hongkong) Co., Ltd.	16.5%	
Yueya PKG (HK) Co., Ltd	16.50%	

Zhuhai Founder PCB (HK) Development Co., Ltd	16.50%	
PKU Health IT Co., Ltd	15%	15% tax rate for High Technology Enterprise according to <<State Administration Taxation Announcement No.12 in 2012>>
Guangzhou Jianxun Technology Co., Ltd	15%	
Chongqing Founder Gaomi Electronic Co., Ltd	15%	
Zhuhai Founder Technology MLB Co., Ltd	15%	
Zhuhai Founder PKG Technology Co., Ltd	15%	
Founder international software (Beijing) Co., Ltd.	15%	
Founder Medical Research Institute Co Ltd	15%	
Beijing Hanlin ICT Information Technology Co. Ltd	15%	
Founder International Software Limited	15%	
Founder Broadband Network Services Ltd	15%	
Beijing Founder science and Technology Information Product Co., Ltd.	15%	
Shanghai Beijing University Founder Technology Computer System Co., Ltd	15%	
Beijing founder seal Digital Technology Co., Ltd.	15%	
Zhuhai Founder hi tech electronic Co., Ltd.	15%	
Beijing Founder Apabi Technology Co., Ltd	15%	
Shenzhen Founder Microelectronics International Co., Ltd	15%	
PKU HealthCare Chongqing Daxin Pharmaceutical Co., Ltd.	15%	15% tax rate preference according to 2011 No.58 announcement issued by Ministry of Finance and SAT, 2012 No.12 announcement issued by SAT, Catalog of encouraged industries in Western China, 2015 No.14 announcement issued by SAT
Chongqing Dongyu Running Water Co., Ltd	15%	
Peking University Medical Limited by Share Ltd	15%	
Chongqing Fangwo Industrial Co. Ltd	15%	
Founder H Fund Co. Ltd	15%	
Beijing PKU Founder Electronics Co., Ltd	10%	State planning key software enterprises have 10% discount on enterprise income tax rate.
Wuhan Jiangbei pharmaceutical Co., Ltd.	10%	The competent tax authorities identified as small profit enterprises, the enterprise income tax rate was 10% in 2016.
Chongqing Fang gang Pharmaceutical Co., Ltd.	15%	According to "the Ministry of Finance and the State Administration of Taxation and the General Administration of Customs on the relevant tax policies for further implementation of the western development strategy of the notice" (taxation, 2011, No. 58), from January 1, 2011 to December 31, 2020, the enterprise income tax was reduced by 15% of the encouraged enterprises in the western region.
Founder H Fund Co. Ltd	9%	9% tax rate for enterprise in Tibet
PKU HealthCare Holdings Co., Ltd	9%	

VI、NOTES TO THE PRINCIPAL ITEMS IN THE CONSOLIDATED ACCOUNTING STATEMENTS

1.Cash and cash equivalents

Item	Dec. 31, 2016	Jan. 1, 2016
I. Cash	2,131,518.83	4,648,002.68
Renminbi (CNY)	1,888,856.52	4,310,337.68
United States dollar (USD)	190,699.60	236,550.60
Hong Kong dollar (HKD)	44,787.98	94,259.60
Other currencies	7,174.73	6,854.80
II. Bank Deposit	20,741,175,131.64	23,752,349,358.58
Renminbi (CNY)	18,654,898,158.54	21,087,745,957.73
United States dollar (USD)	1,826,978,925.55	2,264,937,372.55
Hong Kong dollar (HKD)	252,492,618.06	357,119,867.78
Other currencies	6,805,429.49	42,546,160.52
III.Other Monetary Funds	5,399,619,826.25	5,697,914,168.42
Renminbi (CNY)	4,836,023,149.27	4,839,606,565.42
United States dollar (USD)	543,063,647.60	834,308,927.99
Hong Kong dollar (HKD)	20,533,029.38	23,998,675.01
Other currencies		
Total	26,142,926,476.72	29,454,911,529.68

2.Financial assets accrued by fair value

Item	Fair value in Dec. 31, 2016	Fair value in Jan. 1, 2016
Equity investment	35,988,100,362.29	25,060,811,843.47
Total	35,988,100,362.29	25,060,811,843.47

3.Bill receivables

Category	Dec. 31, 2016	Jan. 1, 2016
Commercial acceptance bills	5,637,777.65	1,725,604.40
Banker acceptance bills	483,970,510.80	820,787,633.41
Total	489,608,288.45	822,513,237.81

4.Interest receivables

Category	Dec. 31, 2016	Jan. 1, 2016
Interest receivables	1,566,615,756.69	1,591,561,919.20
Total	1,566,615,756.69	1,591,561,919.20

5.Account receivables

5.1 Ageing Analysis of Accounts Receivables

Ageing structure	Dec. 31, 2016		
	Book balance		Provision for bad debts
	Amount	Percentage (%)	
Within 1 year (inclusive)	6,589,695,793.27	88.07	131,793,915.86
1-2 years (inclusive)	399,691,437.95	5.34	27,978,400.66
2-3 years (inclusive)	209,882,885.15	2.81	20,988,288.52
Over 3 years	282,723,514.76	3.78	197,906,460.33
Total	7,481,993,631.13	100.00	378,667,065.37

Ageing structure	Jan. 1, 2016		
	Book balance		Provision for bad debts
	Amount	Percentage (%)	
Within 1 year (inclusive)	5,228,455,987.46	89.16	104,569,119.75
1-2 years (inclusive)	206,692,077.92	3.52	14,468,445.45
2-3 years (inclusive)	153,321,272.42	2.61	15,332,127.24
Over 3 years	275,808,557.94	4.71	194,133,534.68
Total	5,864,277,895.74	100.00	328,503,227.12

5.2 Account receivables from the top five customers

Item	Amount	Ageing	Percentage (%)
Stock exchange settlement	435,131,372.73	Within1year (inclusive)	5.82
Margin trading	386,832,965.60	Within1year (inclusive)	5.17
Shanghai Futang Trading Co., Ltd.	338,530,597.01	1-2years (inclusive 2)	4.52
Affaire a term	233,155,806.28	Within1year (inclusive)	3.12
Fees and commissions receivable	175,139,521.01	Within1year (inclusive)	2.34
Total	1,568,790,262.63		20.97

6. Other Receivables

6.1 Other Receivables

Item	Dec. 31, 2016			
	Book balance		provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Provision for bad debt of amount of each item is significant	4,726,597,378.44	6.42	692,488,197.03	69.58
Provision bad debts according to credit risk characteristics (very low credit risk)	31,606,544,481.82	42.93	-	-
By age combination of provision for bad debts	37,292,559,003.41	50.65	302,784,158.75	30.42
Total	**73,625,700,863.67**	**100.00**	**995,272,355.78**	**100.00**

Item	Jan. 1, 2016			
	Book balance		provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Provision for bad debt of amount of each item is significant	3,118,914,421.38	5.51	639,392,244.18	76.36
Provision bad debts according to credit risk characteristics (very low credit risk)	38,876,284,242.38	68.79	-	-
By age combination of provision for bad debts	14,523,286,618.75	25.7	197,942,070.27	23.64
Total	**56,518,485,282.51**	**100.00**	**837,334,314.45**	**100.00**

6.2 Ageing Structure

Ageing structure	Dec. 31, 2016		
	Book balance		provision for bad debts
	Amount	Percentage (%)	
Within 1 year (inclusive)	35,791,077,092.90	95.97	178,955,385.46
1-2 years (inclusive)	561,343,699.31	1.51	11,226,873.99
2-3 years (inclusive)	502,838,286.29	1.35	25,141,914.32
Over 3 years	437,299,924.91	1.17	87,459,984.98
Total	**37,292,559,003.41**	**100.00**	**302,784,158.75**

Ageing structure	Jan. 1, 2016		
	Book balance		provision for bad debts
	Amount	Percentage (%)	
Within 1 year (inclusive)	12,926,809,567.86	89.01	64,634,047.84
1-2 years (inclusive)	534,104,376.13	3.68	10,682,087.52
2-3 years (inclusive)	598,990,666.95	4.12	29,949,533.35
Over 3 years	463,382,007.81	3.19	92,676,401.56
Total	**14,523,286,618.75**	**100.00**	**197,942,070.27**

6.3 Other receivables from the top five customers

Item	Amount	Ageing	Percentage (%)
Bond capita	23,081,267,881.82	Within 1 year (inclusive)	31.35
Shanghai Jiawan Asset Management Co., Ltd. and Warburg trust - Anxin investment trust scheme 20 (joint bid)	8,525,276,600.00	Within 1 year (inclusive)	11.58
Beijing University Resources Group Limited	3,253,923,167.20	Within 1 year (inclusive)	4.42
Huarong Securities Co., Ltd	1,697,180,333.35	Within 1 year (inclusive)	2.31
Hengtai Haorui - Peking University Medical Industry Park Private Equity Fund	1,107,000,000.00	Within 1 year (inclusive)	1.50
Total	37,664,647,982.37		51.16

7.Prepayments

7.1 Prepayments through ageing

Ageing structure	Dec. 31, 2016		Jan. 1, 2016	
	Amount	Percentage(%)	Amount	Percentage(%)
Within 1 year (inclusive)	2,833,832,999.83	84.10	3,719,044,247.88	89.95
1-2 years (inclusive)	289,292,638.08	8.59	234,832,064.64	5.68
2-3 years (inclusive)	133,774,665.30	3.97	131,023,178.55	3.17
Over 3 years	112,529,681.34	3.34	49,768,920.83	1.20
Total	3,369,429,984.55	100.00	4,134,668,411.90	100.00

7.2 Prepayments to the top five customers

Item	Amount	Ageing	Reason for not prepayment
Shanghai Liao Yun Trading Co., Ltd	422,347,650.94	Within 1 year (inclusive)	Business contact
Suzhou Yongxinshun International Trading Co., Ltd.	241,525,074.46	Within 1 year (inclusive)	Business contact
Shanghai MEIKO Metal Resources Co., Ltd.	188,760,000.00	Within 1 year (inclusive)	Business contact
Apple Computer Trading (Shanghai) Co., Ltd.	187,124,762.12	Within 1 year (inclusive)	Business contact
Anglo American Marketing Limited Singapore Branch	155,522,272.22	Within 1 year (inclusive)	Business contact
Total	1,195,279,759.74		

8.Inventories

Item	Dec. 31, 2016		
	Book balance	Impairment provision	Carrying amount
Raw materials	491,399,170.18	61,727,534.82	429,671,635.36
Inventories	4,706,961,747.26	93,604,223.27	4,613,357,523.99
Products in Transit	127,913,868.71	12,071,728.14	115,842,140.57
Semi-finished products	303,883,258.75	25,439,691.07	278,443,567.68
Low value consumables	7,472,283.99	464,085.85	7,008,198.14
Package	-	-	-
Others	297,176,271.34	153,059.47	297,023,211.87
Total	5,934,806,600.23	193,460,322.62	5,741,346,277.61

Item	Jan. 1, 2016		
	Book balance	Impairment provision	Carrying amount
Raw materials	392,309,383.19	34,547,380.98	357,762,002.21
Inventories	3,502,981,279.78	39,725,087.98	3,463,256,191.80
Products in Transit	59,479,710.19	14,495,463.50	44,984,246.69
Semi-finished products	357,544,398.04	24,123,469.03	333,420,929.01
Low value consumables	5,562,286.66	512,650.54	5,049,636.12
Package	239,167.00	-	239,167.00
Others	640,310,439.58	-	640,310,439.58
Total	4,958,426,664.44	113,404,052.03	4,845,022,612.41

9.Other current assets

Category	Dec. 31, 2016	Jan. 1, 2016
Hold-for- trading financial assets	12,216,715,858.75	5,534,275,243.41
Financial products	941,000,000.00	792,000,000.00
Protecting a pledge loan	183,739,410.96	134,975,590.98
Independent account assets	21,647,507.70	25,379,858.82
Deferred expense and others	207,380,764.09	137,290,920.87
Total	13,570,483,541.50	6,623,921,614.08

10.Available-for-sale Financial Assets

Item	Dec. 31, 2016	Jan. 1, 2016
Equity and bonds	33,809,190,776.04	22,262,247,884.94
Less: Impairment provision	71,429,626.13	33,783,752.10
Total	33,737,761,149.91	22,228,464,132.84

11.Held-to-maturity investments

Item	Dec. 31, 2016	Jan. 1, 2016
Bonds	1,496,181,083.77	2,237,877,418.19
Total	1,496,181,083.77	2,237,877,418.19

12.Long-term equity investments

12.1Long-term Equity Investment type

Item	Dec. 31, 2016	Jan. 1, 2016
Long-term equity investments	5,416,851,695.13	4,489,122,618.25
Total	5,416,851,695.13	4,489,122,618.25

12.2 Long-term equity investment details

Investees	Dec. 31, 2016	Jan. 1, 2016
①Breakdown of external investments made by the parent of the members of the Group upon consolidation and offsetting		
Founder International Leasing Co., Ltd	16,300,000.00	16,300,000.00
PKU Resource Group Co., Ltd.	1,724,539,410.17	1,680,136,928.57
Kunshan Hi-Tech Electronic Arts Creative Industry Development Co., Ltd.	38,000,000.00	38,000,000.00
Peking University Science Park Co., Ltd	30,000,000.00	30,000,000.00
Founder Information (Hong Kong) Limited		24,873,473.90
Founder BEA Trust Co., Ltd	541,350,611.93	466,068,333.10
Beijing Renhe Lian An Real Estate Development Co., Ltd.	5,000,000.00	5,000,000.00
Total	2,355,190,022.10	2,260,378,735.57
②External investment amounts made by the subsidiaries to be consolidated		
PKU Founder Investment Co., Ltd.	110,600,000.00	153,349,745.67
Founder Industry Holdings Co., Ltd.	925,301,330.66	864,896,630.66
PKU Healthcare	1,598,041,608.58	606,661,608.58
Founder Securities Co., Ltd.	15,636,004.13	46,749,480.08
Peking Founder Industrial Development Co., Ltd.	4,500,000.00	4,500,000.00
Founder Group (Hong Kong) Co., Ltd.		104,566,048.51
China Hi-tech Group Co., Ltd.	69,863,813.37	86,136,716.68
PKU Founder Information Industry Group Co., Ltd.	337,718,916.29	361,883,652.50
Total	3,061,661,673.03	2,228,743,882.68

13.Investment properties

Item	Houses and buildings	Total
Jan. 1, 2016	8,467,187,317.00	8,467,187,317.00
Change during the period	-1,725,099,034.18	-1,725,099,034.18
Fixed assets transferred to investment real estate	776,202,009.29	776,202,009.29
Increase: Change in fair value	1,675,547,582.89	1,675,547,582.89
Decrease: Investment real estate disposal	4,176,848,626.36	4,176,848,626.36
Dec. 31, 2016	6,742,088,282.82	6,742,088,282.82

14.Fixed assets

Category	Dec. 31, 2016	Jan. 1, 2016
(1) Original value of fixed assets		
House and buildings	8,169,003,446.81	4,873,731,735.24
Machinery	6,750,039,754.20	6,658,525,920.46
Electronic	1,240,623,560.22	1,170,346,444.20
Transportation equipment	247,952,044.99	280,907,100.11
Office equipment	133,376,128.81	131,354,366.78
Others	2,910,577,418.78	1,833,093,939.00
Original value of fixed assets summation	19,451,572,353.81	14,947,959,505.79
(2) Accumulated depreciation		
House and buildings	1,457,960,236.30	1,318,551,553.20
Machinery	3,296,216,018.84	2,928,913,306.37
Electronic	776,306,400.92	712,923,275.64
Transportation equipment	224,351,766.14	211,238,044.78
Office equipment	92,818,625.86	123,133,417.24
Others	817,053,681.55	598,345,194.52
Accumulated depreciation summation	6,664,706,729.61	5,893,104,791.75
Net value of fixed assets	12,786,865,624.20	9,054,854,714.04
Impairment reserve	896,790,274.96	32,544,780.00
Net amount of fixed assets	11,890,075,349.24	9,022,309,934.04

15.Construction in progress

Item	Dec. 31, 2016	Jan. 1, 2016
PKU Healthcare Project	576,039,809.34	5,042,287,026.23
Southwest Pharmaceutical Project	547,484,266.12	573,400,344.34
Founder Technology Technological Upgrading Project	43,096,914.47	15,706,039.72
Suzhou Steel Group Technological Upgrading	100,697,547.76	73,647,265.30
Founder Broadband Network Project	330,482,742.08	174,158,905.23
Microelectronic Project	138,104,442.12	91,977,969.97
Others	14,463,462.82	33,507,961.56
Total	1,750,369,184.71	6,004,685,512.35

16.Construction supplies

Item	Dec. 31, 2016			Jan. 1, 2016		
	Book Balance	Impairment provision	Net book value	Book Balance	Impairment provision	Net book value
Construction supplies	85,856,383.83	-	85,856,383.83	40,860,746.87	-	40,860,746.87
Total	85,856,383.83	-	85,856,383.83	40,860,746.87	-	40,860,746.87

17.Intangible assets

Category	Dec. 31, 2016	Jan. 1, 2016
Land use right	872,689,698.96	325,003,077.33
Patent technology	41,900,000.00	47,645,106.94
Software	239,225,724.85	212,609,572.93
Patent	81,372,326.65	68,909,670.96
Technology without patent	97,476,104.41	81,001,662.40
Others	31,093,500.83	61,651,687.04
Total	1,363,757,355.70	796,820,777.60

18.Development expenditure

Item	Jan. 1, 2016	Increase	Decrease	Dec. 31, 2016
Public information service platform	10,828,584.88	4,701,190.29	15,529,775.17	-
Framework based ACC products	2,279,262.84	2,376,172.99	4,655,435.83	-
Internet resources analysis and device	640,003.26	323,050.05	-	963,053.31
Internet resources publishing and device	921,130.99	819,091.47	-	1,740,222.46
Method to opening smart locker and device	410,837.14	961,728.44	-	1,372,565.58
Resource caching method and device	709,245.34	371,828.63	-	1,081,073.97
Fingerprinting algorithm and framework research	1,695,585.46	-	1,695,585.46	-
Method and device for testing interface based on HTTP protocol	-	2,376,120.65	-	2,376,120.65
Remote controller device	-	2,075,567.55	-	2,075,567.55
Fire safety positioning equipment project	-	777,095.02	-	777,095.02
Automobile alarm method and device	-	366,494.48	-	366,494.48
Dangerous goods management system and method	-	222,422.08	-	222,422.08
Criminal information judgment system	-	2,707,981.22	2,707,981.22	-
Internet financial core system	-	3,548,015.51	3,548,015.51	-
Comparison of accelerated card software	-	2,304,444.98	2,304,444.98	-
Bank Accounting and Analysis System	-	1,711,755.37	1,711,755.37	-
Media life service platform	-	1,522,935.15	1,522,935.15	-
Other information platforms	12,709,168.95	25,855,830.64	-	38,564,999.59
Other pharmaceutical items	151,379,671.84	36,515,490.73	9,560,148.28	178,335,014.29
Total	**181,573,490.70**	**89,537,215.25**	**43,236,076.97**	**227,874,628.98**

19.Goodwill

Item	Jan. 1, 2016	Increase	Decrease	Dec. 31, 2016
Founder Securities Co.,Ltd	5,148,483,283.38	-	-	5,148,483,283.38
PKU Founder Life Insurance Co., Ltd.	624,205,107.67	-	-	624,205,107.67
PKU Founder Information Industry Group	537,190,682.59	-	-	537,190,682.59
Pku Healthcare	339,750,012.52	-	-	339,750,012.52
China High-tech Group Co., Ltd.	254,170,295.67	-	-	254,170,295.67
Total	**6,903,799,381.83**	-	-	**6,903,799,381.83**

20.Long-term deferred expenses

Category	Dec. 31, 2016	Jan. 1, 2016
Start-up costs		30,234,333.87
Renovation costs	167,948,865.14	220,722,229.77
Software, etc.	6,145,922.51	7,680,188.43
Others	189,904,489.35	176,436,065.84
Total	363,999,277.00	435,072,817.91

21.Deferred income tax assets

Item	Dec. 31, 2016	Jan. 1, 2016
Deferred income tax assets	393,838,671.71	133,752,548.67
Total	393,838,671.71	133,752,548.67

22.Other non-current assets

Item	Dec. 31, 2016	Jan. 1, 2016
Medium- and long-term loans	272,250,000.00	792,000,000.00
Medium- and long-term trust investment plan	1,800,000,000.00	968,000,000.00
Equipment prepayments	184,945,785.91	40,419,966.64
Compensation assets of removal	23,516,629.25	23,516,629.25
Total	2,280,712,415.16	1,823,936,595.89

23.Provisions for assets impairment

Category	Jan. 1, 2016	Provision	Decrease	Dec. 31, 2016
Provisions for bad debts	1,165,837,541.57	226,553,516.20	18,451,636.63	1,373,939,421.14
Provisions for inventories impairment	113,404,052.03	106,637,191.36	26,580,920.77	193,460,322.62
Impairment provisions for available-for-sale financial assets	33,783,752.10	54,821,316.88	17,175,442.85	71,429,626.13
Impairment provisions for long-term investments	6,015,471.87	111,042,568.77	-	117,058,040.63
Reserve for held-to-maturity investment impairment	-	-	-	-
Impairment provisions for fixed assets	32,544,780.00	867,627,914.98	3,382,420.02	896,790,274.96
Impairment provisions for construction in progress	-	-	-	-
Reserve for Intangible Assets Impairment	99,911,070.73	17,273,570.14	14,203,764.24	102,980,876.63
Provision for goodwill impairment	-	-	-	-
Total	1,451,496,668.30	1,383,956,078.33	79,794,184.51	2,755,658,562.12

24.Short-term borrowings

Loan category	Dec. 31, 2016	Jan. 1, 2016
Guaranteed borrowings	16,837,825,321.41	12,672,459,281.37
Secured borrowings	272,060,826.47	244,000,000.00
Pledged borrowings	1,223,980,282.76	897,017,011.35
Credit borrowings	627,440,294.19	876,756,982.64
Total	18,961,306,724.83	14,690,233,275.36

25.Financial debt

Item	Dec. 31, 2016		
	Financial liabilities held for trading purposes	Financial liabilities measured at fair value and subject to changes in current profits and losses	Total
Share Percentage (%) of other investors in structural entitles	-	10,109,466,241.68	10,109,466,241.68
Others	-	2,450.00	2,450.00
Total	-	10,109,468,691.68	10,109,468,691.68

(to continue above)

Item	Jan. 1, 2016		
	Financial liabilities held for trading purposes	Financial liabilities measured at fair value and subject to changes in current profits and losses	Total
Share Percentage (%) of other investors in structural entitles	-	1,668,996,284.93	1,668,996,284.93
Others	-	-	-
Total	-	1,668,996,284.93	1,668,996,284.93

26.Bill payables

Category	Dec. 31, 2016	Jan. 1, 2016
Commercial acceptance bills	95,063,324.00	150,330,000.00
Bank acceptance bills	1,233,537,986.03	5,573,244,073.96
Total	1,328,601,310.03	5,723,574,073.96

27.Account payables

27.1 Ageing structure

Ageing analysis	Dec. 31, 2016		Jan. 1, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	2,330,391,277.76	87.44	1,326,098,079.64	78.73
1-2 years (inclusive)	295,903,488.13	11.10	318,948,678.36	18.94
2-3 years (inclusive)	11,460,924.62	0.43	12,593,384.19	0.75
Over 3 years	27,364,257.09	1.03	26,665,912.15	1.58
Total	2,665,119,947.60	100.00	1,684,306,054.34	100.00

27.2 Accounts payable to the top five creditors

Name of creditor company	Amount	Ageing	Reason
Raffemet Pte. Ltd.	318,775,967.28	Within 1 year	Payment for goods
Acer (Shanghai) Limited Company	252,596,032.44	Within 1 year	Payment for goods
Anglo American Norte S.A	170,184,336.09	Within 1 year	Payment for goods
Louis Dreyfus Commodities Asia Pte. Ltd.	138,145,521.06	Within 1 year	Payment for goods
China National Materials Storage and Transportation Corporation	91,770,100.53	Within 1 year	Payment for goods
Total	971,471,957.40		

28.Receipts in advance

28.1 Ageing analysis

Ageing analysis	Dec. 31, 2016		Jan. 1, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	1,658,565,015.43	93.54	747,526,382.59	78.78
1-2 years (inclusive)	108,490,167.94	6.12	195,436,717.85	20.60
2-3 years (inclusive)	3,844,578.43	0.22	3,808,775.93	0.40
Over 3 years	2,208,398.89	0.12	2,141,996.99	0.22
Total	1,773,108,160.69	100.00	948,913,873.36	100.00

28.2 Advances received from the top five creditors

Name of creditors	Amount	Ageing	Reason
Yu Long Group Holdings Limited	302,286,202.42	Within 1 year (inclusive)	Payment for goods
Neighborhoods Income Bandwidth Fee	267,716,370.36	Within 1 year (inclusive)	Payment for goods
Shaoxing Tefill More Import And Export Co.,Ltd.	219,057,719.28	Within 1 year (inclusive)	Payment for goods
Yixing Copper Industry Co., Ltd	153,030,440.54	Within 1 year (inclusive)	Payment for goods
Jiangsu Shangshang Cable Group Co., Ltd	134,451,654.56	Within 1 year (inclusive)	Payment for goods
Total	1,076,542,387.16		

29.Accrued employee benefits

29.1 Accrued employee benefits

Item	Jan. 1, 2016	Increase	Decrease	Dec. 31, 2016
Short-term salary	2,220,257,729.14	4,852,089,668.57	5,555,417,310.58	1,516,930,087.13
Post-separation welfare: Designated program	24,114,260.64	403,040,481.08	402,004,873.88	25,149,867.84
Dimission benefits	5,124,089.25	157,241,633.44	140,602,697.93	21,763,024.76
Other welfare within 1 year	-	6,994,849.30	6,994,849.30	-
Total	2,249,496,079.03	5,419,366,632.39	6,105,019,731.69	1,563,842,979.73

29.2 Short-term salary

Item	Jan. 1, 2016	Increase	Decrease	Dec. 31, 2016
Salaries, bonuses, allowances and subsidies	2,127,068,723.64	4,275,842,147.67	4,956,565,337.64	1,446,345,533.67
Employee benefits	52,970,238.66	80,160,326.46	96,388,163.86	36,742,401.26
Social insurance premiums	6,059,474.16	205,604,327.20	203,918,764.28	7,745,037.08
of which: Medical insurance premiums	4,858,225.79	176,406,002.61	174,846,454.07	6,417,774.33
Employment injury insurance premiums	166,917.42	7,822,591.69	7,782,037.77	207,471.34
Maternity insurance premiums	300,471.12	13,086,738.43	13,038,738.58	348,470.97
Housing fund	4,143,447.88	238,476,140.13	240,063,281.35	2,556,306.66
Labor union and employees' education expense	30,015,844.80	52,006,727.11	58,481,763.45	23,540,808.46
Total	2,220,257,729.14	4,852,089,668.57	5,555,417,310.58	1,516,930,087.13

30.Tax payable

Category	Dec. 31, 2016	Jan. 1, 2016
Value-added tax	65,678,146.10	-182,962,750.27
Business tax	-	88,475,437.22
Urban maintenance and construction tax	13,889,745.27	11,409,271.12
Corporate income tax	1,823,602,481.76	266,875,348.97
Individual income tax	105,848,636.23	50,042,939.56
Other taxes	35,129,413.56	39,863,554.70
Total	**2,044,148,422.92**	273,703,801.30

31.Interest payable

Category	Dec. 31, 2016	Jan. 1, 2016
Interest payable	1,547,264,554.73	1,881,615,242.71
Total	1,547,264,554.73	1,881,615,242.71

32.Dividends payable

Category	Dec. 31, 2016	Jan. 1, 2016
Dividends payable	15,242,473.44	8,957,781.78
Total	15,242,473.44	8,957,781.78

33.Other payables

33.1 Ageing analysis

Ageing analysis	Dec. 31, 2016		Jan. 1, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	20,174,023,617.47	88.97	21,136,522,294.41	97.45
1-2 years (inclusive)	2,081,703,950.07	9.18	196,299,127.45	0.91
2-3 years (inclusive)	167,129,077.11	0.74	336,840,223.49	1.55
Over 3 years	252,594,995.36	1.11	19,611,345.71	0.09
Total	22,675,451,640.01	100.00	21,689,272,991.06	100.00

33.2 Other payable from the top five creditors

Name of creditors	Amount	Ageing	Reason
Entrust and Structural Financing Payment	18,707,644,284.03	Within 1 year (inclusive)	Financing payments
PingAn Bank-Gold leasing	1,254,709,000.00	1-2 years (inclusive)	Guarantee money
PKU Healthcare Shangyin Equity Investment Center	600,000,000.00	1-2 years (inclusive)	Between
Shenzhen Lirun Investment Co., Ltd.	600,000,000.00	Within 1 year (inclusive)	Guarantee money
Chongqing Yinhai Finance Leasing Co., Ltd	178,000,000.00	Within 1 year (inclusive)	Project funds
Total	21,340,353,284.03		

34.Non-current liabilities within one year

Item	Dec. 31, 2016	Jan. 1, 2016
Long-term loans within 1 year	3,752,217,502.84	509,680,495.75
Deferred payables due within one year	182,001,464.41	181,331,902.86
Deferred income due within one year	395,121.26	13,553,942.51
Total	3,934,614,088.51	704,566,341.12

35.Other current liabilities

Item	Dec. 31, 2016	Jan. 1, 2016
Deposit funds	-	552,000,000.00
Independent account debt	21,647,507.70	25,379,858.82
Unearned premium reserve	39,066,525.82	31,288,617.23
Reserve for outstanding losses	26,538,883.34	20,831,764.55
Accrued expense	5,431,238.84	150,484,525.25
Financial assets sold for repurchase	19,596,537,221.81	21,864,528,767.04
Total	19,689,221,377.51	22,644,513,532.89

36.Long-term borrowings

Categories	Dec. 31, 2016	Jan. 1, 2016
Guaranteed loan	8,703,517,669.87	5,134,436,719.09
Credit loan	124,405,026.08	423,729,000.00
Pledged loan	203,444,055.94	164,000,000.00
Secured loan	60,000,000.00	1,126,031,061.69
Total	9,091,366,751.89	6,848,196,780.78

37. Bond payables

37.1 Book balance

Item	Dec. 31, 2016	Jan. 1, 2016
Bonds payables-nominal value	78,419,500,000.00	54,269,820,000.00
Bonds payables-interest	599,004,046.47	397,995,285.85
Total	79,018,504,046.47	54,667,815,285.85

37.2 Details of issued bonds

Category	Nominal value	Issuance date	Duration
Medium-term notes	1,480,000,000.00	2011/11/18	7 years
Medium-term notes	1,020,000,000.00	2011/11/18	7 years
Medium-term notes	2,000,000,000.00	2012/3/7	7 years
Medium-term notes	2,000,000,000.00	2012/9/10	5 years
Private placement bond	2,000,000,000.00	2014/4/16	3 years
Private placement bond	1,000,000,000.00	2014/8/25	3 years
Private placement bond	1,000,000,000.00	2014/2/26	3 years
Private placement bond	2,000,000,000.00	2015/10/16	3 years
Private placement bond	1,000,000,000.00	2015/10/20	3 years
Private placement bond	2,000,000,000.00	2016/4/14	5 years
Enterprise bond	3,810,000,000.00	2016/2/19	5 years
Enterprise bond	4,190,000,000.00	2016/3/11	5 years
Enterprise bond	2,000,000,000.00	2016/4/29	2 years
Enterprise bond	1,800,000,000.00	2016/6/7	2 years
Enterprise bond	2,200,000,000.00	2016/6/7	2 years
Enterprise bond	1,500,000,000.00	2016/7/26	3 years
Enterprise bond	700,000,000.00	2016/7/26	5 years
Enterprise bond	600,000,000.00	2016/7/26	5 years
China High-tech bond 2010	280,000,000.00	2010/2/2	7 years
Non-public issued Bond (No.1)	500,000,000.00	2015/11/10	5 years
China High-tech bond 2016	800,000,000.00	2016/5/20	5 years
Founder bond 2014	3,000,000,000.00	2014/4/28	5 years
Founder bond 2015 type 01	2,800,000,000.00	2015/4/10	2 years
Founder bond 2015 type 02	10,000,000,000.00	2015/5/18	2 years
Founder bond 2016 type C1	10,000,000,000.00	2016/2/19	5 years
Founder bond 2016 type C2	3,000,000,000.00	2016/10/28	3 years
China Minzu Subordinated debentures 2015 type 01	3,000,000,000.00	2015/4/22	2 years
Commercial Paper	11,039,500,000.00		Within 1 year
Income document	1,700,000,000.00		1-2 years
Total	78,419,500,000.00		

38.Long-term payables

Item	Dec. 31, 2016	Jan. 1, 2016
Financing and leasing for fixed assets	792,065,914.41	763,351,812.59
Total	792,065,914.41	763,351,812.59

39.Special payables

Item	Jan. 1, 2016	Increase	Decrease	Dec. 31, 2016
Deposit of the insured and investment funds	1,548,908,522.68	1,416,519,751.35	523,941,140.91	2,441,487,133.12
Removal expense	187,860,607.87	-	187,860,607.87	-
Government grants for environmental removal	62,702,653.44	-	3,279,924.99	59,422,728.45
Hybrid publicity	52,384,451.44	52,000.00	2,160,000.00	50,276,451.44
Government tech-upgrading	20,000,000.00	-	20,000,000.00	-
Chongqing Finance Bureau	9,900,000.00	-	9,900,000.00	-
Yubei District migrant Bureau	9,039,300.00	-	-	9,039,300.00
Others	18,147,381.17	52,903,707.23	63,114,799.05	7,936,289.35
Total	1,908,942,916.60	1,469,475,458.58	810,256,472.82	2,568,161,902.36

40.Accrued liabilities

Item	Jan. 1, 2016	Increase	Decrease	Dec. 31, 2016
Pending litigation	280,000,000.00	13,197,870.07	-	293,197,870.07
Accrued penalty	26,151,267.39	600,000.00	26,151,267.39	600,000.00
Total	306,151,267.39	13,797,870.07	26,151,267.39	293,797,870.07

41.Liabilities of deferred income tax

Item	Dec. 31, 2016	Jan. 1, 2016
Liabilities of deferred income tax	2,034,707,916.04	1,721,538,677.94
Total	2,034,707,916.04	1,721,538,677.94

42.Other non-current liabilities

Item	Jan. 1, 2016	Increase	Decrease	Dec. 31, 2016
Insurance reserve	2,315,210,699.34	1,076,749,101.93	-	3,391,959,801.27
Total	2,315,210,699.34	1,076,749,101.93	-	3,391,959,801.27

43.Paid-in capital

Company name	Dec. 31, 2016		Jan. 1, 2016	
	Investments	Percentage (%)	Investments	Percentage (%)
PKU Asset Management Corporation Co., Ltd	771,770,000.00	70.00	771,770,000.00	70.00
Beijing Zhaorun Investment Management Co., Ltd	330,758,600.00	30.00	330,758,600.00	30.00
Total	**1,102,528,600.00**	**100.00**	**1,102,528,600.00**	**100.00**

44.Capital surplus

Item	Jan. 1, 2016	Increase	Decrease	Dec. 31, 2016
Capital reserve	2,534,588,753.82	12,941,770.17	-	2,547,530,523.99
Total	**2,534,588,753.82**	**12,941,770.17**	**-**	**2,547,530,523.99**

45.Surplus reserves

Item	Jan. 1, 2016	Increase	Decrease	Dec. 31, 2016
Statutory surplus reserve	260,786,857.81	-	-	260,786,857.81
Statutory public welfare fund	130,393,428.91	-	-	130,393,428.91
Total	**391,180,286.72**	**-**	**-**	**391,180,286.72**

46.Undistributed profits

Item	Amount	Percentage (%)
Undistributed profits before adjustment	10,274,544,184.31	
Undistributed profits during adjustment(increase+, decrease-)	262,148,364.46	
Undistributed profits after adjustment	10,536,692,548.77	
Plus: net profit attributable to owner of the parent	376,720,181.93	
Less: withdrawing statutory surplus reserve	-	10.00
Undistributed profits in the end of the year	**10,913,412,730.70**	

Note: Adjustment of total undistributed profit has been transformed from initial measurement under cost mode to subsequent measurement under fair value mode by investment a property of subordinate entitles.

47.Other complex income

Item	Jan. 1, 2016	Amount before taxes	Less: accrued other complex income	Less: Income tax	Income of the issuer	Income of shareholders	Dec. 31, 2016
一、Other comprehensive income that will not be reclassified into profit or loss	-	-	-	-	-	-	-
1、Re-measure net assets or liabilities of benefit plan	-	-	-	-	-	-	-
2、Other comprehensive incomes that are not reclassified under equity method	-	-	-	-	-	-	-
二、Other comprehensive income that will be reclassified into profit or loss	6,238,784,939.69	-1,789,486,124.13	-219,785,109.34	-58,362,300.62	-259,844,844.03	-1,251,493,870.14	5,978,940,095.66
1.Investee owned share of other complex income	4,137,357,168.67	-15,832,029.33	-	-3,958,007.33	-11,874,022.00	-	4,125,483,146.67
2.Income from available-for-sale finance assets	1,985,706,362.61	-1,958,290,546.26	-376,955,814.66	-51,970,477.24	-276,095,779.59	-1,253,268,474.77	1,709,610,583.02
3.Income from held-to-maturity investment reclassified into available-for-sale finance assets	-	-	-	-	-	-	-
4.Gains and losses from effective cash flow	-	-	-	-	-	-	-
5.Exchange differences on translating foreign operations	29,994,838.83	32,933,236.40	-2,576,743.68	-422,752.69	32,244,323.26	3,688,409.51	62,239,162.09
6.Others	85,726,569.58	151,703,215.06	159,747,449.00	-2,011,063.36	-4,119,365.70	-1,913,804.88	81,607,203.88
Total	6,238,784,939.69	-1,789,486,124.13	-219,785,109.34	-58,362,300.62	-259,844,844.03	-1,251,493,870.14	5,978,940,095.66

48.Operating income and operating cost

Item	Current period		Corresponding period of last year	
	Income	Cost	Income	Cost
Income from principal activities	81,387,569,152.78	74,285,356,591.06	79,986,270,577.31	68,828,606,883.43
Other operating income	617,232,636.78	319,570,408.73	525,017,843.21	310,214,581.83
Total	82,004,801,789.56	74,604,926,999.79	80,511,288,420.52	69,138,821,465.26

49. Business tax and surcharges

Item	Current period	Corresponding period of last year	Standard
Business tax	156,704,989.28	869,487,878.68	5%、3%
Urban maintenance and construction tax	59,128,055.12	83,925,602.34	7%、5%、1%
Educational surcharge	31,348,918.05	53,212,553.99	1%、1.5%、2%、3%
others	89,779,871.06	99,741,684.70	
Total	336,961,833.51	1,106,367,719.71	

50.Financial expenses

Item	Current period	Corresponding period of last year
Interest expense	6,829,055,547.62	5,941,623,962.44
Less: Interest income	1,005,530,961.77	356,064,363.04
Exchange net gain or loss	62,726,092.48	-19,822,388.99
Handling fees	99,706,275.58	105,473,525.46
Total	5,985,956,953.91	5,671,210,735.87

51.Investment income

Item	Current period	Corresponding period of last year
Long-term equity investment income	91,834,783.22	178,576,882.98
Income from disposal of Long-term equity investment	8,183,301,755.81	3,601,875,536.80
Financial instruments investment income	2,916,841,301.26	1,380,899,450.67
Income from disposal of financial instruments investment	1,217,865,615.28	955,393,961.95
Futures income	165,520,994.87	280,734,360.36
Total	12,575,364,450.44	6,397,480,192.76

52.Non-operating income

Item	Current period	Corresponding period of last year
1.Sub-total of gains from disposal of non-current assets	3,938,474.67	111,464,094.65
of which : Gain from disposal of fixed assets	3,931,637.06	111,464,094.65
Gain from disposal of intangible assets	6,837.61	
2. Gain from debt restructuring	-	-
3.Gain from exchange of non-monetary assets	-	-
4.Donation received	-	-
5.Government grants	249,121,458.51	187,988,326.48
6.Others	158,698,425.09	104,374,842.06
Total	**411,758,358.27**	**403,827,263.19**

53.Non-operating expenses

Item	Current period	Corresponding period of last year
1.Sub-total of losses from disposal of non-current assets	7,297,485.68	14,177,074.74
of which: Loss from disposal of fixed assets	7,297,485.68	14,177,074.74
Loss from disposal of intangible assets	-	
2.Loss from debt restructuring	-	-
3.Loss from exchange of non-monetary assets	-	-
4. Donation	7,224,015.96	12,642,750.01
5.Others	306,202,161.80	240,049,118.17
Total	**320,723,663.44**	**266,868,942.92**

54.Income tax expense

Item	Current period	Corresponding period of last year
Income tax expense	2,610,507,449.70	1,733,699,300.07
Deferred Income tax expense	53,083,115.06	60,613,960.34
Total	**2,663,590,564.76**	**1,794,313,260.41**

VII、RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

1. Controlling Shareholder and Ultimate Controlling Shareholder

Name	Relationship with the Issuer	Registered Location	Legal representative	Nature of business	Ultimate Controlling Shareholder	Registered capital (CNY '0000)	Shareholding Percentage (%)
Peking University Asset Management Company Limited	Controlling Shareholder	Beijing	Xiao Qun	Investment holding	Peking University	307,227.67	70.00%
Beijing Zhaorun Investment Management Co., Ltd	Investor	Beijing	Wein Xin	Investment managemen		1,000.00	30.00%

2、Related Parties with Controlling Relationship

Name	Registered capital	Consolidation	Direct Investment Percentage (%)	Final Consolidation Rate (%)
Peking Founder Industry and Commerce corp.	1,000.00	Yes	100.00	100.00
Founder Industry Holdings Co., Ltd	120,000.00	Yes	94.17	94.17
Founder Securities Co., Ltd	823,210.14	Yes	27.75	29.20
Pku Healthcare	250,000.00	Yes	85.60	85.60
PKU Founder investment Co., Ltd.	15,000.00	Yes	80.00	100.00
Shenzhen Founder Microelectronics International Co., Ltd	43,583.02	Yes	63.69	63.69
PKU Founder Training Centre	500.00	Yes	100.00	100.00
PKU Founder Group Finance Co., Ltd	500,000.00	Yes	50.00	100.00
Founder Capital Holding Co., Ltd.	20,000.00	Yes	70.00	100.00
PKU Founder Information Industry Group Co., Ltd	100,000.00	Yes	100.00	100.00
China Hi-tech Group Co., Ltd	58,665.60	Yes	20.03	20.03
PKU Founder Life Insurance Co., Ltd	193,000.00	Yes	51.00	51.00
Founder Group Corp (HK) Co., Ltd.	18,294.06	Yes	100.00	100.00

3、Related-Parties without Controlling Relationship

Name	Relationship with the Issuer
Peking University Science Park Co., Ltd.	Investee of the Issuer
Found International Leasing Co., Ltd.	Investee of the Issuer
Kunshan Hi-Tech Electronic Arts Creative Industry Development Co, Ltd.	Investee of the Issuer
Peking University Resource Group Co., Ltd.	Investee of the Issuer
Founder Information (Hong Kong) Ltd.	Investee of the Issuer
Beijing Renhe Lian'an Real Estate Development Co, Ltd.	Investee of the Issuer
Founder BEA Trust Co., Ltd.	Investee of the Issuer

4、Related Party Transactions

4.1 Other Receivables with Related Parties

Name	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016
Peking University Science Park Co., Ltd.	453,431,278.00	453,431,278.00	453,431,278.00
Peking University Resource Group Co., Ltd.	4,882,638,126.71	-2,710,936,960.31	3,253,923,167.20
Peking University Science Park Construction Development Co., Ltd	17,023,060.00	17,023,060.00	17,023,060.00

4.2 Guarantee by Related Parties (unit: CNY hundred million Yuan)

Entities Receiving Guarantees	Type of Guarantee	Currency	Term	Guarantee Balance
Peking University Resource Group Co., Ltd.	Warranty guarantee	CNY	2014-2020	172.51
Peking PKU Science Park Construction and Development Co., Ltd.	Warranty guarantee	CNY	2014-2019	5.63
Founder International Leasing Co., Ltd.	Warranty guarantee	CNY	2014-2017	7.61
CNY Total				185.75

Ⅷ、Significant Events

1. Significant Litigation and Arbitration

1.1 Dispute of entrusting money management

In January, 2001, under the Agreement of Asset Entrusting Management and Supplement Agreement of Asset Entrusting Management signed by original Hunan Security LLC Limited Liability Company (later renamed as Taiyang Security and hereinafter referred to as "Taiyang Security") and Aerospace Solid Carrier Rocket Limited Company (hereinafter referred to as "Rocket Company"), Rocket Company entrusted Taiyang Security to manage cash assets of CNY 200million Yuan and the annual earnings were 15%. On September 29, 2007, Rocket Company sent Letter About Returning Entrusting Management Money to Taiyang Security, requiring Taiyang Security to return capital of CNY 0.23 billion Yuan before December 31, 2007. On December 24, 2007, Rocket Company took legal action against Taiyang Security in respect of this entrusting money management dispute by submitting to Hunan Province Superior People's Court and required it to return the principal and interest with respect of its cash assets under management. On March 25, 2008, Hunan Province Superior People's Court issued the (2008) Hunan Superior Court Civil Second Initial Version No 2-1 Civil Ruling Paper, and decided that "since this case relates to the crime of manipulating the transaction price of securities, suspected of being involved by Plaintiff General Manager Chen Jun and Defendant original President Li Xuanmin", this case would be suspended pursuant to the laws.

On March 14, 2012, Hunan Province Superior People's Court issued a written notice that this case had been transferred to Economic Crime Investigation Corp. of Hunan Province Publio Security Department for disposal and therefore the entrusting money management civil case accepted by Hunan Province Superior People's Court had concluded.

In July of 2013, China Aerospace Science & Industry Corporation Assets Management Limited Company (hereinafter referred to as "Aerospace Assets Management Company") took legal action against Rocket Company for the reason that it failed to recover debt within 60 days of agreement validation after signing *Agreement of Debt Transfer* with Rocket Company, and it applied to the Beijing First Intermediate People's Court to add Founder Securities as the first-mentioned defendant in August 2013 and asked for Founder Securities to repay it CNY238,885,700 Yuan and bank loan interest (five-year loan interest rate 5.76% in the corresponding period) in the corresponding period based on principal of CNY0.2 billion Yuan from January 10, 2002. This amounted to CNY124,480,000 Yuan when temporarily calculated up to October 31, 2012. Aerospace Assets Management Company also sought for the second-mentioned defendant Rocket Company to undertake related responsibility of guarantee for above debt.

On March 25, 2014, The First Intermediate People's Court started substantive hearing of this case. After Founder Securities objected to this several times, the First Intermediate People's Court finally sent out the ruling of suspending the trial on July 10,2014. On Aug. 7th, 2015, Beijing High People's Court made a judgment (received on Aug. 14th) after the hearings for the case. Founder Securities lost the lawsuit. On Sept. 2015, Founder Securities appealed to the Supreme Court. On Dec. 2nd, 2015, the Supreme Court held hearings for the case. Up to April 30, 2017, the Supreme Court haven't made final judgment for the case.

1.2 Dispute on commodity house purchase and sales contract between Founder Industry Holdings Co., Ltd ,Beijing PKU Resource Property Management Group. Co.,Ltd. and Beijing Zenith Holdings Co., Ltd.

Founder Industry Holdings Co., Ltd (Industry Holdings) signed commodity house purchase and sales contract with Beijing Zenith Holdings Co., Ltd. (Zenith Holdings).The contract indicated that Industry Holdings would buy houses of Golden Fountain Plaza which was worth 670 million yuan. Industry Holdings paid all funds according to the contract. Then both sides terminated the contract. Zenith Holdings paid 230 million yuan back to Industry Holdings, but Zenith Holdings didn't clear the left 440 million (capital). Therefore Industry Holdings prosecuted Zenith Holdings in Beijing High People's Court and required that Zenith Holdings should pay back capital and interest.The cross-examination for the case has been held on Apr. 14th, 2016. On Nov. 30th, 2016, Beijing High People's Court made the first judgment, which supported all Industry Holdings'requests except penalty and interest accrued by bank loan rate. Zenith Holdings has appealed to Beijing High People's Court on Dec. 15th, 2016. So far the case is still undergoing.

On Dec. 2013,Beijing PKU Resource Property Management Group. Co.,Ltd (Resource Property) signed the commodity house purchase and sales contract with Zenith Holdings. The contract indicated that Resource Property would buy houses of Golden Fountain Plaza which was worth 900 million yuan. Resource Property paid all funds according to the contract but Zenith Holdings didn't perform the contract for completion of the housing or pay back the funds. Therefore, Resource Property prosecuted Zenith Holdings in Beijing High People's Court. On Nov. 30th, 2016, Beijing High People's Court made the first judgment, which supported all Resource Property's requests. Zenith Holdings has appealed to Beijing High People's Court on Dec. 15th, 2016. So far the case is still undergoing.

1.3 Dispute on resolution efficacy of the Board between Zenith Holdings and Founder Securities

On May. 14th, Zenith Holdings, the second largest shareholder of Founder Securities, prosecuted Founder Securities in Beijing Xicheng District People's Court. Zenith Holdings required <<the agenda on President election>> in <<Founder Securities the second Board resolutions of meeting No.16>>, which was issued on Mar. 12th, 2015 (No.2015-038), should be ineffective. Then Founder Securities proposed the objection of jurisdiction. On Jun. 10th, 2015, Beijing Xicheng District People' s Court transferred the case to Hunan Changsha Tianxin District People's Court. On May 23rd, 2016, Hunan Changsha Tianxin District People's Court held a hearing for the case. Up to April 30, 2017, the case is still undergoing.

1.4 Dispute on commodity housing presale contracts between Beijing Wanshunda Real Estate Development Co., Ltd and 6 people including Liu Yuxia

Beijing Wanshunda Real Estate Development Co., Ltd (Wanshunda) is a subsidiary of China High-tech Group Co., Ltd. 6 people including Liu Yuxia (The plaintiff) purchased 34 houses in total including medical facilities, commercial lands developed by Wanshunda. The plaintiff also signed <<Beijing commodity housing presale contracts (Commercial , official not residential)>> (presale contract) The plaintiff prosecuted Wanshunda in Beijing Haidian District People's Court and required a compensation of 143 million yuan for the loss caused by Wanshunda's violation to the presale contract. On Nov. 2016, Beijing Haidian District People's Court held a hearing for this case.Up to April 30, 2017, the case is still undergoing.

1.5 Dispute on patent tort among Founder International Co., Ltd ,PKU Founder Group Corp. Co., Ltd and Wu Jianming

On Jun. 29th, 2016, Wujianming prosecuted Founder International Co., Ltd and PKU Founder Group Corp. Co., Ltd. in Beijing IPR Court. Wujianming required that the two entitles should apologize to him in a written form and publish the written apologize on << China IPR Post>> because the electric official seal system of Founder International Co., Ltd violated his patent.

On Jul. 2016, Founder International Co., Ltd and PKU Founder Group Corp. Co., Ltd have received notice of this case and have been preparing for the lawsuit. Up to April 30, 2017, the case is still undergoing.

1.6 Dispute on patent tort among PKU Founder Commodities Group Co. Ltd., Founder Chemical Co., Ltd and Shantou SOE Co., Ltd

On Jul. 20th, 2016, Founder Commodities Group Co. Ltd. (Founder Commodities) received the statement of claim from Fujian High People's Court. Shantou SOE Co., Ltd (SOE)prosecuted Founder Commodities Group , Founder Chemical Co., Ltd and other two companies. Because SOE assumed that the machinery purchased by Founder Commodities in 2007 violated the SOE's patent. Therefore SOE required a compensation of 100 million yuan for the patent tort.

On Aug. 31st, 2016, Founder Commodities proposed the objection of jurisdiction to the Supreme Court. Up to April 30, 2017, the case is still undergoing.

1.7 Dispute on contracts between Founder Securities and Shandong Dongying Zhongtuo Investment Co., Ltd

On Mar. 3rd, 2016, Dongying Zhongtuo Investment Co., Ltd prosecuted Founder Securitics because Shandong High People's Court made the judgment that the contract between Taiyang Securities and Dongying Zhongtuo Investment Co., Ltd was ineffective. Therefore, Dongying Zhongtuo Investment Co., Ltd required that Founder Securities should pay back the income from the contract of 13,016,711 yuan and pay the legal costs for this case.

Founder Securities applied to the Supreme Court for initiating the retrial procedure of Shangdong High People's Court [(2015) Shandong Final No. 255]case. The Supreme Court has filed the case on Jul. 7th, 2016. Founder Securities has proposed the application for suspension to Changsha Tianxin District People's Court. On Sept. 28th. The Supreme Court rejected Founder Securities' retrial application after hearings. Founder Securities has received court summons from Changsha Tianxin District People's Court. Up to April 30, 2017, the case is still undergoing.

1.8 Dispute on consumer rights between Liu Dongcheng and Kuming Sanshi Road Sales Department of Founder Securities

Liu Dongcheng, client of Kuming Sanshi Road Sales Department of Founder Securities, bought structured fund type B. Then the fall of structured fund type B led to a compulsory close position to Liu Dongcheng's credit account.On Dec. 3rd, 2015 ,Liu Dongcheng prosecuted Kuming Sanshi Road Sales Department of Founder Securities in Kunming Intermediate People's Court and required a compensation of 35.8889 million yuan. On Dec. 31st, 2015, Founder Securities proposed the objection of jurisdiction. Kunming Intermediate People's Court rejected the proposal on Feb. 25th, 2016.

Founder Securities appealed against the arbitration of the objection of jurisdiction. On Dec. 8th, 2016, Yunnan High People's Court rejected the appeal. So far, Founder Securities has received court summons from Kunming Intermediate People's Court. Up to April 30, 2017, the case is still undergoing.

1.9 Dispute on margin contracts between Liu Dongcheng and Kuming Sanshi Road Sales Department of Founder Securities

Liu Dongcheng, client of Kuming Sanshi Road Sales Department of Founder Securities, bought structured fund type B. Then the fall of structured fund type B led to a compulsory close position to Liu Dongcheng's credit account. On Dec. 3rd, 2015, Liu Dongcheng prosecuted Kuming Sanshi Road Sales Department of Founder Securities in Kunming Intermediate People's Court and required a compensation of 18.567 million yuan. On Dec. 31st, 2015, Founder Securities proposed the objection of jurisdiction. The case has been transferred to Changsha Tianxin District People's Court. On Jun. 7th, 2016, Liu Chengdong proposed his new statement of claims for the case and required a compensation of 2,5874,916 yuan. Up to April 30, 2017, the case is still undergoing.

1.10 Undergoing cases of PKU HEALTHCARE

Basic Staus	Amount (CNY '0000)	Advanced debt	Process
Dispute on contracts between Chongqing Fanggang Health Co., Ltd and Hunan Debang Health Co., Ltd	32.52	No	Undergoing
Dispute on Labor	107.43	No	Undergoing

1.11 Dispute on contracts among Founder Yitong Co.,Ltd, Founder Aipu Co., Ltd, Fuzhou Jitong Co., Ltd and Yiding Group Co., Ltd. (3 cases)

Founder Yitong Co.,Ltd, and Founder Aipu Co., Ltd signed supply contracts with Fuzhou Jitong Co., Ltd and Yiding Group Co., Ltd. But Fuzhou Jitong Co., Ltd and Yiding Group Co., Ltd. didn't punctually clear the payment of nearly 100 million yuan. Therefore, on Jun. 2016, Founder Yitong Co.,Ltd, and Founder Aipu Co., Ltd prosecuted Fuzhou Jitong Co., Ltd and Yiding Group Co., Ltd. along with their guarantors ICBC and CCB in Beijing Haidian District People's Court, requiring payment and penalties. The amount would be more than 110 million yuan.

On Jul. 2016, ICBC and CCB proposed the objection of jurisdiction. On Oct. 2016, Beijing Haidian District People's Court rejected the proposal. ICBC and CCB appealed against the arbitration of the objection of jurisdiction. Up to April 30, 2017, the case is still undergoing.

1.12 Dispute on contracts between ABC Liaoning Branch and China Minzu Securities Co., Ltd

On Sept. 2016, ABC Liaoning Branch prosecuted China Minzu Securities Co., Ltd and China Minzu Trust Co., Ltd in Liaoning High People's Court because China Minzu Securities Co., Ltd didn't perform the contract after negotiation. ABC Liaoning Branch required a compensation of 140,717,612 yuan (Capital: 25,727,600 yuan. Interest: 114,990,012 yuan) and legal costs of 150,000 yuan. The hearing of the case has been held on Dec. 7th, 2016. Up to April 30, 2017, the case is still undergoing.

1.13 Dispute on bond trade contract between China Minzu Securities Co., Ltd and Sichuan Shengda Co., Ltd.

China Minzu Securities Co., Ltd. subscribed enterprise bonds (80 million yuan) issued by Sichuan Shengda Co., Ltd. Then China Minzu Securities Co., Ltd. decided to put-back those bonds in 2015, but Sichuan Shengda Co., Ltd couldn't cash the bond capital and the bond interest. Therefore, on Jun. 2016, China Minzu Securities Co., Ltd. prosecuted Sichuan Shengda Co., Ltd in Chengdu Intermediate People's Court, requiring a payment of more than 93 million yuan. The hearing for the case has been held on Aug. 2016. Up to Dec. 20th, 2016, the case is still undergoing.

2. Announcement about <<Prior notice of administrative penalties>> received by Peking University Founder Group Co., Ltd. along with its subsidiaries FOUNDER SECURITIES, Founder Technology Co., Ltd, China High-tech Group Co., Ltd, PKU HEALTHCARE.

On Dec. 19th, 2016, Peking University Founder Group Co.,Ltd (The Group) along with its subsidiaries FOUNDER SECURITIES, Founder Technology Co., Ltd, China High-tech Group Co., Ltd, PKU HEALTHCARE, received <<Prior notice of administrative penalty>> issued by China Securities Regulatory Commission (CSRC). CSRC would carry out administrative penalties to the Group and related entities. The Group have announced the event on Chinamoney .com.cn .

Link:http://www.chinamoney.com.cn/fe/jsp/CN/chinamoney/infoPublish/searchInfoPublishResult.jsp?entyCode=3000000153&entyName=北大方正集团有限公司。

3. Internal guarantee

Up to April 30, 2017, total amount of internal guarantee in Founder Group is CNY 14.796 billion yuan.

IX、Commitment

Up to April 30, 2017, there is no other important commitment.

X、Events after balance sheet date

Up to April 30, 2017, there is no other events after balance sheet date

XI. Notes to major items in financial statements of the holding companies

1. Accounts Receivables

1.1 Ageing analysis

Ageing structure	Dec. 31, 2016			Jan. 1, 2016		
	book balance		provision for bad debts	book balance		provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year (inclusive)	150,917,007.57	39.36	-	249,054,958.70	88.44	-
1-2 years (inclusive)	199,839,985.40	52.12	-	15,265,132.62	5.42	-
2-3 years (inclusive)	32,680,191.36	8.52	-	17,304,441.39	6.14	-
Over 3 years	-	-	-	-	-	-
Total	**383,437,184.33**	**100.00**	**0.00**	**281,624,532.71**	**100.00**	**0.00**

1.2 No entitles of accounts receivables is the shareholder that holds over 5% (inclusive) stocks

1.3 Account receivables from the top five customers

Item	Amount	Ageing	Percentage (%)
Shanghai Futang Trading Development Co,. Ltd	184,223,754.73	1-2years (inclusive)	48.04
Haidian Branch of Beijing PKU Resources Property Management Co,. Ltd	29,411,837.94	2-3years (inclusive)	7.67
General Office of the Communist Party of China Secretary Bureau Print Center	12,155,000.00	Within 1 year (inclusive)	3.17
Bureau No.16	11,996,779.20	Within 1 year (inclusive)	3.13
Tianjin Municipality Password Administration	3,166,192.02	2-3years (inclusive)	0.83
Total	**240,953,563.89**		**62.84**

2.Other Receivables

2.1 Other receivables aging analysis

Ageing	Dec. 31, 2016		Jan. 1, 2016	
	book balance		book balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	47,253,356,978.94	95.24	30,026,441,624.39	92.71
1-2 years (inclusive)	1,673,951,865.67	3.38	1,753,431,278.00	5.41
2-3 years (inclusive)	565,021,282.24	1.14	505,540,527.88	1.56
Over 3 years	120,135,131.77	0.24	100,846,996.78	0.32
Total	**49,612,465,258.62**	**100.00**	**32,386,260,427.05**	**100.00**

2.2 Other receivables from the top five customers

Item	Amount	Ageing	Percentage (%)
Jiangsu Suzhou Steel Group Co., Ltd.	5,468,396,561.36	Within 1 year(inclusive)	11.02
Founder Industry Holdings Co,. Ltd.	3,664,535,285.49	Within 1 year(inclusive)	7.39
PKU Founder Real Estate Group Co,. Ltd.	2,928,895,179.40	Within 1 year(inclusive)	5.9
Huarong Securities Co,. Ltd.	1,697,180,333.35	Within 1 year(inclusive)	3.42
Southwest Synthetic Pharmaceutical Group Co Ltd	1,636,632,705.85	Within 1 year(inclusive)	3.3
Total	**15,395,640,065.45**		**31.03**

Peking University Founder Group Co., Ltd.

April 30 2017

Peking University Founder Group Company Limited

January - September 2017

Review Report

Asia Pacific (Group) CPAs (special general partnership)

Asia Pacific (Group) CPAs (special general partnership)
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Review Report

Asia Pacific CPAs B Yue Zi (2017) No. 0016

To the shareholders of Peking University Founder Group Company Limited

We have reviewed the attached financial statements of Peking University Founder Group Company Limited, which comprise the combined and company balance sheets as at 30 September 2017, the combined and company statements of income, the combined and company statements of cash flows, the combined and company statements of changes in owners' equity and notes to the financial statements for the period from January to September 2017. It is the responsibility of the management of Peking University Founder Group Company Limited to prepare these financial statements. Our responsibility is to issue a review report on these financial statements based on our review.

We conducted our review in accordance with the requirements of Chinese Auditing Standards for Certified Public Accountants No. 2101 – Review of Financial Statements. The Chinese Auditing Standards for Certified Public Accountants require that we plan and conduct the review to obtain limited assurance on whether the financial statements are free from material misstatement. A review is limited largely to making inquiries of related persons of the Company and applying analytical procedures on financial data. A review provides a lower level of assurance than an audit. We have not conducted an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the financial statements have not been prepared in accordance with the requirements of the Accounting System for Business Enterprises and cannot present fairly, in all material respects, the financial condition, the results of operations and cash flow of the reviewed units.

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Asia Pacific (Group) CPAs
(special general partnership)

Chinese Certified Public Accountant

Chinese Certified Public Accountant

Beijing, China

31 October 2017

Combined Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Co., Ltd. September 30, 2017 Unit: (RMB) Yuan

Assets	Row No.	Closing balance	Opening balance
Current assets:	1		
Monetary capital	2	21,077,767,005.63	26,142,926,476.72
Financial assets at fair value through current profit or loss	3	46,143,303,693.52	35,988,100,362.29
Derivative financial assets	4	8,262,154.28	438,948.32
Bill receivables	5	403,724,480.92	489,608,288.45
Dividend receivables	6	-	-
Interest receivables	7	2,084,544,477.95	1,566,615,756.69
Account receivables	8	6,957,341,375.38	7,103,326,565.76
Other receivables	9	67,262,013,151.04	72,630,428,507.89
Advances paid	10	3,889,667,104.20	3,369,429,984.55
Inventories	11	7,465,276,614.89	5,741,346,277.61
Including: Raw materials	12	507,952,456.32	429,671,635.36
Inventory (finished products)	13	6,085,666,488.79	4,613,357,523.99
Non-current assets due within 1 year	14	934,136.64	8,798,768.50
Other current assets	15	16,193,958,279.46	13,570,483,541.50
Including: Assets classified as held for sale	16	-	-
Total current assets	17	**171,486,792,473.91**	**166,611,503,478.28**
Non-current assets:	18		
△Available-for-sale financial assets	19	32,386,610,671.87	33,737,761,149.91
△Held-to-maturity investments	20	1,379,636,998.87	1,496,181,083.77
△Long-term receivables	21	-	-
Long-term equity investments	22	5,780,078,650.37	5,416,851,695.13
△Investment properties	23	15,897,987,840.43	6,742,088,282.82
Fixed assets at original cost	24	16,247,287,074.93	19,451,572,353.81
Less: accumulated depreciation	25	7,178,014,519.15	6,664,706,729.61
Net value of fixed assets	26	**9,069,272,555.78**	**12,786,865,624.20**
Less: Provision for impairment of fixed assets	27	896,789,619.07	896,790,274.96
Net amount of fixed assets	28	**8,172,482,936.71**	**11,890,075,349.24**
Construction in progress	29	2,399,586,082.16	1,750,369,184.71
Project materials	30	60,650,603.65	85,856,383.83
Liquidation of fixed assets	31	8,004,902.40	7,932,126.72
△Productive biological assets	32	-	-
△Oil and gas assets	33	-	-
Intangible assets	34	1,356,178,028.76	1,363,757,355.70
Including: Land use rights	35	736,141,458.26	872,689,698.96
△Development expenditure	36	281,834,455.33	227,874,628.98
△Goodwill	37	6,724,267,760.48	6,903,799,381.83
Long-term deferred expenses(deferred assets)	38	426,557,864.62	363,999,277.00
△Deferred income tax assets	39	186,445,611.68	393,838,671.71
Other non-current assets (other long-term assets)	40	3,592,823,918.70	2,280,712,415.16
Including: special reserve materials	41	-	-
Total non-current assets	42	**78,653,146,326.03**	**72,661,096,986.51**
Total assets	43	**250,139,938,799.94**	**239,272,600,464.79**

Chairman: **CFO:** **GM of Finance Department:**

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Combined Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Co., Ltd. September 30, 2017 Unit: (RMB) Yuan

Liabilities and owners' equity	Row No.	Closing balance	Opening balance
Current liabilities:	44		
Short-term borrowings	45	20,226,717,850.79	18,961,306,724.83
Financial liabilities at fair value through current profit or lo	46	20,593,389,987.25	10,109,468,691.68
Derivative financial liabilities	47	21,436,947.67	10,413,478.19
Bill payables	48	1,299,684,639.20	1,328,601,310.03
Account payables	49	2,458,184,434.48	2,665,119,947.60
Advance received	50	2,708,291,484.50	1,773,108,160.69
Accrued employee benefits	51	921,807,549.24	1,563,842,979.73
Including: Wages payables	52	835,016,918.10	1,446,345,533.67
Including: Welfare payables	53	30,832,765.07	36,742,401.26
Tax and expense payables	54	266,500,862.49	2,044,148,422.92
Including: Tax payables	55	265,934,416.86	2,036,684,079.57
Interest payables	56	1,032,246,761.01	1,547,264,554.73
Dividend payables	57	15,242,473.44	15,242,473.44
Other payables	58	25,108,109,024.02	22,675,451,640.01
Liabilities classified as held for sale	59	-	-
Non-current liabilities due within 1 year	60	3,718,804,787.68	3,934,614,088.51
Other current liabilities	61	28,604,542,470.44	19,689,221,377.51
Total current liabilities	62	**106,974,959,272.21**	**86,317,803,849.87**
Non-current liabilities:	63		
Long-term borrowings	64	10,258,014,726.31	9,091,366,751.89
Bonds payables	65	65,435,269,670.04	79,018,504,046.47
Long-term payables	66	1,445,374,117.34	792,065,914.41
Long-term accrued employee benefits	67	11,284,209.63	11,835,790.60
Special purposes payables	68	2,095,256,802.52	2,568,161,902.36
Estimated liabilities	69	51,218,682.27	293,797,870.07
Deferred income	70	268,818,030.41	299,755,187.78
△Deferred income tax liabilities	71	2,451,000,915.17	2,034,707,916.04
Other non-current liabilities	72	4,587,690,112.00	3,391,959,801.27
Including: Special reserve funds	73	-	-
Total non-current liabilities	74	**86,603,927,265.69**	**97,502,155,180.89**
Total liabilities	75	**193,578,886,537.90**	**183,819,959,030.76**
Owners' equity (or shareholders' equity):	76		
Paid-up capital (share capital)	77	**1,102,528,600.00**	**1,102,528,600.00**
Including: State-owned capital	78	771,770,000.00	771,770,000.00
Collectively-owned capital	79	-	-
Capital owned by legal persons	80	330,758,600.00	330,758,600.00
Including: Capital attributable to state-owned legal p	81	-	-
Capital attributable to collective legal person	82	-	-
Capital attributable to individuals	83	-	-
Capital attributable to foreign investors	84	-	-
Other equity instruments	85	-	-
Capital reserve	86	2,361,898,510.45	2,547,530,523.99
Less: Treasury stocks	87	-	-
Other comprehensive income	88	6,655,054,499.34	5,978,940,095.66
Including: Differences arising from the translation of stat	89	33,151,722.13	62,239,162.09
Surplus reserve	90	391,180,286.72	391,180,286.72
△General risk reserve	91	-	-
Undistributed profit	92	10,255,809,944.45	10,913,412,730.70
Including: Cash dividends	93	-	-
Total equity attributable to owners of the parent	94	**20,766,471,840.96**	**20,933,592,237.07**
*Minority interests	95	35,794,580,421.08	34,519,049,196.96
Total owners' equity	96	**56,561,052,262.04**	**55,452,641,434.03**
# Less: Loss of assets	97		
Total owners' equity (excluding loss of assets)	98	**56,561,052,262.04**	**55,452,641,434.03**
Total liabilities and owners' equity	99	**250,139,938,799.94**	**239,272,600,464.79**

Chairman: **CFO:** **GM of Finance Department:**

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Combined Statement of Income

Corporate accounting statement 02

Prepared by: Peking University Founder Group Co., Ltd. From January to September 2017 Unit: (RMB) Yuan

Item	Row No.	Accumulated amount of current period	Accumulated amount of the corresponding period of last year
I. Total operating income	1	79,997,002,233.11	63,169,056,405.87
Including: Operating income	2	79,997,002,233.11	63,169,056,405.87
Including: Income from principal business	3	79,562,890,305.20	62,749,634,778.55
Income from other businesses	4	434,111,927.91	419,421,627.32
II. Total operating costs	5	83,502,180,306.40	66,453,296,592.93
Including: Operating costs	6	72,451,127,554.43	57,061,571,449.89
Including: Costs from principal business	7	72,166,720,945.63	56,837,386,257.39
Costs from other businesses	8	284,406,608.80	224,185,192.50
Less: Business tax and surcharges	9	227,907,589.34	229,515,974.68
Sales expenses	10	1,402,447,479.23	1,966,941,882.92
General and administrative expenses	11	4,579,672,064.29	2,616,786,964.82
Including: Entertainment expenses	12	89,656,603.77	151,389,518.77
Research and development expenses	13	241,951,932.86	198,198,548.27
Financial expenses	14	4,743,335,266.42	4,552,423,469.24
Including: Interest expenses	15	4,797,671,386.09	4,602,097,676.24
Interest income (shown in positive figures)	16	181,540,197.33	202,118,010.93
Net foreign exchange losses ("-" for net gain)	17	-882,551.86	79,258,516.59
△Impairment losses on assets	18	97,690,352.69	26,056,851.38
Other income		8,678,508.45	-
Add: △Gain on changes in fair value ("-" for loss)	19	2,126,652,062.74	3,286,354,029.38
Income from investment ("-" for loss)	20	2,233,777,206.43	4,178,761,120.89
Including: Income from investment in associates and joint ventures	21	308,810,663.15	-170,321,465.56
III. Operating profit ("-" for loss)	22	863,929,704.33	4,180,874,963.21
Add: Non-operating income	23	130,389,870.08	194,054,385.31
Including: Gain on disposal of of non-current assets	24	7,353,481.95	999,180.07
Gain on non-monetary assets exchange (non-monetary trading income)	25	-	-
Government subsidy (subsidy income)	26	69,947,266.14	117,649,971.04
Gain on debt restructuring	27	-	-
Less: Non-operating expenses	28	154,432,601.32	207,528,994.99
Including: Loss on disposal of non-current assets	29	17,559,153.76	3,933,196.57
Loss on non-monetary assets exchange (non-monetary trading loss)	30	-	-
Loss from debt restructuring	31	-	-
IV. Gross profit ("-" for loss)	32	839,886,973.09	4,167,400,353.53
Less: Income tax expenses	33	516,949,196.82	1,355,448,620.44
Add:* # Unrecognized loss on investments	34		
V. Net profit ("-" for loss)	35	322,937,776.27	2,811,951,733.09
Less: *Profit or loss for minority shareholders	36	980,540,562.52	2,491,384,303.31
VI. Net profit attributable to owners of the parent	37	-657,602,786.25	320,567,429.78
VII. Net other comprehensive income after tax	38	1,185,277,735.39	-1,530,162,131.20
Net other comprehensive income after tax attributable to owners of the p	39	676,114,403.68	-413,944,303.33
(I) Other Comprehensive Income not to be reclassified into profit or loss	40	-	-
1.Remeasurement of net liabilities or assets changes of defined benefit plans	41	-	-
2.Shares of other comprehensive income not to be reclassified into profit or loss of the investee under the equity method	42	-	-
(II) Other comprehensive income to be reclassified into profit or loss	43	676,114,403.68	-413,944,303.33
1.Shares of other comprehensive income to be reclassified into profit or loss of the investee under the equity method	44	116,116,326.09	-
2.Profit or loss arising from changes in fair value of available-for-sale financ	45	58,812,223.14	-428,192,989.16
3.Profit or loss arising from held-to-maturity investments in reclassified into	46	-	-
4.Effective portion of profit or loss from cash flow hedges	47	-	-
5.Differences arising from the translation of financial statements denominate	48	-29,087,439.96	14,241,838.02
6.Others	49	530,273,294.41	6,847.81
Net other comprehensive income after tax attributable to minority shar	50	509,163,331.71	-1,116,217,827.87
VIII.Total comprehensive income	51	1,508,215,511.66	1,281,789,601.89
Total comprehensive income attributable to owners of the parent	52	18,511,617.43	-93,376,873.55
Total comprehensive income attributable to minority shareholders	53	1,489,703,894.23	1,375,166,475.44
IX.Earnings per share:	54	-	0.00
(I) Basic earnings per share	55	-	0.00
(II) Diluted earnings per share	56	-	0.00

Chairman: CFO: GM of Finance Department:

Combined Statement of Cash Flows

Corporate accounting statement 03

Prepared by: Peking University Founder Group Co., Ltd. From January to September 2017 Unit: (RMB) Yuan

Items	Row No.	Amount for the current period	Amount for the corresponding period of last year	Supplemental information	Row No.	Amount for the current period
I. Cash flows from operating activities:	1			**1. Reconciliation of net profit to cash flows from operating activities:**	41	
Cash received from the sale of goods and rendering of services	2	89,966,080,482.11	63,774,555,712.73	Net profit	42	322,937,776.27
Refunds of taxes received	3	144,003,466.57	109,763,220.51	Less:*unrecognized losses on investments	43	-
Other cash receipts relating to operating activities	4	2,478,289,144.58	1,510,594,958.78	Add: Provision for asset impairment	44	97,690,352.69
Subtotal of cash inflows from operating activities	5	92,588,373,093.26	65,394,913,892.02	Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	45	898,016,700.48
Cash paid for purchase of goods and services received	6	81,783,204,376.26	56,011,958,209.40	Amortization of intangible assets	46	100,296,604.66
Cash paid to and for employees	7	4,560,879,129.97	4,779,578,943.52	Amortization of long-term deferred expenses	47	42,470,294.14
Taxes paid	8	2,036,735,764.55	1,761,460,024.26	Losses on disposal of fixed assets, intangible assets and other long-term assets ("-"for gains)	48	10,280,250.16
Other cash payments relating to operating activities	9	3,306,355,980.60	1,779,283,092.62	Losses on scrapping of fixed assets ("-" for gains)	49	-74,578.35
Subtotal of cash outflows from operating activities	10	91,687,175,251.38	64,332,300,269.80	ΔLosses on changes in fair value ("-" for gains)	50	-2,126,652,062.74
Net cash flows from operating activities	11	901,197,841.88	1,062,613,622.22	Financial expenses ("-" for gains)	51	4,797,671,380.09
II. Cash flows from investing activities:	12			Losses on investment ("-" for gains)	52	-2,233,777,206.43
Cash received from disposal of the investment	13	26,505,632,951.47	7,754,943,490.00	Decrease in deferred income tax assets ("-" for increases)	53	207,393,060.03
Cash received from returns on investments	14	582,042,402.70	4,349,082,586.46	Increase in deferred income tax liabilities ("-" for decreases)	54	416,292,999.13
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	15	5,836,165.40	7,083,852.11	Decrease in inventories ("-" for increases)	55	-1,723,930,337.28
Net cash received from disposal of subsidiaries and other business units	16	7,146,276,600.00	-	Decrease in operating receivables ("-" for increases)	56	3,239,436,226.70
Other cash receipts relating to investing activities	17	5,344,017,732.67	4,379,516,421.59	Increase in operating payables ("-" for decreases)	57	-3,146,855,623.69
Subtotal of cash inflows from investing activities	18	39,583,805,852.24	16,490,626,350.15	Others	58	-
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	19	1,025,054,027.55	1,861,369,042.62	**Net cash flows from operating activities**	59	901,197,841.88
Cash paid for investments	20	29,272,968,441.74	23,498,516,770.63		60	
Net cash paid for acquisition of subsidiaries and other business units	21	-	-	**2. Material investing and financing activities that do not involve cash receipts and payments:**	61	
Other cash payments relating to investing activities	22	11,074,025,490.60	15,357,464,821.76	Conversion of debts into capital	62	
Subtotal of cash outflows from investing activities	23	41,372,047,959.89	40,717,350,635.01	Convertible corporate bonds to be expired within one year	63	
Net cash flows from investing activities	24	-1,788,242,107.65	-24,226,724,284.86	Fixed assets under finance lease	64	
III. Cash flows from financing activities:	25				65	
Cash received from capital contributions	26	1,189,901.18	147,298,927.15	**3. Net changes in cash and cash equivalents:**	66	
Including: Cash received from capital contributions by minority shareholders of subsidiaries	27	1,189,901.18	147,298,927.16	**Cash balance at the end of the period**	67	21,077,767,005.63
Cash received from borrowings	28	52,048,554,214.51	58,939,111,740.93	**Less: Cash balance at the beginning of the period**	68	26,142,926,476.72
Other cash receipts relating to financing activities	29	7,835,031,805.96	13,284,142,022.93	Add: Balance of cash equivalents at the end of the period	69	-
Subtotal of cash inflows from financing activities	30	59,884,775,921.65	72,370,552,691.01	Less: Balance of cash equivalents at the beginning of the period	70	-
Cash paid upon repayments of borrowings	31	59,071,583,072.32	45,961,991,486.14	Less: Amount excluding non-cash equivalents such as warranties	71	-
Cash paid for distribution of dividends, profits or interest payments	32	4,925,758,015.61	4,960,221,874.31	**Net increase in cash and cash equivalents**	72	-5,065,159,471.09
Including: dividends or profits paid to minority shareholders by subsidiaries	33	-	-			
Other cash payments relating to financing activities	34	-	-			
Subtotal of cash outflows from financing activities	35	63,997,341,087.93	50,922,213,360.45			
Net cash flow from financing activities	36	-4,112,565,166.28	21,448,339,330.56			
IV. Effect of exchange rate changes on cash	37	-65,550,039.04	16,451,019.97			
V. Net increase in cash and cash equivalents	38	-5,065,159,471.09	-1,699,320,312.11			
Add: Balance of cash and cash equivalents at the beginning of the period	39	26,142,926,476.72	29,454,911,529.68			
VI. Balance of cash and cash equivalents at the end of the period	40	21,077,767,005.63	27,755,591,217.57			

Chairman: CFO: GM of Finance Department:

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Combined Statement of Changes in Owners' Equity

Prepared by: Peking University Founder Group Co., Ltd.

From January to September 2017

Corporate accounting statement 04
Unit: (RMB) Yuan

Items	Row No.	Current period										
		Equity attributable to owners of the parent									Minority interests	Total owners' equity
		Paid-up capital (or share capital)	Other equity instruments			Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profit		
			Premium	Perpetual	Others							
I. Balance at the end of last year	1	1,102,528,600.00				2,547,530,523.99	5,978,940,095.66	391,180,286.72	-	10,913,412,730.70	34,519,049,196.96	55,452,641,434.03
Add: Changes in accounting policies	2											-
Prior period errors adjustments	3											-
Others						-				-	-	-
II. Balance at the beginning of this year	4	1,102,528,600.00	-	-	-	2,547,530,523.99	5,978,940,095.66	391,180,286.72	-	10,913,412,730.70	34,519,049,196.96	55,452,641,434.03
III. Increase (decrease) during the current period ("-" for decrease)	5	-	-	-	-	-185,632,013.54	676,114,403.68	-	-	-657,602,786.25	1,275,531,224.12	1,108,410,828.01
(I) Net profit for the current period	6									-657,602,786.25	980,540,562.52	322,937,776.27
(II) Other Comprehensive Income	7	-	-	-	-	-185,632,013.54	676,114,403.68	-	-	-	509,163,331.71	999,645,721.85
1. △Net change in fair value of available-for-sale financial assets	8						58,812,223.14				367,272,908.14	426,085,191.28
2. Effects of changes in other owners' equity of the investee under the equity method	9					-	116,116,326.09				-	116,116,326.09
3. Effects on income tax related to items credited to owners' equity	10											-
4. Others	11					-185,632,013.54	501,185,854.45			-	141,890,363.57	457,444,204.48
Subtotal of (I) and (II) above	12	-	-	-	-	-185,632,013.54	676,114,403.68	-	-	-657,602,786.25	1,489,703,894.23	1,322,583,498.12
(III) Capital contributions and reductions from owners	13	-	-	-	-	-	-	-	-	-	-214,172,670.11	-214,172,670.11
1. Capital contributions from owners during the current period	14			-							-	-
2.Capital contributions from owners of other equity instrument(newly added item)												-
3. Amount of share-based payment credited to owners' equity	15											-
4. Others	16					-					-214,172,670.11	-214,172,670.11
(IV) Profit distribution for the current period	17	-	-	-	-	-	-	-	-	-	-	-
1. Withdrawal of surplus reserve	18											-
Including: Statutory reserve	19											-
Discretionary reserve	20											-
2. Withdrawal of general risk reserve (for reporting financial enterprises)	21											-
3. Distribution to owners (or shareholders)	22											-
Including: Profits (cash dividends or dividends of state-owned shares) payable by state-owned enterprises	23										-	-
Ordinary share dividends	24										-	-
Ordinary share dividends transferred to share capital (capital)	25											-
4. Others	26										-	-
(V) Transfer within owners' equity	27	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserve to capital (or share capital)	28											-
2. Transfer from surplus reserve to capital (or share capital)	29											-
3. Transfer of surplus reserve to cover losses	30											-
4. Others	31											-
IV. Balance at the end of the current period	32	1,102,528,600.00	-	-	-	2,361,898,510.45	6,655,054,499.34	391,180,286.72	-	10,255,809,944.45	35,794,580,421.08	56,561,052,262.04

Chairman: CFO: GM of Finance Department:

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Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Co., Ltd. September 30, 2017 Unit: (RMB) Yuan

Assets	Row No.	Closing balance	Opening balance
Current assets:	1		
Monetary capital	2	2,713,299,505.74	5,300,955,256.79
Financial assets at fair value through current profit or loss	3	-	
Derivative financial assets	4	-	
Bill receivables	5	-	
Dividend receivables	6	-	
Interest receivables	7	-	
Account receivables	8	374,916,679.15	383,437,184.33
Other receivables	9	48,378,469,560.23	49,612,465,258.62
Advances paid	10	5,288,752.83	5,513,109.26
Inventories	11	-	
Including: Raw materials	12	-	
Inventory (finished products)	13	-	
Non-current assets due within 1 year	14	-	
Other current assets	15	11,634,719.50	4,959,389.78
Including: Assets classified as held for sale	16		
Total current assets	17	**51,483,609,217.45**	**55,307,330,198.78**
Non-current assets:	18		
△Available-for-sale financial assets	19	614,339,976.61	723,448,638.90
△Held-to-maturity investments	20		
△Long-term receivables	21		
Long-term equity investments	22	26,615,260,663.39	26,433,483,845.20
△Investment properties	23	1,602,467,850.00	1,395,533,940.00
Fixed assets at original cost	24	92,528,722.02	117,220,526.47
Less: Accumulated depreciation	25	67,029,609.68	83,684,324.95
Net value of fixed assets	26	**25,499,112.34**	**33,536,201.52**
Less: Provision for impairment of fixed assets	27		
Net amount of fixed assets	28	**25,499,112.34**	**33,536,201.52**
Construction in progress	29		
Project materials	30		
Liquidation of fixed assets	31	6,046,084.13	6,046,084.13
△Productive biological assets	32		
△Oil and gas assets	33		
Intangible assets	34	49,693,320.16	55,355,039.89
Including: Land use rights	35	3,425,942.00	3,529,064.00
△Development expenditure	36		
△Goodwill	37		
Long-term deferred expenses (deferred assets)	38		
△Deferred income tax assets	39		
Other non-current assets (other long-term assets)	40		
Including: Special reserve materials	41		
Total non-current assets	42	**28,913,307,006.63**	**28,647,403,749.64**
Total assets	43	**80,396,916,224.08**	**83,954,733,948.42**

Chairman: CFO: GM of Finance Department:

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Balance Sheet

Corporate accounting statement 01

Prepared by: Peking University Founder Group Co., Ltd. September 30, 2017 Unit: (RMB) Yuan

Liabilities and owners' equity	Row No.	Closing balance	Opening balance
Current liabilities:	44		
Short-term borrowings	45	14,819,786,358.47	14,144,680,000.07
Financial liabilities at fair value through current profit or loss	46		
Derivative financial liabilities	47		
Bill payables	48		100,000,000.00
Account payables	49	288,599,865.39	297,122,190.80
Advances received	50	87,847,767.70	85,976,779.53
Accrued employee benefits	51	58,912,544.24	60,538,856.14
Including: wage payables	52	37,926,920.45	37,926,920.45
Including: welfare payables	53	20,960,976.15	22,587,288.05
Tax and expense payables	54	1,137,460.01	3,941,573.95
Including: Tax payables	55	1,115,642.54	3,941,573.90
Interest payables	56		
Dividend payables	57		
Other payables	58	16,766,554,523.31	13,607,252,228.62
Liabilities classified as held for sale	59		
Non-current liabilities due within 1 year	60	3,427,997,900.00	2,536,000,000.00
Other current liabilities	61	85,160,560.69	38,136,824.17
Total current liabilities	62	**35,535,996,979.81**	**30,873,648,453.28**
Non-current liabilities:	63		
Long-term borrowings	64	6,293,096,482.87	6,131,094,382.87
Bond payables	65	26,906,081,673.26	33,196,075,617.14
Long-term payables	66		
Long-term accrued employee benefits	67		
Special payables	68	50,276,451.44	50,276,451.44
Estimated liabilities	69		
Deferred income	70		
△Deferred income tax liabilities	71	385,190,864.48	412,468,030.06
Other non-current liabilities	72		
Including: Special reserve funds	73		
Total non-current liabilities	74	**33,634,645,472.05**	**39,789,914,481.51**
Total liabilities	75	**69,170,642,451.86**	**70,663,562,934.79**
Owners' equity (or shareholders' equity):	76		
Paid-up capital (share capital)	77	1,102,528,600.00	1,102,528,600.00
Including: State-owned capital	78	771,770,000.00	771,770,000.00
Collectively-owned capital	79		
Capital owned by legal persons	80	330,758,600.00	330,758,600.00
Including: Capital attributable to state-owned legal persons	81		
Capital attributable to collective legal person	82		
Capital attributable to individuals	83		
Capital attributable to foreign investors	84		
Other equity instruments	85		
Capital reserve	86	87,112,555.89	87,112,555.89
Less: Treasury stocks	87		
Other comprehensive income	88	5,109,059,358.19	5,074,774,528.81
Including: Differences arising from the translation of statements denominated in foreign currencies	89		
Surplus reserve	90	325,339,139.47	325,339,139.47
△General risk reserve	91		
Undistributed profits	92	4,602,234,118.67	6,701,416,189.46
Including: Cash dividends	93		
Total equity attributable to owners of the parent	94	**11,226,273,772.22**	**13,291,171,013.63**
*Minority interests	95		
Total owners' equity	96	**11,226,273,772.22**	**13,291,171,013.63**
# Less: Loss of assets	97		
Total owners 'equity (excluding loss of assets)	98	**11,226,273,772.22**	**13,291,171,013.63**
Total liabilities and owners 'equity	99	**80,396,916,224.08**	**83,954,733,948.42**

Chairman: **CFO:** **GM of Finance Department:**

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Statement of Income

Corporate accounting statement 02

Prepared by: Peking University Founder Group Co., Ltd. From January to September 2017 Unit: (RMB) Yuan

Item	Row No.	Accumulated amount of current period	Accumulated amount of the corresponding period of last year
I. Total operating income	1	**37,550,432.98**	**2,749,782,232.11**
Including: Operating income	2	37,550,432.98	2,749,782,232.11
Including: Income from principal business	3	529,741.43	2,716,063,909.32
Income from other businesses	4	37,020,691.55	33,718,322.79
II. Total operating costs	5	**2,844,255,366.00**	**5,196,277,295.38**
Including: Operating costs	6	4,366,054.70	2,728,060,724.64
Including: Costs from principal business	7	528,373.91	2,724,223,043.85
Costs from other businesses	8	3,837,680.79	3,837,680.79
Less: Business tax and surcharges	9	6,480,459.55	903,051.24
Sales expenses	10	166,186.53	723,743.54
General and administrative expenses	11	231,428,168.39	181,828,161.04
Including: Entertainment expenses	12	199,895.20	549,906.80
Research and development expenses	13	-	-
Financial expenses	14	2,601,814,496.83	2,284,761,614.92
Including: Interest expenses	15	2,617,176,729.13	2,342,240,378.60
Interest income (shown in positive figures)	16	82,829,669.81	74,648,536.69
Net foreign exchange losses ("-" for net gain)	17	-	-
ΔImpairment losses on assets	18	-	-
Other income			-
Add: ΔGain on changes in fair value ("-" for loss)	19	206,933,910.00	-
Income from investment ("-" for loss)	20	538,241,978.37	286,208,716.65
Including: Income from investment in associates and joint ventures	21	532,701,866.87	34,495,597.91
III. Operating profit ("-" for loss)	22	**-2,061,529,044.65**	**-2,160,286,346.62**
Add: Non-operating income	23	5,049,460.22	4,096,334.00
Including: Gain on disposal of non-current assets	24	630.00	5,896.92
Gain on non-monetary assets exchange (non-monetary trading income)	25	-	-
Government subsidy (subsidy income)	26	3,067,269.00	1,758,724.00
Gain on debt restructuring	27	-	-
Less: Non-operating expenses	28	42,702,486.36	140,019,599.30
Including: Loss on disposal of non-current assets	29	2,931,402.92	191,411.58
Loss on non-monetary assets exchange (non-monetary trading loss)	30	-	-
Loss from debt restructuring	31	-	-
IV. Gross profit ("-" for loss)	32	**-2,099,182,070.79**	**-2,296,209,611.92**
Less: Income tax expenses	33	-	1,262,121.13
Add: * # Unrecognized loss on investments	34		
V. Net profit ("-" for loss)	35	**-2,099,182,070.79**	**-2,297,471,733.05**
Less:*Profit or loss for minority shareholders	36		-
VI. Net profit attributable to owners of the parent	37	**-2,099,182,070.79**	**-2,297,471,733.05**
VII.Net other comprehensive income after tax	38	**34,284,829.38**	**-11,572,326.91**
Net other comprehensive income after tax attributable to owners of the parent	39	34,284,829.38	-11,572,326.91
(I) Other Comprehensive Income not to be reclassified into profit or loss	40	-	-
1.Remeasurement of net liabilities or assets changes of defined benefit plans	41	-	-
2.Shares of other comprehensive income not to be reclassified into profit or loss of the investee under the equity method	42	-	-
(II) Other comprehensive income to be reclassified into profit or loss	43	34,284,829.38	-11,572,326.91
1.Shares of other comprehensive income to be reclassified into profit or loss of the investee under the equity method	44	116,116,326.09	-
2.Profit or loss arising from changes in fair value of available-for-sale financial assets	45	-81,831,496.71	-11,572,326.91
3.Profit or loss arising from held-to-maturity investments in reclassified into available-for-sale financial assets	46	-	-
4.Effective portion of profit or loss from cash flow hedges	47	-	-
5.Differences arising from the translation of financial statements denominated in foreign currencies	48	-	-
6.Others	49	-	-
Net other comprehensive income after tax attributable to minority shareholders	50	-	-
VIII.Total comprehensive income	51	**-2,064,897,241.41**	**-2,309,044,059.96**
Total comprehensive income attributable to owners of the parent	52	-2,064,897,241.41	-2,309,044,059.96
Total comprehensive income attributable to minority shareholders	53	-	-
IX.Earnings per share:	54		
(I) Basic earnings per share	55		
(II) Diluted earnings per share	56		

Chairman: CFO: GM of Finance Department:

Statement of Cash Flows

Prepared by: Peking University Founder Group Co., Ltd. From January to September 2017 Corporate accounting statement 03

Unit: (RMB) Yuan

Items	Row No.	Amount for the current period	Amount for the corresponding preiod of last year	Supplemental information	Row No.	Amount for the current period
I. Cash flows from operating activities:	1			**1. Reconciliation of net profit to cash flows from operating activities:**	41	
Cash received from the sale of goods and rendering of services	2	38,435,992.67	3,357,916,794.34	Net profit	42	-2,099,182,070.79
Refunds of taxes received	3	-	-	Less: * unrecognized losses on investments	43	-
Other cash receipts relating to operating activities	4	108,965,856.36	266,310,465.62	Add: Provision for asset impairment	44	-
Subtotal of cash inflows from operating activities	5	147,401,849.03	3,624,227,259.96	Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	45	5,931,893.45
Cash paid for purchase of goods and services received	6	19,937,168.68	2,939,245,662.83	Amortization of intangible assets	46	5,661,719.73
Cash paid to and for employees	7	125,771,965.21	92,303,445.53	Amortization of long-term deferred expenses	47	-
Taxes paid	8	9,284,573.49	4,567,933.56	Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	48	2,930,772.92
Other cash payments relating to operating activities	9	69,661,189.49	359,718,562.68	Losses on scrapping of fixed assets ("-" for gains)	49	-
Subtotal of cash outflows from operating activities	10	224,654,896.87	3,395,835,604.60	ΔLosses on changes in fair value ("-" for gains)	50	-206,933,910.00
Net cash flows from operating activities	11	-77,253,047.84	228,391,655.36	Financial expenses ("-" for gains)	51	2,601,814,496.83
II. Cash flows from investing activities:	12			Losses on investment ("-" for gains)	52	-538,241,978.37
Cash received from disposal of the investment	13	-	3,426,918,443.64	Decrease in deferred income tax assets ("-" for increases)	53	-
Cash received from returns on investments	14	27,501,501.50	230,564,702.47	Increase in deferred income tax liabilities ("-" for decreases)	54	-27,277,165.58
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	15	1,369,630.00	527,030.00	Decrease in inventories ("-" for increases)	55	-
Net cash received from disposal of subsidiaries and other business units	16	-	-	Decrease in operating receivables ("-" for increases)	56	189,124,957.05
Other cash receipts relating to investing activities	17	4,344,255,579.55	-	Increase in operating payables ("-" for decreases)	57	-11,081,763.08
Subtotal of cash inflows from investing activities	18	4,373,126,711.05	3,658,010,176.11	Others	58	-
Cash paid for purchase of fixed assets, intangible assets and other long-term	19	1,157,841.50	907,491.34	Net cash flows from operating activities	59	-77,253,047.84
Cash paid for investments	20	125,000,000.00	3,086,452.00		60	-
Net cash paid for acquisition of subsidiaries and other business units	21	-	-	**2. Material investing and financing activities that do not involve cash receipts and payments:**	61	-
Other cash payments relating to investing activities	22	2,571,145,358.33	21,151,606,384.52	Conversion of debts into capital	62	-
Subtotal of cash outflows from investing activities	23	2,697,303,199.83	21,155,600,327.86	Convertible corporate bonds to be expired within one year	63	-
Net cash flows from investing activities	24	1,675,823,511.22	-17,497,590,151.75	Fixed assets under finance lease	64	-
III. Cash flows from financing activities:	25				65	-
Cash received from capital contributions	26	-	-	**3. Net changes in cash and cash equivalents:**	66	-
Including: Cash received from capital contributions by minority shareholders of subsidiaries	27	-	-	Cash balance at the end of the period	67	2,713,299,505.74
Cash received from borrowings	28	22,682,907,900.00	44,998,616,900.00	Less: Cash balance at the beginning of the period	68	5,300,955,256.79
Other cash receipts relating to financing activities	29	-	-	Add: Balance of cash equivalents at the end of the period	69	-
Subtotal of cash inflows from financing activities	30	22,682,907,900.00	44,998,616,900.00	Less: Balance of cash equivalents at the beginning of the period	70	-
Cash paid upon repayments of borrowings	31	24,184,493,190.79	22,261,005,542.71	Less: Amount excluding non-cash equivalents such as warranties	71	-
Cash paid for distribution of dividends, profits or interest payments	32	2,684,640,923.64	1,857,790,682.42	Net increase in cash and cash equivalents	72	-2,587,655,751.05
Including: Dividends or profits paid to minority shareholders by	33	-	-			
Other cash payments relating to financing activities	34	-				
Subtotal of cash outflows from financing activities	35	26,869,134,114.43	24,118,796,225.13			
Net cash flow from financing activities	36	-4,186,226,214.43	20,879,820,674.87			
IV. Effect of exchange rate changes on cash	37	-	-			
V. Net increase in cash and cash equivalents	38	-2,587,655,751.05	3,610,622,178.48			
Add: Balance of cash and cash equivalents at the beginning of the period	39	5,300,955,256.79	4,131,079,551.25			
VI. Balance of cash and cash equivalents at the end of the period	40	2,713,299,505.74	7,741,701,729.73			

Chairman: CFO: GM of Finance Department:

Statement of Changes in Owners' Equity

Prepared by: Peking University Founder Group Co., Ltd.

From January to September 2017

Corporate accounting statement 04
Unit: (RMB) Yuan

Items	Row No.	Current period									
		Equity attributable to owners of the parent									Total owners' equity
		Paid-up capital (or share capital)	Other equity instruments			Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profit	
I. Balance at the end of last year	1	1,102,528,600.00				87,112,555.89	5,074,774,528.81	325,339,139.47	-	6,701,416,189.46	13,291,171,013.63
Add: Changes in accounting policies	2										-
Prior period errors adjustments	3										-
Others										-	-
II. Balance at the beginning of this year	4	1,102,528,600.00	-	-	-	87,112,555.89	5,074,774,528.81	325,339,139.47	-	6,701,416,189.46	13,291,171,013.63
III. Increase (decrease) during the current period ("-" for decrease)	5	-	-	-	-	-	34,284,829.38	-	-	-2,099,182,070.79	-2,064,897,241.41
(I) Net profit for the current period	6									-2,099,182,070.79	-2,099,182,070.79
(II) Other comprehensive income	7	-	-	-	-	-	34,284,829.38	-	-	-	34,284,829.38
1. ΔNet change in fair value of available-for-sale financial assets	8						-81,831,496.71				-81,831,496.71
2. Effects of changes in other owners' equity of the investee under the equity method	9						116,116,326.09				116,116,326.09
3. Effects on income tax related to items credited to owners' equity	10										-
4. Others	11						-			-	-
Subtotal of (I) and (II) above	12	-	-	-	-	-	34,284,829.38	-	-	-2,099,182,070.79	-2,064,897,241.41
(III) Capital contributions and reductions from owners	13	-	-	-	-	-	-	-	-	-	-
1. Capital contributions from owners during the current period	14			-							-
2. Capital contributions from owners of other equity instrument(newly added item)											-
3. Amount of share-based payment credited to owners' equity	15										-
4. Others	16										-
(IV) Profit distribution for the current period	17	-	-	-	-	-	-	-	-	-	-
1. Withdrawal of surplus reserve	18										-
Including: Statutory reserve	19										-
Discretionary reserve	20										-
2. Withdrawal of general risk reserve (for reporting financial enterprises)	21										-
3. Distribution to owners (or shareholders)	22										-
Including: Profits (cash dividends or dividends of state-owned shares) payable by state-owned enterprises	23										-
Ordinary share dividends	24										-
Ordinary share dividends transferred to share capital (capital)	25										-
4. Others	26										-
(V) Transfer within owners' equity	27	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserve to capital (or share capital)	28										-
2. Transfer from surplus reserve to capital (or share capital)	29										-
3. Transfer of surplus reserve to cover losses	30										-
4. Others	31										-
IV. Balance at the end of the current period	32	1,102,528,600.00	-	-	-	87,112,555.89	5,109,059,358.19	325,339,139.47	-	4,602,234,118.67	11,226,273,772.22

Chairman: CFO: GM of Finance Department:

Notes to the Financial Statements from January to September 2017

I. BASIC INFORMATION

1. Registered address of the Company

   Peking University Founder Group Company Limited was registered with Beijing Administration for Industry and Commerce on 12 December 1992 with Registration No. of 91110108101974963M. As at 31 October2017, the registered capital of the Company was RMB1.1025286 billion.

   Type of the Company: other limited liability company

   Registered address of the Company: No. 298, Chengfu Road, Haidian District, Beijing

   Legal representative of the Company: Sheng Yu Hai

2. Scope of operation

   Scope of operation of the Company: manufacturing of Founder electronic publishing system, Founder-SUPPER Chinese card, computer software and hardware and related equipment, communication equipment, instrumentation, office automation equipment; technology development, technology transfer, technical consultancy, technical services, technology promotion; investment management; financial consultancy (the Company shall not commence any business which requires specific approval, including auditing, capital verification, book records checking, assessment, accounting consultancy, book keeping, and shall not provide any written information, including corresponding audit report, capital verification report, book records checking report, assessment report); sales of electronic products, development of self-produced products, computers, software and supplementary equipment, instrumentations, machinery and equipment, non-metallic ore, metallic ore, gold products, metal materials, construction materials, chemical products (excluding dangerous chemicals and category 1 chemicals used for narcotic drugs production); import/export of commodities and technology and acting as import/export agency; loading and unloading service; warehousing service; packaging service; real estate development; property management. (The enterprise can choose the business to be engaged in and carry out such business activities pursuant to laws; with regard to the items legally subject to approval, the Company shall carry out such business activities within approved scope upon the approval of the relevant authorities; no business activity which is prohibited by the industrial policies of the municipality and restricted by the authorities shall be carried out.)

3. Approval for issue of financial statements

   The financial statements and notes to the financial statements were approved by the Board of the Company on 31 October2017.

II. Scope of combined financial statements

The combined financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises No. 33 - Combined Financial Statements. The scope of consolidation of the combined financial statements is determined on the basis of control.

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

The term "control" represents that the investor has power over the investee and is entitled to variable returns from its involvement in the investee's related activities, and the ability to use its power over the investee to affect the amount of such returns.

Entities consolidated in the combined financial statements in the period include:

Name of company	**Registered capital (RMB'0,000)**	**Percentage of shareholding (%)**	**Percentage of voting rights (%)**
北京方正实业开发公司 (Peking Founder Industrial Development Co., Ltd.*)	1,000.00	100.00	100.00
方正产业控股有限公司 (Founder Industry Holdings Co., Ltd.*)	120,000.00	94.17	94.17
方正证券股份有限公司 (Founder Securities Co., Ltd.*)	823,210.14	27.75	29.20
北大医疗产业集团有限公司 (PKU Healthcare Industry Group Co., Ltd.*)	250,000.00	85.60	85.60
北大方正投资有限公司 (PKU Founder Investment Company Limited*)	15,000.00	80.00	100.00
深圳方正微电子有限公司 (Shenzhen Founder Microelectronics Co., Ltd.*)	43,583.02	63.69	63.69
北大方正培训中心 (PKU Founder Training Center*)	500.00	100.00	100.00
北大方正集团财务有限公司 (PKU Founder Group Finance Co., Ltd.*)	500,000.00	50.00	100.00
方正资本控股股份有限公司 (Founder Capital Holdings Co., Ltd.*)	20,000.00	70.00	100.00
北大方正信息产业集团有限公司 (Peking University Founder Information Industry Group Co., Ltd.*)	100,000.00	100.00	100.00
中国高科集团股份有限公司 (China Hi-Tech Group Co., Ltd.*)	58,665.60	20.03	20.03
北大方正人寿保险有限公司 (PKU Founder Life Insurance Co., Ltd.*)	193,000.00	51.00	51.00
Founder Group (Hong Kong) Limited	18,294.06	100.00	100.00

** For identification purpose only*

1. Subsidiaries that are operating entities with control through equity investment which are newly included in the scope of consolidation in this period.

   Nil

2. Subsidiaries, special entities and operating entities who lose control through entrusted or leased operation which cease to be included in the scope of consolidation in this period.

   Nil

III. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Basis of preparation of financial statements

   The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises - Basic Standards promulgated by the Ministry of Finance and specific accounting standards and their application guidelines, interpretations and other relevant requirements (collectively referred to as the "ASBEs").

   The Company's financial statements have been prepared on an accrual basis. Except for certain financial instruments and investment properties, the financial statements are prepared under the historical cost convention. In the event of asset impairment, an impairment provision is made accordingly in accordance with the relevant requirements.

2. Going concern

   The financial statements have been prepared on a going concern basis. No events or circumstances have comprised a material uncertainty about the Company's ability to go as a going concern within 12 months since the end of the reporting period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY

1. Statement on complying with the Accounting Standards for Business Enterprises

   The financial statements are in compliance with the requirements of the ASBEs, which truly and fully reflect the combined and the Company's financial position as at 30 September2017 and relevant information including the combined and the Company's operating results and the combined and the Company's cash flows from January to September 2017.

2. Accounting period

   The accounting year is from 1 January to 31 December in western calendar each year. The accounting period for the financial information as set out in the financial statements is from 1 January 2017 to 30 September 2017.

3. Operating cycle

   Ordinary operating cycle represents the period from acquisition of assets for processing by the Company until their realization in cash or cash equivalents. The operating cycle of the Company lasts for 12 months, which also acts as an indicator for classification of the liquidity of assets and liabilities.

4. Reporting currency

   The reporting currency of the Company is RMB.

5. Accounting treatments for a business combination involving enterprises under and not under common control

(1) Standards of judgement for package transaction

If the terms, conditions and economic effects of transactions for the purpose of realizing business combination in phases fall within one or more of the following circumstances, the multiple transactions are regarded as a package transaction for accounting treatment:

①These transactions are entered into at the same time or after considering their impacts on each other;

②These transactions can reach a complete business results only as a whole;

③The occurrence of a transaction depends on at least the occurrence of another one transaction;

④An individual transaction is not deemed as economic, but is deemed as economic when considered with other transactions.

(2) Business combinations involving enterprises under common control

For business combinations involving enterprises under common control, the assets and liabilities of the merged party that are obtained by the merging party in a business combination shall be measured at their original carrying amounts at the date of combination as recorded by the merged party, except for the adjustments made according to different accounting policies. The difference between the carrying amount of the consideration paid for the combination and the carrying amount of the net assets obtained in the combination shall be adjusted to the capital reserve. If the capital reserve is not sufficient to cover the difference, any excess shall be charged to the retained earnings.

The expenses directly attributable to the business combination shall be recognized in the profit or loss for the current period when incurred.

(3) Business combinations involving enterprises not under common control

For business combinations involving enterprises not under common control, the cost of combination is measured at the aggregate of the fair values of the assets given, liabilities incurred or assumed and equity securities issued by the Company in exchange for the control over the acquiree on the acquisition date. On the acquisition date, the costs incurred in the combination and assets, liabilities and contingent liabilities of the acquiree obtained by the Company are measured at their fair values.

Agent fees attributable to the business combination, including audit, legal service, valuation and consultation fees, and other related administration expenses shall be recognized in profit or loss for the current period when incurred. Transaction costs attributable to equity or debt securities issued as consideration of the combination are recognized in the amount initially recognized for such securities.

Where the cost of combination exceeds the Company's interest in the fair value of the acquiree's identifiable net assets in a business combination, the difference is recognized as goodwill, and measured subsequently on the basis of its cost minus accumulative impairment provision. Where the cost of combination is less than the Company's interest in the fair value of the acquiree's identifiable net assets in a business combination, the difference is recognized in profit or loss for the current period after reassessment.

In separate financial statements, the initial investment cost of equity investment is the aggregate of the carrying amount of such investment in the acquiree held prior to the acquisition date and the investment cost newly added on the acquisition date. In respect of any other comprehensive income attributable to the equity interest held in the acquiree prior to the acquisition date, other comprehensive income in relation to the disposal of such investment is transferred to investment gain for the current period, except for the corresponding portion attributable to the changes arising from the remeasurement of net assets or net liabilities of defined benefit plan using the equity method by the acquiree.

In combined financial statements, the cost of combination is the aggregate of consideration paid on the acquisition date and the fair value of the equity interest in the acquiree held prior to the acquisition date. The equity interest in the acquiree held prior to the acquisition date is remeasured at fair value as at the acquisition date, and the difference between the fair value and the carrying amount is recognized in investment gain for the current period. In respect of any other comprehensive income attributable to the equity interest in the acquiree held prior to the acquisition date, other related comprehensive income is transferred to investment gain on the acquisition date for the current period, except for the corresponding portion attributable to the changes arising from the remeasurement of net assets or net liabilities of defined benefit plan using the equity method by the acquiree.

6. Preparation of combined financial statements

The scope of consolidation of the combined financial statements of the Company is determined on the basis of control.

The combined financial statements of the Company are based on the financial statements of the Company and its subsidiaries, and are prepared by the Company in accordance with other relevant information. In preparing the combined financial statements, the Company and its subsidiaries are required to apply consistent accounting policies and accounting periods, and material intra-group transactions and balances shall be offset.

Where a subsidiary has been acquired through a business combination involving entities under common control during the reporting period, the subsidiary's income, expenses and profits from the beginning of the current period for combination to the end of the reporting period are included in the combined statement of income, and its cash flows are included in the combined statement of cash flows, and the opening balances and comparative figures of the combined financial statements would be adjusted at the same time. Where a subsidiary has been acquired through a business combination involving entities not under common control, the subsidiary's income, expenses and profits from the acquisition date to the end of the reporting period are included in the combined statement of income, and its cash flows are included in the combined statement of cash flows, and the opening balances and comparative figures of the combined financial statements would not be adjusted. During the reporting period, where a subsidiary was disposed of, the subsidiary's income, expenses and profits from the beginning of the current period for combination to the date of disposal are included in the combined statement of income, and its cash flows are included in the combined statement of cash flows, and the opening balances of the combined balance sheet would not be adjusted.

The portion of owner's equity in a subsidiary that is not owned by the Company is presented separately under shareholders' equity in the combined balance sheet as minority interests. The portion of a subsidiary's net profit or loss for the current period that is attributable to the minority interests is presented as "profit or loss for minority shareholders" under net profit in the combined statement of income. When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owner's equity in the subsidiary, the excess amount shall be covered by minority interest.

Transactions for the purchase of the minority stake in the subsidiary or the partial disposal of equity investment without losing control over its subsidiary are treated as equity trading and are adjusted to the carrying amounts attributable to the owner's equity of the parent company and minority interests to reflect the changes of the relevant equity in the subsidiary. The difference between the adjustment amount of minority interests and the fair value of the consideration paid/received shall be adjusted to the capital reserve. If the capital reserve is not sufficient to cover the difference, any excess shall be charged to retained earnings.

For the loss of control over an original subsidiary due to partial disposal of equity investment or other reasons, the remaining equity interest shall be remeasured at fair value at the date of loss of control. The difference arising from the aggregate of the consideration received attributable to the disposal of equity interest and the fair value of remaining part of the equity interest, deducting net assets portion entitled in the original subsidiary which have been calculated according to the original percentage of shareholding since the acquisition date, should be recognized in the investment gain for the current period of the loss of control. Other comprehensive income related to equity investment in the original subsidiary is transferred to investment gain for the current period at the time when the control is lost, except for the changes arising from the remeasurement of net assets or net liabilities of defined benefit plan by the original subsidiary. The remaining equity interests are measured subsequently in accordance with the relevant requirements of "Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments" or "Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments".

When the Company disposes of the equity investment in a subsidiary by a stage-up approach with several transactions until the losing control over its subsidiary, it shall be determined whether these several transactions related to the disposal of the equity investment in a subsidiary until losing control are package transaction. If transactions for disposal of equity investment in a subsidiary until losing control are considered a package transaction, such transactions are treated as one transaction under accounting treatment for the disposal of a subsidiary until losing control. However, the difference between the amount of disposal prior to the loss of control and the net assets of a subsidiary attributable to the disposal of investment shall be recognized as other comprehensive income in the combined financial statements and transferred to profit or loss for the current period in which the control is lost. If they are not a package transaction, each of which are accounted for in accordance with applicable principles in "partial disposal of long-term equity investment in a subsidiary without losing control" and "the loss of control over a subsidiary due to partial disposal of equity investment or other reasons" respectively, as the case may be.

VII. Classification of joint venture arrangements and accounting treatment for joint operations

(1) Classification of joint venture arrangements

The Company classifies the joint venture arrangements into joint operations and joint ventures according to factors such as the structures and the legal forms of joint venture arrangements, the terms agreed in the joint venture arrangements and other relevant facts and circumstances.

Any joint venture arrangement that is not achieved by a separate entity shall be classified as a joint operation, while any joint venture arrangement that is achieved by a separate entity shall generally be classified as a joint venture. However, if a joint venture arrangement is conclusively proved to meet any of the following conditions and provisions as the relevant laws and regulations required, it shall be classified as a joint operation:

① The legal form of the joint venture arrangement indicates that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement;

② Contractual terms of the joint venture arrangement stipulate that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement;

③ Other relevant facts and circumstances show that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement. For an instance, the joint ventures enjoy almost all output related to the joint venture arrangement and the settlement of liabilities in the arrangement consecutively relies on the support of the joint ventures.

(2) Accounting treatment for joint operations

The Company recognizes the following items related to its share of benefits in the joint operation and conducts accounting treatment in accordance with the relevant requirements of the ASBEs:

① Assets it solely holds and its share of jointly-held assets based on its percentage;

② Liabilities it solely assumes and its share of jointly-assumed liabilities based on its percentage;

③ Incomes from sale of output enjoyed by it from the joint operation;

④ Incomes from sale of output from the joint operation based on its percentage;

⑤ Separate costs and costs for the joint operation based on its percentage.

When the Company invests or sells assets and others in or to the joint operation, only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognized before such assets and others are sold by the joint operation to a third party. If the invested or sold assets are of impairment loss subject to the Accounting Standards for Business Enterprises No. 8 - Assets Impairment and other provisions, the Company shall recognize such loss in full.

When the Company purchases assets and others from the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognized before such assets and others are sold to a third party. If the purchased assets are of impairment loss subject to the Accounting Standards for Business Enterprises No.8 – Assets Impairment and other provisions, the Company shall recognize its part of such loss based on its percentage.

In the event of no joint control over a joint operation, if the Company enjoys the relevant assets and assumes the relevant liabilities of the joint operation, it shall conduct accounting treatment in accordance with aforesaid principle; or it shall do the same in accordance with relevant requirements of the ASBEs.

8. Recognition standard for cash and cash equivalents

Cash represents cash on hand and deposits that can be readily utilized for payment. Cash equivalents represent short-term and highly liquid investments held by the Company which are easily converted into known amount of cash with minimal risk of changes in value.

9. Foreign currency business and translation of financial statements denominated in foreign currencies

A foreign currency transaction is recorded by translating the foreign currency amount into amount in reporting currency at the spot exchange rate on the date of the transaction.

At the balance sheet date, monetary items in foreign currency are translated at the spot exchange rate of the balance sheet date. Any exchange differences arising from the difference between the spot exchange rate of the balance sheet date and that on initial recognition or prior balance sheet date are recognized in the profit or loss for the current period. Non-monetary items in foreign currency measured at historical cost are still translated using the spot exchange rate prevailing on the date on which the transaction took place. Non-monetary items in foreign currency carried at fair value are translated using the spot exchange rate prevailing on the date when such fair value was determined. Difference between the translated reporting currency amount and the original reporting currency amount is recognized in profit or loss for the current period.

(2) Translation of financial statements denominated in foreign currencies

At the balance sheet date, when translating the financial statements denominated in foreign currencies of overseas subsidiaries, the asset and liability items in the balance sheets are translated at the spot exchange rates at the balance sheet date. Apart from "retained profits", the items in owners' equity are translated at the spot exchange rates at the dates of the relevant transactions.

The revenue and expenses items in the statement of income are translated at the spot exchange rates at the dates of the relevant transactions.

All items in the statement of cash flows are translated using the spot exchange rate prevailing at the date on which the relevant cash flow is incurred. The effect of changes in the exchange rate on cash is presented as an adjustment item and separately presented as "Effect of exchange rate changes on cash and cash equivalents" in the statement of cash flows.

Differences arising from the translation of financial statements are separately presented as "Differences arising from the translation of statements denominated in foreign currencies" under owners' equity in the balance sheet.

10. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another, including financial asset, financial liability and equity instrument.

(1) Recognition and derecognition of financial instruments

The Company recognizes a financial asset or a financial liability when it becomes a party to the contracts of a financial instrument.

The Company derecognizes a financial asset when one of the following conditions is met:

① The contractual rights to receive cash flows from the financial asset have expired;

② The financial asset has been transferred and the following conditions for the derecognition of transfer of financial asset are met.

A financial liability or part of it is derecognized when the existing obligations of the financial liability are fully or partially discharged. An agreement is entered into between the Company (the debtor) and the creditor to replace the existing financial liability with a new financial liability assumed. The existing financial liability is derecognized while new financial liability is recognized if there is substantial difference between the contractual terms of the new financial liability and that of the existing financial liability.

Purchase or sale of financial assets in regular way are recognized or derecognized using trade date accounting.

(2) Classification and measurement of financial assets

The Company classifies the financial assets into the following four categories upon initial recognition according to the contractual terms of the financial instruments issued and the economic substance reflected rather than only the legal form and in combination with the purposes for holding such financial assets and undertaking of financial liabilities: financial assets at fair value through profit or loss for the current period, held-to-maturity investments, loans and receivables and available-for-sale financial assets. A financial asset is recognized initially at fair value. In the case of financial assets at fair value through profit or loss for the current period, the relevant transaction costs are directly recognized in profit or loss for the current period. Transaction costs relating to financial assets of other categories are included in the amount upon initial recognition.

Financial assets at fair value through profit or loss for the current period:

Financial assets at fair value through profit or loss for the current period include held-for-trading financial assets and those designated as financial assets at fair value through profit or loss for the current period upon initial recognition. Such financial assets are subsequently measured at fair value. Gains or losses from changes in fair value and dividends and interest income related to such financial assets are recognized in profit or loss for the current period.

Held-to-maturity investments:

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable recoverable amount that the Company has positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortization are recorded in profit or loss for the current period.

Receivables:

Receivables are non-derivative financial assets that do not have a quoted price in an active market and have fixed or determinable recoverable amount, including accounts receivables, other receivables, etc. Gains or losses arising from derecognition, impairment or amortization are recorded in profit or loss for the current period.

Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale on initial recognition, and the financial assets other than the aforementioned categories of financial assets. Available-for-sale financial assets are subsequently measured at fair value. The premium or discount is amortized using the effective interest method and recognized as interest income. Changes in fair value of available-for-sale financial assets are recognized as other comprehensive income, except for impairment losses and foreign exchange differences from monetary financial assets denominated in foreign currencies that are recognized in profit or loss for the current period. Upon derecognition of the financial assets, the corresponding portion of accumulated changes in fair value previously recorded directly into other comprehensive income shall be transferred to profit or loss for the current period. Dividends and interest income relating to an available-for-sale financial asset are recognized in the profit or loss for the current period.

(3) Classification and measurement of financial liabilities

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss for the current period and other financial liabilities. For financial liabilities not classified as at fair value through profit or loss for the current period, the relevant transaction costs are recognized in the amount upon initial recognition.

Financial liabilities at fair value through profit or loss for the current period

Financial liabilities at fair value through profit or loss for the current period include held-for-trading financial liabilities and those designated as financial liabilities at fair value through profit or loss for the current period upon initial recognition. Such financial liabilities are subsequently measured at fair value. Gains or losses from changes in fair value and dividends and interest expenses related to such financial liabilities are recognized in profit or loss for the current period.

Other financial liabilities:

For a derivative financial liability linked to the equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, and which must be settled by delivery of such equity instruments, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with gains or losses arising from derecognition or amortization recorded in profit or loss for the current period.

(4) Fair values of financial instruments

For financial asset or financial liability quoted in an active market, the Company determines its fair value with reference to the current bid prices or asks prices in the active market.

For financial instrument not quoted in an active market, the Company determines its fair value by using valuation techniques. The results obtained by using valuation techniques reflect the trading price that may be adopted in an arm's length transaction on the valuation date. Valuation techniques include reference to prices used in recent market transactions between knowledgeable and willing parties, reference to the current fair value of other financial instruments that are substantially the same, discounted cash flow analysis, option pricing models, etc.

The Company chooses the valuation techniques commonly used by market participants and techniques which have been demonstrated to provide reliable estimates of prices obtained in previous actual market transactions to detennine the fair values of financial instruments. In determining the fair values of financial instruments by using valuation techniques, the Company makes use of all market parameters that market participants would consider in pricing the financial instruments, and the observable trading prices of identical financial instruments in prevailing market transactions as far as possible in order to test the effectiveness of the valuation techniques.

(5) Impairment of financial assets

The Company examines the carrying amounts of financial assets on the balance sheet date. Provision for impairment is made when there is objective evidence indicating that a financial asset is impaired. Objective evidence of impairment of financial assets represents an event that actually occurred after the initial recognition of the financial asset that has an impact on the estimated future cash flows of such asset which can be reliably estimated by the enterprise.

Financial assets carried at amortized cost:

If there is objective evidence indicating that a financial asset is impaired, the carrying amount of such financial asset is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred), and the amount of reduction is recognized in the profit or loss for the current period. The present value of estimated future cash flows is determined by discounting at the original effective interest rate of the financial asset and taking into account the value of relevant collaterals.

Financial asset that is individually significant is tested individually for impairment. If there is objective evidence of impairment, the impairment loss will be recognized in profit or loss for the current period. Financial asset that is not individually significant is tested for impairment together with a group of financial assets with similar credit risk characteristics. If it is determined that no impairment exists for an individually tested financial asset (including financial assets that are individually significant and not individually significant), the financial asset is included in a group of financial assets with similar credit risk characteristics for further impairment test. Financial assets with an impairment loss recognized individually are not included a group of financial assets with similar credit risk characteristics for further impairment test.

After recognizing impairment losses of financial assets carried at amortized cost, if there is objective evidence indicating that the financial assets' values are recovered and the recovery is objectively related to an event occurring after the impairment loss is recognized, the previously recognized impairment loss shall be reversed and recognized in profit or loss for the current period. However, the reversal shall not result in a carrying amount of the financial asset that is higher than what the amortized cost would have been had the impairment not been provided at the date of reversal.

Available-for-sale financial assets:

If there is objective evidence indicating that such financial asset is impaired, the cumulative loss arising from the decline in fair value that had previously been recognized directly in other comprehensive income shall be removed from other comprehensive income and recognized in profit or loss for the current period. Such cumulative loss removed represents the remaining amount arising from the initial acquisition cost of the available-for-sale financial assets, net of any principal repayment and amortization, its current fair value and any impairment loss previously recognized in profit or loss.

For an available-for-sale debt instrument with impairment loss recognized whose fair value increases in the subsequent accounting periods that is objectively related to an event occurring after the previous impairment loss is recognized, the previously recognized impairment loss shall be reversed and recognized in the profit or loss for the current period. The impairment loss arising from investment in available-for-sale equity instruments shall not be reversed through profit or loss.

Financial assets carried at cost:

When the investment in an equity instrument that is not quoted in an active market, and of which the fair value cannot be reliably measured, or the derivative financial asset that is linked to such equity instrument and shall be settled through delivery of such equity instrument is impaired, the difference between the carrying amount of such financial asset and the present value of its future cash flows discounted at the current market yield for a similar financial asset is recognized as impairment loss in the profit or loss for the current period. Such impairment losses shall not be reversed once recognized.

(7) Transfer of financial assets

Transfer of financial assets represents the transfer or delivery of a financial asset to the other party other than the issuer of such financial asset.

If the Company has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognized. If substantially all the risks and rewards associated with the ownership of a financial asset are retained, the asset should not be derecognized.

When the Company has neither transferred nor retained substantially all the risks and rewards associated with the ownership of the financial asset, it may derecognize the financial asset and recognize any associated assets and liabilities if control over the financial asset has not been retained; or recognize the financial asset to the extent of its continuing involvement in the financial asset transferred and recognizes an associated liability accordingly if control has been retained.

11. Receivables

Receivables include account receivables and other receivables.

(1) Receivables of significant single amount and individually provided for bad debts

Judgment basis for items with significant single amount or the standard for amount: Receivable with a closing balance amounting to RMB20 million (inclusive) or above constitutes an individually significant receivable.

Provision methods for items with significant single amount and individually provided for bad debts: For any receivable with significant single amount, it is individually tested for impairment. The provision for bad debts is made with reference to the excess of the carrying amount over the present value of its future cash flows if there is any objective evidence showing that impairment has incurred.

(2) Provisions for bad debts of receivables by groups

Provision for bad debts of receivables with insignificant single amount is made based on the credit risk combination below.

Type of group	Basis of group	Provision methods for bad debts by groups
Group by ageing	Ageing state	Ageing analysis method

A. For group by ageing, the rate of provision for bad debts in ageing analysis method is as follows:

Age of receivables	Proportion of provisions for bad debts in account receivables (%)	Proportion of provisions for bad debts in other receivables (%)
Within 1 year (inclusive)	2.00	0.50
1-2 years	7.00	2.00
2-3 years	10.00	5.00
Over 3 years	70.00	20.00

Note: The Company and its subsidiaries made no provision for bad debts for receivables due from related parties.

12. Inventories

(1) Categories of inventories

Inventories of the Company are divided into raw materials, work in progress, low value consumables, packing materials, stock goods, delivered goods, development costs, developed products, etc.

(2) Measurement for delivered inventories

Inventories of the Company are measured at actual cost upon acquisition. Raw materials, work in progress, stock goods, delivered goods and others are measured using the weighted average method upon delivery.

(3) Criteria for determination of net realizable value of inventories and methods of provision for loss on realization of inventories

The net realizable value of inventories is determined at their estimated selling prices, less any estimated costs of completion to be incurred, estimated selling expenses and related tax. In determining the net realizable value of inventories, verified evidences will be the basis of determination, taking into account the purpose of holding inventories and the effect of post balance sheet events.

At the balance sheet date, inventories are measured at the lower of their costs and net realizable values. If the net realizable values of inventories is lower than their costs, provision for loss on realization of inventories is made. Provision for loss on realization of inventories is usually made by the Company based on any excess of the cost over the net realizable value of each item of inventories. At the balance sheet date, where the influencing factors that resulted in writing down the value of the inventories disappear, the amount of provision for loss on realization of inventories will be reversed in the amount of provision previously made.

(4) Record policy of inventories

The record policy of inventories adopted by the Company is perpetual inventory record policy.

(5) Amortization method for low value consumables and packing materials

Low value consumables of the Company are amortized by using the equal-split amortization method when used.

Packing materials for turnover are charged to cost expenses by using the equal-split amortization method when used.

13. Long-term equity investments

Long-term equity investments stated in this section represent the long-term equity investments in an investee over which the Company has control, common control or significant influence. Long-term equity investments in an investee over which the Company has no control, common control or significant influence are recognized as available-for-sale financial assets or financial assets at fair value through profit or loss for the current period.

(1) Recognition of investment cost

For long-term equity investments acquired through business combinations involving enterprises under common control, the initial investment cost of long-term equity investments is the share with reference to the carrying value of the owners' equity of the merged party in the combined financial statements of the ultimate controlling party on the date of combinations. The difference between the initial investment cost of the long-term equity investment and the cash paid, non-cash assets transferred, the carrying amount of the debts borne by as well as the total par value of shares issued is adjusted to the capital premium of the capital reserve. If such amount cannot be offset by the capital premium of the capital reserve, it shall be adjusted in the retained earnings (For business combinations resulted in an enterprise under common control by acquiring equity of the merged party under common control through a stage-up approach with several transactions, these transactions will be judged whether they shall be treated as "package transactions". If they belong to "package transactions", these transactions will be accounted for as a transaction for obtaining control. If they do not belong to "package transactions", the initial investment cost of long-term equity investments is the share with reference to the carrying value of the shareholders' equity/owners' equity of the merged party in the combined financial statements of the ultimate controlling party on the date of combinations. The difference between the initial investment cost of long-term equity investments and the aggregate of the carrying amount of long-term equity investments before combination and the carrying amount of the additional consideration paid for further share acquisition on the date of combination is adjusted to the capital reserve. If such amount cannot be offset by the capital reserve, it shall be adjusted in the retained earnings. Other comprehensive income recognized as a result of accounting treatment of equity investments previously held using equity method before the date of combination or recognized for available-for-sale financial assets will not be accounted for).

For long-term equity investments acquired through business combinations involving enterprises not under common control, the initial investment cost of long-term equity investments shall be the cost of combination on the date of acquisition. The cost of business combination represents the aggregate of the fair values of assets paid, liabilities incurred or assumed, and equity securities issued by the acquirer (For business combinations resulted in an enterprise not under common control by acquiring equity of the acquiree through a stage-up approach with several transactions, these transactions will be judged whether they shall be treated as "package transactions". If they belong to "package transactions", these transactions will be accounted for as a transaction for obtaining control. If they do not belong to "package transactions", the initial investment cost of long-term equity investments accounted for using cost method shall be the aggregate of the carrying amount of equity investments in the acquiree previously held and the additional investment cost. For previously held equity accounted for using equity method, other relevant comprehensive income will not be accounted for. For previously held equity investments classified as available-for-sale financial assets, the difference between the fair value and carrying amount, as well as the accumulated changes in fair value previously included in other comprehensive income shall be transferred to profit or loss for the current period).

Agent fees attributable to the business combination, including the audit fee, legal services fee and appraisal and consultation fee as well as other related administration expenses incurred by the merging party or acquirer shall be charged to the profit or loss for the current period when incurred. Transaction cost attributable to equity or debt securities issued as consideration of the business combination is included in the initially recognized amounts of such securities.

The long-term equity investments acquired through means other than business combinations shall be initially measured at cost. Such cost is determined, depending upon the means of acquisition of long-term equity investment, based on the purchase cost actually paid by the Company in cash, the fair value of equity securities issued by the Company, the agreed value of investment contracts or agreements, the fair value or original carrying amount of the non-monetary asset transferred out in an exchange transaction, and the fair value of the long-term equity investment itself, etc. The costs, taxes and other necessary expenses that are directly attributable to the acquisition of long-term equity investments are also included in the investment cost. For additional investments made in order to obtain significant influence or common control over the investee but not constituting control, the cost for long-term equity investments shall be determined as the aggregate of fair value of equity investments previously held and additional investment cost according to "Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments".

(2) Methods of subsequent measurement and recognition of profit or loss

Long-term equity investments accounted for by using cost method

The Company may adopt the cost method for accounting for the long-term equity investment controlled by the investee, and measure the investment at the initial investment cost, which can be adjusted by addition or recovery of investment.

For long-term equity investment which is accounted for by using cost method, except for the actual payment for the acquisition of investment or the declared but not yet distributed cash dividends or profits which are included in the consideration, the cash dividends or profits declared and distributed by the investee are recognized as investment gains in profit or loss for the current period.

Long-term equity investment accounted for by using equity method

The Company adopts the equity method for accounting for long-term equity investment in associates and joint ventures. For part of the equity investment in associates indirectly held by venture capital institutions, mutual funds, trust companies or similar entities including unit-linked insurance fund, the investment is measured at fair value through profit or loss.

When the Company adopts the equity method for accounting for the long-term equity investment, where the investment cost of a long-term equity investment exceeds the Company's interest in the fair value of the investee's identifiable net assets, no adjustment shall be made to such investment cost; where the investment cost of a long-term equity investment is less than the Company's interest in the fair value of the investee's identifiable net assets, adjustment shall be made to the carrying value of the long-term equity investment and the difference shall be recognized in profit or loss of such investment for the current period.

After acquiring a long-term equity investment, the Company shall, in accordance with its attributable share of the net profit or loss and other comprehensive income realized by the investee, recognize the investment income and other comprehensive income respectively and simultaneously adjust the carrying value of the long-term equity investment. The Company shall, in the light of its attributable share of profits or cash dividends that the investee declares to distribute, reduce the carrying value of the long-term equity investment accordingly. As to other changes in owners' equity of the investee other than net profit or loss, other comprehensive income and profit distribution, the Company shall adjust the carrying value of the long-term equity investment and recognize such changes in the owners' equity.

When a long-term equity investment is accounted for by using equity method, the Company shall adjust the net profit of the investee regarding the fair value of each identifiable asset, the accounting policies and accounting periods of the investee upon acquiring the investment, and recognize the investment gains or losses for the current period according to its attributable share of net profit or loss of the investee.

The unrealized profit or loss of the internal transaction between the Company and the associates and joint ventures attributable to the Company are calculated according to the Company's proportion of shareholding, and the investment gains or losses shall be recognized after offset.

In recognizing the Company's share of losses incurred by the investee, treatment shall be made in the following order: first, to reduce the carrying amount of the long-term equity investment. Second, where the carrying amount of the long-term equity investment is not sufficient to reduce, the investment loss shall continue to be recognized to the extent of the carrying amount of other long-term equities that in substance constitute the net investment in the investee, and reduce the carrying amount of long-term receivables and others. Finally, after the above treatments, where the enterprise still bears additional obligations as stipulated in the investment contract or agreement, the expected liabilities shall be recognized based on the obligations expected to be undertaken, and charged to the investment loss of the current period. Where the investee realizes profits in subsequent periods, after deducting its share of unrecognized losses, the Company shall treat in a reverse order with the above: write down the carrying amount of expected liabilities recognized, restore the carrying amount of other long-term equities that in substance constitute the net investment in the investee and long-term equity investment, and recognize investment income simultaneously.

Disposal of long-term equity investment

For the disposal of a long-term equity investment, the difference between its carrying value and the payment actually acquired shall be recognized in profit or loss for the current period. For the disposal of a long-term equity investment accounted for by using equity method, accounting treatment of the portion previously included in other comprehensive income shall be made on the same basis as the investee had directly disposed of the relevant assets or liabilities according to the corresponding proportion. The owners' equity which is recognized due to other changes of owners' equity in the investee except for net profit or loss, other comprehensive income and profit distributions shall be transferred in proportion into profit or loss for the current period. When the Company loses the common control or material influence over the investee due to partial disposal of equity investment and other reasons, the remaining equities after disposal shall be accounted for in accordance with the standards on recognition and measurement of financial instruments, and the difference between the fair value and the carrying value at the date of losing common control or material influence shall be included in profit or loss for the current period. For other comprehensive income recognized for the original equity investment due to the adopting of equity method, it shall be treated using the same accounting basis as the investee used for direct disposal of relevant assets or liabilities when ceasing to use the equity method. All owners' equities of the investee which are recognized due to other changes in owners' equity except for net profit or loss, other comprehensive income and profit distributions shall be transferred into profit or loss for the current period when ceasing to use the equity method.

When the Company loses control over the investee due to partial disposal of equity investment and other reasons, the remaining equities after disposal shall be accounted for by using equity method in preparation of individual financial statements provided that common control or material influence over the investee can be imposed, and shall be adjusted as if such remaining equities has been accounted for by using equity method since they are obtained. Where the remaining equities after disposal cannot impose common control or material influence over the investee, it shall be accounted for according to relevant provisions of the standards on recognition and measurement of financial instruments, and the difference between the fair value and the carrying value on the date of losing control shall be recognized in profit or loss for the current period.

If the disposed equity is acquired in a business combination as a result of making additional investment and other reasons, the remaining equities after disposal shall be accounted for by using cost method or equity method when preparing the individual financial statements. Other comprehensive income and other owners' equity recognized due to the accounting treatment of equity investment held before the acquisition date by using equity method shall be transferred on pro rata basis. The remaining equities after disposal shall be accounted for in accordance with the standards on recognition and measurement of financial instruments, while other comprehensive income and other owners' equity shall be fully transferred.

(3) Criteria for determination of common control and significant influence

If the Company collectively controls certain arrangement with other participants as agreed, and the decisions on the activities that may have significant impact on the return of such arrangement exist with consistent agreement from participants sharing the controlling power, then the Company and other participants are deemed to have common control over certain arrangement, which is a joint venture arrangement.

Where the joint venture arrangement is achieved through individual entity, it is judged according to relevant agreement that, when the Company is entitled to rights over the net assets of such entity, such entity is accounted for by using equity method as a joint venture. If it is judged according to relevant agreement that, the Company has no rights over the net assets of such entity, such entity is a joint operation, and the Company recognizes the items in relation to the shares in the joint operation and adopts relevant provisions of the ASBEs for accounting treatment.

Significant impact refers to the power of an investing party to participate in making decisions on the financial and operating policies of the investee, but not to control or jointly control with other parties over the formulation of these policies. The Company determines the significant impact is placed on the investee in one or more situations as follows after a comprehensive consideration of all facts and situations.

① dispatching representatives in the board of directors or similar power organ of the investee;

② having significant transactions with the investee;

③ dispatching management personnel to the investee;

(4) Methods of impairment test and impairment provision

At the balance sheet date, in situations such as the carrying value of long-term equity investment exceeds the Company's interest in the carrying value of owners' equity in the investee, the Company will conduct impairment test for long-term equity investment in accordance with the Accounting Standards for Business Enterprises No. 8 – Impairment of Assets. For long-term equity investment with a recoverable amount lower than its carrying value, provision for impairment will be made.

14. Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment properties of the Company include a land use right that is leased out, a land use right held for transfer upon capital appreciation, and a building that is leased out.

Investment properties of the Company are initially measured at cost when acquired. Cost of investment properties purchased includes purchase price, relevant taxes and other expenditures that can be directly attributed to such asset. Cost for self-constructing investment properties shall be composed of necessary expenditure for constructing such asset before it reaches the expected useful conditions.

The fair value model is adopted for subsequent measurement of the investment properties of the Company.

If an investment property is disposed of or withdrawn permanently from use and no economic benefit is expected to be obtained from the disposal, the recognition of the investment property shall be terminated.

Fair value is recognized at the valuation amount at the same time when preparing the statements.

The measurement approach of investment property is converted from cost method to fair value method and it is recognized at its fair value upon conversion. Undistributed profits are adjusted according to the difference between the fair value and the carrying value.

15. Fixed assets

(1) Standards for recognition of fixed assets

Fixed assets of the Company are defined as the tangible assets that have been used for more than one accounting year, and are held for the purpose of producing goods, rendering laboring services, leasing or operation and management.

Fixed assets are only recognized when the economic benefits associated with such fixed asset are likely to flow into the enterprise and the cost of such fixed asset can be reliably measured.

Fixed assets of the Company are initially measured at actual cost upon acquisition.

(2) Depreciation method of each category of fixed assets

Fixed assets are depreciated by using the straight-line method. Depreciation starts from the date when the fixed asset is available for its intended use and ceases when the fixed asset is derecognized or classified as non-current assets held for sale. Without taking impairment provision into consideration, the annual depreciation rates determined for each category of fixed assets based on the category, expected useful life and estimated residual value of fixed assets are as follows:

Assets category	Depreciable period (years)	Net residual value rate (%)	Annual depreciation rate (%)
House and buildings	8-45 years	0-5	12.50-2.11
Transportation equipment	5-15 years	0-5	20.00-6.33

Machinery	4-30 years	0-5	25.00-3.17
Electronic equipment and others	5-30 years	0-5	20.00-3.17

When determining the depreciation rate of fixed assets which have recognized the provision for impairment, the cumulative amount of recognized provision for impairment should also be deducted.

(3) For the impairment testing and impairment provision for fixed assets, refer to note IV, 19.

(4) Basis for identification of fixed assets acquired under finance leases and their measurement

The fixed asset leased by the Company will be recognized as fixed asset acquired under finance leases when it complies with one or more of the following standards:

①The ownership of the leased asset will be transferred to the Company upon expiry of the lease term.

②The Company has the option to acquire the leased asset, and the acquisition consideration is expected to be much lower than the fair value of the leased asset at the time when the right of option is exercised. Therefore, it can be reasonably confirmed from the commencement date of the lease term that the Company will exercise the right of option.

③Even if the ownership of the leased asset will not be transferred, the lease term accounts for the most of useful life of the leased asset.

④The present value of the minimum lease payment made by the Company at the commencement date of the lease almost equals to the fair value of the leased asset at the commencement date of the lease.

⑤The leased asset is of a specialized nature that only the Company can use it without making major modifications.

The fixed assets acquired under finance leases are accounted for at the lower of the fair value of the leased asset and the present value of the minimum lease payment at the commencement date of the lease. The minimum lease payment is recognized as long-term account payable, and the difference between them is accounted for as unrecognized financing costs. Initial direct costs that are attributable to the leased item incurred during the process of negotiating and securing the lease agreement, such as handling fees, attorney fees, traveling expenses and stamp duty, are credited to the value of the leased asset. Unrecognized financing costs are amortized using effective interest method over the lease term.

Fixed assets acquired under finance leases are depreciated by adopting a policy consistent with that for fixed assets owned by the Company. Where the acquisition of the ownership of the leased assets at the expiry of the lease term will be reasonably ascertained, the leased asset shall be depreciated over its useful life. Where the acquisition of the ownership of the leased assets at the expiry of the lease term cannot be reasonably ascertained, the leased asset shall be depreciated over the shorter of the lease term or its useful life.

(5) The Company reviews the useful life and estimated net residual value of fixed assets and the depreciation method applied at each of the year end.

The useful life of fixed assets is adjusted if their expected useful life is different from the original estimates. The estimated net residual values are adjusted if they are different from the original estimates.

16. Construction in progress

The cost of construction in progress of the Company is determined at actual construction cost, including necessary construction costs incurred during the construction, borrowing cost that are eligible for capitalization to bring such constructions ready for their intended use and other related costs.

The fixed assets for construction in progress are recorded at all the expenditures incurred to bring such fixed assets constructed ready for their intended use. If the construction in progress of fixed assets constructed are ready for their intended use but the final account of completed project has not been issued, it should be transferred to fixed assets at an estimated cost according to the construction budget, construction price or actual cost of the construction, and depreciation should be provided according to deprecation policy of the Company for fixed assets from the date when the assets are ready for their intended use. When the final account of completed project is issued, the estimated cost will be adjusted according to the actual cost, while the original depreciation charge will not be adjusted.

For provision for impairment of construction in progress, refer to note IV, 19.

17. Borrowing costs

(1) Principles of recognizing capitalization of borrowing costs

Borrowing costs incurred by the Company that can be directly attributable to the acquisition, construction or production of qualifying assets for capitalization are capitalized and included in the costs of related assets. Other borrowing costs are recognized as expenses based on the amount incurred when incurred, and included in profit or loss for the current period. Borrowing costs are capitalized when all of the following conditions are met:

① Expenditures for the assets have been incurred, which includes expenses in the form of cash paid, non-monetary asset transferred or interest-bearing obligations assumed for the acquisition, construction or production of qualifying assets for capitalization;

② Borrowing costs have been incurred;

③ The acquisition, construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

(2) Capitalization period of borrowing costs

When the qualifying assets for capitalization acquired, constructed or produced by the Company have reached their expected useful or saleable conditions, the capitalization of borrowing costs is stopped. When a portion of the acquisition, construction or production of qualifying assets for capitalization has completed and can be used individually, the capitalization of borrowing costs of such portion of asset is stopped. When portions of the acquisition, construction or production of an asset have been completed but will only become useful or saleable after the entire asset is completed, the capitalization of borrowing costs is stopped when the entire asset is completed. The borrowing cost incurred after a qualifying asset for capitalization has reached its expected useful or saleable conditions is recognized as expenses based on the amount incurred when incurred, and included in profit or loss for the current period.

(3) Period for suspension of capitalization

Capitalization of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset for capitalization is interrupted abnormally and the interruption lasted more than 3 months continuously. If such interruption is a necessary procedure for the acquisition, construction or production of a qualifying asset for capitalization to reach expected useful or saleable conditions, the borrowing costs are continued to be capitalized. The borrowing costs incurred during the interruption are recognized as profit or loss for the current period, and capitalization of borrowing costs continues when the acquisition, construction or production activities of the asset resumes. The borrowing costs incurred during a normal interruption continue to be capitalized.

(4) Measurement of capitalization of borrowing costs

Interest expenses of specific borrowings (net of interest income from unutilized borrowings deposited in bank or investment gain earned from temporary investment) and supplementary expenses thereof are capitalized before a qualifying asset for capitalization acquired, constructed or produced reaches its expected useful or saleable condition.

Interests on such general borrowings to be capitalized are measured as weighted average number of the excess of accumulated assets expenditure over the assets expenditure of specific borrowings portion multiplied by capitalization rate of the general borrowings used, where the capitalization rate is the weighted average interest rate of the general borrowings.

18. Intangible assets

(1) Classification, measurement, useful lives and impairment test of intangible assets

Intangible assets include land use rights, production and business license, proprietary production techniques, software, etc., which are initially measured at cost.

For intangible asset with finite useful life, it is amortized within its useful life systematically and reasonably based on the expected realization pattern of the related economic benefits, or amortized by using the straight-line method if it is unable to determine the expected realization pattern reliably. The specific useful lives of intangible assets are as follows:

Items	Amortization period (years)
Land use rights	50
Production and business license	10
Trademark and proprietary production techniques	10
Software	3-10

Intangible assets of the Company include land use rights, patents, proprietary production techniques, software, production and business license, etc.

Intangible assets are initially measured at cost and useful lives of intangible assets are analyzed and determined when they are acquired. Intangible assets with finite useful lives shall be amortized over the expected useful lives using method which can reflect the expected realization of economic benefits related to the assets since the intangible asset is available for use. Intangible assets whose expected realization cannot be reliably determined are amortized using the straight-line method. Intangible assets with indefinite useful lives will not be amortized.

For provision for impairment of intangible assets, refer to note IV, 19.

19. Impairment of long-term assets

Impairment of long-term equity investments in subsidiaries, associates and joint ventures, as well as investment properties subsequently measured by the cost method, fixed assets, construction in progress, intangible assets, goodwill (except inventories, investment properties measured by the fair value method, deferred tax assets, financial assets) are determined as follows:

The Company assesses at the balance sheet date whether there is any indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Company will estimate the recoverable amount of the asset and perform impairment test. Goodwill arising from a business combination, intangible assets with indefinite useful life and intangible assets that have not been ready for intended use are tested for impairment each year, irrespective of whether there is any indication that the asset may be impaired.

The recoverable amount of an asset group is determined based on the asset group to which the asset belongs. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups.

When the recoverable amount of the asset group is lower than its carrying amount, the Company reduces its carrying amount to its recoverable amount, the reduced amount is dealt with in profit or loss for the current period, while the provision for impairment of assets is made accordingly.

In terms of impairment test of the goodwill, the carrying amount of the goodwill, arising from business combination, shall be allocated to the related asset group in accordance with a reasonable basis on the acquisition date. Those that are difficult to be allocated to the related asset group shall be allocated to the related combination of asset groups.

Related asset group or combination of asset groups refer to those that can benefit from the synergies of business combination and are not larger than the Company's recognized reporting segment.

When there is an indication that the goodwill-related asset group or combination of asset groups may be impaired, the Company should first test for the impairment for the asset group or combination of asset groups excluding goodwill and calculate the recoverable amount and recognize the impairment loss accordingly. The Company should then test for the impairment for the asset group or combination of asset groups including goodwill and compare their recoverable amount with their carrying amount, impairment loss of goodwill shall be recognized when the recoverable amount is less than the carrying amount.

20. Long-term deferred expenses

The long-term deferred expenses incurred by the Company are measured at actual cost and amortized evenly over the expected beneficial period. For the long-term deferred expense items that cannot benefit in the subsequent accounting periods, their balance of amortized value is recognized through profit or loss for the current period.

21. Staff costs

Staff costs refer to various forms of remuneration or compensation paid by the Company in exchange for service rendered by employees or termination of employment. Staff costs include short-term remuneration, post-employment benefits, termination benefits and other long-term employee benefits.

(1) Short-term remuneration

Short-term remuneration refers to the staff costs other than post-employment benefits and termination benefits that are required to be fully paid within 12 months upon the annual reporting period when the employees have provided relevant services. During the accounting period when the employees provide services for the Company, the Company recognizes the actually incurred short-term remuneration as liabilities and includes them in the profit or loss for the current period or relevant costs of assets. The Company pays the social insurance expenses, including medical insurance, work injury insurance and maternity insurance, and housing provident fund on behalf of the employees, together with the labor union expenditures and employee education expenditures which are withdrawn according to regulations. In the accounting period when employees provide services to the Company, the amount of the staff costs shall be determined according to the prescribed withdrawal basis and the withdrawal proportion.

For the non-monetary portion of the employee benefit expense, it is measured at the fair value.

(2) Termination benefits

Termination benefit refers to the indemnity provided by the Company for employees for the purpose of terminating the labor relationship with the employees before the expiry of the labor contract or encouraging employees to accept the redundancy offer voluntarily, which is recognized in profit or loss for the period in which they are incurred. When the

Company fails to unilaterally withdraw the termination benefit provided arising from the labor relationship termination plan or the redundancy offer, or when the costs or expenses (whichever is the earlier) in relation to reorganization involving the termination benefit payment are recognized, the liabilities of the staff costs arising from the termination benefits are recognized and dealt with in profit or loss for the current period.

(3) Post-employment benefits

Post-employment benefit refers to various kinds of remunerations and benefits other than short-term remuneration and termination benefits that are provided by the Company after the retirement of the employees or termination of labor relationship with employees in exchange for services provided by employees. The post-employment benefit plans are categorized as defined contribution plans and defined benefit plans.

(4) Defined contribution plans

The Company pays the social basic pension insurance and unemployment insurance on behalf of the employees in accordance with the relevant provisions of the local government. During the accounting period when the employees provide services for the Company, the payable amount of defined contribution plans is recognized as liabilities and recognized in profit or loss for the current period or relevant costs of assets.

In addition to basic pension insurance, the Company has also established the supplementary pension insurance according to the relevant policy of national enterprise annuity system. The Company makes payment to the local social insurance agencies based on a certain proportion of total staff remunerations. Corresponding expenditure is recognized in the profit or loss for the current period or relevant costs of assets.

22. Revenue

(1) General principles

①Sale of goods:

Revenue from sales of goods is recognized when all the following conditions are satisfied: 1) the principal risks and rewards of ownership of the goods have passed to the buyer; 2) the Company maintains neither ongoing managerial involvement usually associated with ownership, nor effective control over the goods sold; 3) the revenue can be reliably measured; 4) it is probable that the economic benefits associated will flow to the Company; 5) relevant cost incurred or to be incurred can be reliably measured.

②Rendering of labor services:

On the balance sheet date, outcome of a transaction on rendering labor services that could be reliably estimated (which means the amount of revenue can be measured reliably, the associated economic benefits will probably flow to the Company, the percentage of completion under the transaction can be determined reliably and the cost incurred and to be incurred of transactions can be measured reliably), and the revenue from the rendering of labor services shall be recognized using percentage-of-completion method. The percentage of completion under the transaction concerning the rendering of labor services is determined based on the proportion of costs incurred to the estimated total costs. If, on the date of the balance sheet, the outcome of a transaction concerning the rendering of labor services cannot be estimated in a reliable manner, and if the cost of labor services incurred is expected to be compensated, the revenue from the rendering of labor services shall be recognized at such cost of labor services incurred, which shall be carried forward at the same amount. If the cost of labor services incurred is not expected to be compensated, the cost incurred shall be recognized in the profit or loss for the current period, and no revenue from labor services may be recognized.

③Abalienation of the right to use assets:

Revenue from abalienation of the right to use assets is recognized when the relevant economic benefits are likely to flow to the Company, and the amount of revenue can be measured reliably. Interest income is determined according to the length of time for which the Company's monetary funds are used by others and the effective interest rate. Income from usage fee is determined according to the timing and method of charging as agreed under the relevant contracts or agreements.

(2) Specific methods of revenue recognition

The Company mainly provides healthcare services in the healthcare industry. Revenue shall be recognized during the rendering of labor services. Regarding manufacturing and distribution of pharmaceutical products, the Company principally sells the product of meropenem for injection and cefminox sodium for injection. Revenue of products for domestic sales are recognized when the following conditions are satisfied: the Company has delivered the goods to buyers according to contracts, the revenue of product sales is determined, the payment or payment receipts have been collected, the associated economic benefits are likely to flow to the Company and the relevant costs of the product can be measured reliably. Revenue of products for export sales are recognized when the following conditions are satisfied: the Company has completed the customs clearance according to contracts, the revenue of product sales are determined, the payment or payment receipts have been collected, the associated economic benefits are likely to flow to the Company and the relevant costs of the product can be measured reliably.

① Sale of goods

Revenue from sale of goods is recognized subject to the following conditions: the principal risks and rewards of ownership of the goods have passed to the buyer, the Company maintains neither ongoing managerial involvement usually associated with ownership, nor effective control over the goods sold, the revenue can be reliably measured, the associated economic benefits are likely to flow to the Company, and the relevant cost incurred or to be incurred can be reliably measured.

② Abalienation of the right to use assets

Revenue from abalienation of the right to use assets is recognized by the Company when the relevant economic benefits can flow to the Company, and the amount of revenue can be measured reliably.

23. Government grants

Judgment basis and accounting treatment of the asset-related government grants:

The government grants obtained by the Company to purchase or construct its long-term assets or otherwise constituting its long-term assets are classified as asset-related government grants. An asset-related government grant shall be recognized as deferred income, evenly allocated over the useful life of the related asset and included in profit or loss for the current period. However, a government grant measured at a notional amount is recognized directly in profit or loss for the current period.

Judgment basis and accounting treatment of the income-related government grants:

Apart from asset-related government grants, other government grants are classified as income-related government grants. An income-related government grant shall be recognized as deferred income where the grant is a compensation for related expenses or losses to be incurred in subsequent periods and included in profit or loss for the same period as that of recognition of the related expenses; or recognized directly in profit or loss for the current period where the grant is a compensation for related expenses or losses already incurred.

A government grant shall be recognized only when the Company complies with the conditions attaching to the government grant and it can receive the grant.

Government grants refer to the monetary assets and non-monetary assets obtained from the government by the Company at no consideration, excluding capital injections from the government as an owner of the Company. Government grants are comprised of asset-related government grants and income-related government grants.

Government grants are measured at the amount received and receivable (if in the nature of monetary assets) or fair value (if in non-monetary assets) or notional amount of $1 when the fair value cannot be reliably obtained.

An asset-related government grant shall be recognized as deferred income, evenly allocated over the useful life of the related asset and included in profit or loss for the current period. An income-related government grant shall be included in profit or loss for the current period where the grant is a compensation for related expenses or losses already incurred. A government grant shall be recognized as deferred income where the grant is a compensation for related expenses or losses to be incurred in subsequent periods and included in profit or loss for the same period as that of recognition of the expenses. A government grant measured at a notional amount is included directly in profit or loss for the current period.

If the recognized government grants need to be refunded, the balance of the related deferred income, if any, is offset against the book balance of the related deferred income and the excess is included in profit or loss for the current period. If there is no related deferred income, the repayment shall be included directly in profit or loss for the current period.

An asset-related government grant is recognized by the Company as deferred income. A government grant related to ordinary activities is included in other gains. A government grant that is not related to ordinary activities is included in non-operating income and expenses.

24. Deferred income tax assets and deferred income tax liabilities

Income tax comprises current income tax and deferred income tax. Income tax is recognized as an income tax expense in profit or loss for the current period, or otherwise recognized in owner's equity if it arises from adjustment of goodwill on a business combination or any deferred income tax relating to a transaction or event which is included directly in owner's equity.

Deferred income tax is recognized using the balance sheet liability method, on temporary differences existing between the carrying amount of the assets/ liabilities and their tax basis on the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the taxable temporary differences arise from the following transactions:

(1) The initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, it affects neither accounting profit nor taxable income;

(2) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are only recognized for deductible temporary differences as well as deductible losses and tax credits that can be carried forward to subsequent periods, to the extent that it is probable that taxable income will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilized, except where such temporary differences arise from the following transactions:

A transaction that is not a business combination and, at the time of the transaction, neither affects the accounting profit nor taxable income;

In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, a deferred tax asset is only recognized to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable income will be available against which the temporary differences can be utilized in the future.

On the balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and the tax consequences that would follow from the manner in which the Company expects, on the balance sheet date, to recover the assets or settle the liabilities.

On the balance sheet date, the Company shall review the carrying amount of the deferred tax assets. If it is unlikely to obtain sufficient taxable income against which the economic benefits brought by deductible deferred tax asset can be utilized in future periods, then the carrying amount of the deferred tax assets shall be written down. When it is highly probable to obtain sufficient taxable income, the amount written down shall be reversed.

25. Significant Accounting Judgments and Estimates

In the application of the Company's accounting policies, the Company is required to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainty of the operating activities. These judgments, estimates and assumptions are based on historical experiences of the Company's management as well as other factors that are considered to be relevant. These judgments, estimates and assumptions may affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities on the balance sheet date. However, uncertainty about these estimates could result in a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The aforementioned judgments, estimates and assumptions are reviewed regularly on a going concern basis. The effect of a change in accounting estimate is recognized in the period of the change, if the change affects that period only; or recognized in the period of the change and future periods, if the change affects both.

On the balance sheet date, significant accounting estimates and assumptions contain significant risks which would result in significant adjustment on the carrying amounts of assets and liabilities for the next fiscal year are as follows:

(1) Provision for bad debts:

Bad debt losses of the Company are measured according to the accounting policies of receivables using the allowance method. Assessment for impairment of account receivables is based on the recoverability of the account receivables. Determination of impairment of account receivables requires the judgment and estimates of the management. The difference between actual outcome and the previously estimated outcome will influence the carrying value of account receivables and accrual or reversal of provision for bad debts during the period in which accounting estimates are changed.

(2) Provision for write-down of inventories:

Inventories are measured at the lower of cost and net realizable value according to the accounting policies of inventories. For obsolete and unsalable inventories whose costs are higher than the net realizable value, provision for write-down of inventories shall be incurred. The write-down of inventories to the net realizable value is based on the assessment on the salability of inventories and their net realizable value. Determination of write-down of inventories requires judgment and estimates made by the management after obtaining solid evidence and considering the purpose of holding inventories and the effect of subsequent events after the balance sheet date and etc. The difference between actual outcome and the previously estimated outcome will influence the carrying value of inventories and accrual or reversal of provision for write-down of inventories during the period in which accounting estimates are changed.

(3) Fair values of financial instruments:

For financial instruments which are not quoted in an active market, the Company uses various valuation techniques to determine the fair value. Valuation techniques include the use of discounted cash flows model analysis and others. Such valuation requires the Company to make estimates on the future cash flows, credit risk, market volatility rate, correlation, etc., and to choose the appropriate discount rates. The changes in uncertainty of these relevant assumptions may cause impact on the fair values of financial instruments.

(4) Held-to-maturity investments:

The Company classifies qualifying non-derivative financial assets with fixed or determinable repayment amount and fixed maturity that the Company has positive intention and ability to hold to maturity as held-to-maturity investments. This classification requires significant judgments, and in making these judgments, the Company evaluates the intention and ability to hold such investments to maturity. If the Company fails to hold these investments to maturity, other than for specific circumstances (e.g. sale of an investment with insignificant amount close to maturity), such held-to-maturity investments shall be reclassified in entirety as available-for-sale financial assets and be precluded from being classified as held-to-maturity investments for the current accounting year and the next two complete accounting years. If there are such circumstances, it may cause significant impact on the values of relevant financial assets listed in the financial statements and on the risk management policies of the Company regarding financial instruments.

(5) Impairment of held-to-maturity investments:

To determine whether the held-to-maturity investments are impaired, the Company is largely dependent on the judgments made by the management. Objective evidence of impairment includes disappearance of an active market for financial assets because of significant financial difficulties of the issuer and non-performance of contract (such as a default in interest or principal payments), etc. In making such judgments, the Company shall evaluate the impact of objective evidence of impairment on the expected future cash flows of such investment.

(6) Impairment of available-for-sale financial assets:

To determine whether the available-for-sale financial assets are impaired, the Company is largely dependent on the judgments and assumptions made by the management, in order to determine whether it is needed to recognize its impairment losses in the statement of income. In making such judgments and assumptions, the Company shall evaluate how much the fair value of the investment is lower than the cost and the duration thereof, the financial position and short-term business projection of the investee, including industry conditions, technological innovation, credit ratings, default rates and counterparties' risks.

(7) Impairment provision for non-financial non-current assets:

On the balance sheet date, the Company judges whether there are impairment indications of non-current assets (except for financial assets). For intangible assets with indefinite useful life, in addition to conducting impairment test once a year, impairment test is also carried out when there are indications of impairment. For other non-current assets (except for financial assets), impairment test is carried out when there are indications showing their carrying value cannot be recovered.

When the carrying value of an asset or an asset group is higher than the recoverable amount, being the higher of the net amount of fair value less cost of disposal and the present value of estimated future cash flows, such asset or asset group is impaired.

The net amount of fair value less cost of disposal is determined with reference to the price in sales agreement or observable market price of similar assets in arm's length transaction less incremental costs that could be directly attributable to the disposal of the asset.

Significant judgment on the output, selling price, relevant operating cost and discount rate used to calculate the present value for the asset (or the asset group) is required in the estimation of present value of future cash flows. When estimating the recoverable amount, the Company will use all available relevant information, including the prediction of the relevant output, selling price and relevant operating cost based on reasonable and supportable assumptions.

Test shall be performed by the Company at least once a year as to whether there is any impairment to goodwill. This requires an estimate for the present value of the future cash flows of the asset groups or sets of asset groups to which goodwill is allocated. In estimating the present value of the future cash flows, the Company needs to estimate the cash flows generated from the future asset groups or sets of asset groups. Meanwhile, the present value of future cash flows is determined using an appropriately selected discount rate.

(8) Depreciation and amortization:

The Company shall provide depreciation and amortization for investment properties, fixed assets and intangible assets over their useful lives and after taking into account of their residual values, using straight-line method. The Company shall regularly review the useful lives to determine the amount of depreciation and amortization to be accounted for in each reporting period. The useful life is determined by the Company according to its previous experience on the similar assets and expected technical improvement. If there is any material change in the estimate previously made, the amount depreciated and amortized will be adjusted in future periods.

(9) Income tax:

There are certain uncertainties in final tax treatment and calculation for some transactions of the Company during its ordinary course of business. The approval from the competent tax authority is required for pre-tax expending of some items. Any difference between the final recognition outcome of such tax items and the initially estimated amount will exert an effect on the current income tax and deferred income tax during their final recognition period.

26. Changes in significant accounting policies and accounting estimates

(1) Changes in accounting policies

As of 30 September 2017, there is no disclosable change in accounting policies which has not been disclosed by the Company.

(2) Changes in accounting estimates

As of 30 September 2017, there is no disclosable change in accounting estimates which has not been disclosed by the Company.

27. Corrections of prior period errors

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

As of 30 September 2017, there is no disclosable correction of prior period errors which has not been disclosed by the Company.

V. Major categories and rates of tax

Category of tax	Tax base	Tax rate
Value-added tax	Sales revenue	17%, 13%, 11%, 6%
Urban maintenance and construction tax	Turnover tax payable	7%, 5%, 1%
Educational surcharge	Turnover tax payable	3%
Local educational surcharge	Turnover tax payable	1%, 1.5%, 2%, 3%
Key traffic construction surcharge	Turnover tax payable	5%
Culture educational surcharge	Media income and expenses, net	4%
River project construction and maintenance fee	Turnover tax payable	0.5%

Tax paying entities that enjoy the preferential enterprise income tax treatments

Name of tax paying entity	Income tax rate	Preferential policy enjoyed
上海方正数字出版技术有限公司 (Founder Digital Publishing Technology (Shanghai) Co., Ltd.*)	25.00%	The high-new technology enterprise enjoys a two-year tax exemption followed by a three-year half tax deduction.
北大医疗信息技术有限公司 (PKU Healthcare IT Co., Ltd.*)	25.00%	The software enterprise can enjoy the preferential enterprise income tax treatment of a two-year tax exemption followed by a three-year half tax deduction starting from its first profitable year (Cai Shui [2016] No.49).
方正拓康(香港)贸易有限公司 (Founder Pharma (Hong Kong) Co., Limited*)	16.50%	The Hong Kong companies are applicable to a profits tax rate of 16.5% in the Hong Kong Special Administrative Region.
方正证券(香港)金融控股有限公司 (Founder Securities (Hong Kong) Financial Holdings Limited*)	16.50%	
方正控股有限公司 (Founder Holdings Limited*)	16.50%	
越亚封装基板(香港)有限公司 (ACCESS Substrates HK Limited*)	16.50%	
上海方正科技(香港)有限公司 (Shanghai Founder Technology (H.K.) Limited*)	16.50%	
珠海方正印刷电路板(香港)发展有限公司 (Zhuhai Founder Printed Circuit Board (HK) Development Limited*)	16.50%	
广州健迅科技有限公司 (Guangzhou Jianxun Technology Co., Ltd.*)	15%	The high-new technology enterprises are levied enterprise income tax at a rate of 15% in accordance with the Announcement of the State Administration of Taxation [2012] No.12 (《国家税务总局公告 2012 年第 12 号》).
珠海越亚封装基板技术股份有限公司 (Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	15%	
珠海方正科技多层电路板有限公司 (Zhuhai Founder Tech. Multilayer PCB Co., Ltd.*)	15%	

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珠海方正科技高密电子有限公司 (Zhuhai Founder Tech. High-Density Electronic Co., Ltd.*)	15%	
重庆方正高密电子有限公司 (Chongqing Founder Hi-Tech Electronic Inc.*)	15%	
~~方正~~国际软件（北京）有限公司 (Founder International (Beijing) Co., Ltd.*)	15%	
北京汉林信通信息技术有限公司 (Beijing Hanlin Xintong Information Technology Co., Ltd.*)	15%	
方正国际软件有限公司 (Founder International Co., Ltd.*)	15%	
方正宽带网络服务有限公司 (Founder Broadband Network Service Co., Ltd.*)	15%	
北京方正科技信息产品有限公司 (Beijing Founder Scientific And Technological Information Products Co., Ltd.*)	15%	
上海北大方正科技电脑系统有限公司 (Shanghai PKU Founder Technology Computer System Co., Ltd.*)	15%	
北京方正印捷数码技术有限公司 (Beijing Founder Easiprint Co., Ltd.*)	15%	
方正医药研究院有限公司 (PKU Care Pharmaceutical R&D Center*)	15%	
北京方正阿帕比技术有限公司 (Founder Apabi Technology Limited *)	15%	
深圳方正微电子有限公司 (Shenzhen Founder Microelectronics Co., Ltd.*)	15%	
北大医药重庆大新药业股份有限公司 (Chongqing Daxin Pharmaceutical Co., Ltd.*)	15%	The income tax is subject to a preferential tax rate of 15% in accordance with: 1. the Notice of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Issues of Tax Policies concerning the In-depth Implementation of the Western Development Strategy (《财政部 海关总署 国家税务总局关于深入实施西部大开发战略有关税收政策问题的通知》) (Cai Shui [2011] No.58); 2. the Announcement of the State Administration of Taxation on Issues of Enterprise Income Tax concerning the In-depth Implementation of the Western Development Strategy (《国家税务总局关于深入实施西部大开发战略有关企业所得税问题的公告》) (Announcement of the State Administration of Taxation [2012] No.12); 3. the Catalogue of Encouraged Industries in the Western Region (《西部地区鼓励类产业目录》) (Compliance); 4. The Announcement of the State Administration of Taxation on Issues of Enterprise Income Tax concerning the Implementation of the Catalogue of Encouraged Industries in the Western Region (《国家税务总局关于执行<西部地区鼓励类产业目录>有关企业所得税问题的公告》) (Announcement of the State Administration of Taxation [2015] No.14).
重庆东渝自来水有限公司 (Chongqing Dongyu Water Supply Co., Ltd.*)	15%	
北大医药股份有限公司 (PKU HealthCare Corp., Ltd.*)	15%	
重庆方沃实业有限公司 (Chongqing Fangwo Industrial Co., Ltd.*)	15%	

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

重庆方港医药有限公司 (Chongqing Fanggang Pharmaceutical Co., Ltd.*)	15%	In accordance with the Notice of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Issues of Tax Policies concerning the In-depth Implementation of the Western Development Strategy (Cai Shui [2011] No.58), starting from 1 January 2011 to 31 December 2020, the enterprise in the encouraged industry based in the western region is levied enterprise income tax at a reduced tax rate of 15%.
北京北大方正电子有限公司 (Beijing Founder Electronics Co., Ltd.*)	10%	The key software enterprise under the national planning layout is levied enterprise income tax at a reduced tax rate of 10%.
武汉将北药品有限公司 (Wuhan Jiangbei Pharmaceutical Products Co., Ltd.*)	10%	The enterprise income tax rate of the small low-profit enterprise recognized by the competent tax authority for 2016 is 10%.
北京美嘉纳帕贸易有限公司 (Beijing Meijia Napa Trading Co., Ltd.*)	10%	The Notice of the Ministry of Finance and the State Administration of Taxation on Widening the Scope of Preferential Enterprise Income Tax Policies for Small Low-profit Enterprises (《财政部 税务总局关于扩大小型微利企业所得税优惠政策范围的通知》) (Cai Shui [2017] No.43)
方正和生投资有限责任公司 (Founder H Fund Co. Ltd.*)	9%	The enterprise income tax is subject to a preferential tax rate of 9% in Lhasa, Tibet
北大医疗产业集团控股有限公司 (PKU HealthCare Industry Group Holding Co., Ltd.*)	9%	

** For identification purpose only*

VI. NOTES TO THE ITEMS IN THE COMBINED FINANCIAL STATEMENTS

1. Monetary capital

Items	Closing balance	Opening balance
I. Cash	**2,220,269.80**	**2,131,518.83**
Renminbi (RMB)	1,986,037.66	1,888,856.52
United States dollar (US$)	176,934.55	190,699.60
Hong Kong dollar (HK$)	50,620.29	44,787.98
Other currencies	6,677.30	7,174.73
II. Bank deposits	**15,345,671,559.60**	**20,741,175,131.64**
Renminbi (RMB)	13,260,414,406.92	18,654,898,158.54
United States dollar (US$)	1,527,996,487.15	1,826,978,925.55
Hong Kong dollar (HK$)	540,371,480.42	252,492,618.06
Other currencies	16,889,185.11	6,805,429.49
III. Other monetary capital	**5,729,875,176.23**	**5,399,619,826.25**
Renminbi (RMB)	5,183,110,049.71	4,836,023,149.27

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

United States dollar (US$)	509,163,490.70	543,063,647.60
Hong Kong dollar (HK$)	37,601,635.82	20,533,029.38
Other currencies	-	-
Total	**21,077,767,005.63**	**26,142,926,476.72**

2. Financial assets at fair value through profit or loss for the current period

Item	Closing fair value	Opening fair value
Bond funds investment and others	46,143,303,693.52	35,988,100,362.29
Total	**46,143,303,693.52**	**35,988,100,362.29**

3. Bill receivables

Categories	Closing balance	Opening balance
Commercial acceptance bills	38,406,796.11	5,637,777.65
Bank acceptance bills	365,317,684.81	483,970,510.80
Total	**403,724,480.92**	**489,608,288.45**

4. Interest receivables

Category	Closing balance	Opening balance
Interest receivables	2,084,544,477.95	1,566,615,756.69
Total	**2,084,544,477.95**	**1,566,615,756.69**

5. Account receivables

(1) Ageing analysis of account receivables

Age	Closing balance		
	Book balance		Provision for bad debts
	Amount	Percentage (%)	
Within 1 year	6,350,856,362.93	86.42	127,017,127.27
1-2 years	437,469,711.04	5.95	30,622,879.77
2-3 years	264,281,272.34	3.60	26,428,127.23
Over 3 years	296,007,211.13	4.03	207,205,047.79
Total	**7,348,614,557.44**	**100.00**	**391,273,182.06**
Age	Opening balance		

	Book balance		Provision for bad debts
	Amount	Percentage (%)	
Within 1 year	6,589,695,793.27	88.07	131,793,915.86
1-2 years	399,691,437.95	5.34	27,978,400.66
2-3 years	209,882,885.15	2.81	20,988,288.52
Over 3 years	282,723,514.76	3.78	197,906,460.33
Total	**7,481,993,631.13**	**100.00**	**378,667,065.37**

(2) Account receivables from the top five companies

Name of company	Amount	Term	Percentage of total account receivables (%)
上海赋唐贸易发展有限公司 (Shanghai Futang Trading Co., Ltd.*)	338,530,597.01	1-2 years (inclusive)	4.61
北京大学国际医院 (Peking University International Hospital*)	231,797,453.65	Within 1 year (inclusive)	3.15
Margin financing receivables	218,745,467.72	Within 1 year (inclusive)	2.98
Fees and commissions receivables	125,561,058.28	Within 1 year (inclusive)	1.71
Huawei Technologies Co., Ltd.	120,126,799.85	Within 1 year (inclusive)	1.63
Total	**1,034,761,376.51**		**14.08**

* *For identification purpose only*

6. Other receivables

(1) Details of categories

Categories	Closing balance			
	Book balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to provision for bad debts	8,580,389,212.12	12.56	753,357,536.19	72.15
Subject to provision for bad debts on credit risk characteristics group (extremely low credit risks)	23,125,381,874.72	33.86	-	-
Subject to provision for bad debts on groups by ageing	36,600,421,531.64	53.58	290,821,931.25	27.85
Total	**68,306,192,618.48**	**100.00**	**1,044,179,467.44**	**100.00**

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

Categories	Opening balance			
	Book balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to provision for bad debts	4,726,597,378.44	6.42	692,488,197.03	69.58
Subject to provision for bad debts on credit risk characteristics group (extremely low credit risks)	31,606,544,481.82	42.93	-	-
Subject to provision for bad debts on groups by ageing	37,292,559,003.41	50.65	302,784,158.75	30.42
Total	**73,625,700,863.67**	**100.00**	**995,272,355.78**	**100.00**

(2) Groups by ageing

Age	Closing balance		
	Book balance		Provision for bad debts
	Amount	Percentage (%)	
Within 1 year	35,150,720,328.72	96.04	175,753,601.65
1-2 years	600,575,486.73	1.64	12,011,509.73
2-3 years	445,122,155.80	1.22	22,256,107.79
Over 3 years	404,003,560.39	1.10	80,800,712.08
Total	**36,600,421,531.64**	**100.00**	**290,821,931.25**

Age	Opening balance		
	Book balance		Provision for bad debts
	Amount	Percentage (%)	
Within 1 year	35,791,077,092.90	95.97	178,955,385.46
1-2 years	561,343,699.31	1.51	11,226,873.99
2-3 years	502,838,286.29	1.35	25,141,914.32
Over 3 years	437,299,924.91	1.17	87,459,984.98
Total	**37,292,559,003.41**	**100.00**	**302,784,158.75**

(3) Other receivables from the top five companies

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

Name of company	Amount	Term	Percentage of total amount (%)
Margin loans	23,125,381,874.72	Within 1 year (inclusive)	33.86
华融证券股份有限公司 (Huarong Securities Co., Ltd.*)	5,591,076,166.70	Within 1 year (inclusive)	8.19
北大资源集团有限公司 (Peking University Resources Group Co., Ltd.*)	1,890,551,290.37	Within 1 year (inclusive)	2.77
Asset management programmes	1,000,000,000.00	Over 3 years	1.46
光明石业股份有限公司 (Guangming Stone Co., Ltd.*)	750,000,000.00	2-3 years (inclusive)	1.10
Total	**32,357,009,331.79**		47.38

** For identification purpose only*

7. Advances paid

(1) Advances paid by age

Age	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	3,333,177,715.12	85.69	2,833,832,999.83	84.10
1-2 years	299,662,887.24	7.70	289,292,638.08	8.59
2-3 years	134,427,121.91	3.46	133,774,665.30	3.97
Over 3 years	122,399,379.93	3.15	112,529,681.34	3.34
Total	**3,889,667,104.20**	**100.00**	**3,369,429,984.55**	**100.00**

(2) Advances paid to the top five companies

Name of company	Amount	Term	Reason for not yet settled
Dasdao Commodity Exchange Co., Ltd.	368,433,000.00	Within 1 year (inclusive)	Payment for goods
戴尔（中国）有限公司(Dell (China) Co., Ltd. *)	353,764,059.43	Within 1 year (inclusive)	Payment for goods
上海辽筠贸易有限公司(Shanghai Liao Yun Trading Co., Ltd.*)	328,321,753.35	Within 1 year (inclusive)	Payment for goods
中国铜业集团有限公司(China Copper Group Co., Ltd.*)	269,866,710.41	Within 1 year (inclusive)	Payment for goods
奕循（上海）贸易有限公司(Yi Xun (Shanghai) Trading Co., Ltd.*)	264,460,484.03	Within 1 year (inclusive)	Payment for goods
Total	**1,584,846,007.22**		

** For identification purpose only*

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

8. Inventories

Items	Closing balance		
	Book balance	Impairment provision	Carrying amount
Raw materials	538,660,458.63	30,708,002.31	507,952,456.32
Inventories	6,187,726,452.51	102,059,963.72	6,085,666,488.79
Goods in transit	222,271,801.84	7,139.56	222,264,662.28
Semi-finished products	454,753,045.98	25,439,691.07	429,313,354.91
Low value consumables	10,218,886.83	452,125.03	9,766,761.80
Others	225,452,915.45	15,140,024.66	210,312,890.79
Total	**7,639,083,561.24**	**173,806,946.35**	**7,465,276,614.89**

Items	Opening balance		
	Book balance	Impairment provision	Carrying amount
Raw materials	491,399,170.18	61,727,534.82	429,671,635.36
Inventories	4,706,961,747.26	93,604,223.27	4,613,357,523.99
Goods in transit	127,913,868.71	12,071,728.14	115,842,140.57
Semi-finished products	303,883,258.75	25,439,691.07	278,443,567.68
Low value consumables	7,472,283.99	464,085.85	7,008,198.14
Packages	-	-	-
Others	297,176,271.34	153,059.47	297,023,211.87
Total	**5,934,806,600.23**	**193,460,322.62**	**5,741,346,277.61**

9. Other current assets

Detail	Closing balance	Opening balance
Financial assets purchased under agreements to resell	14,597,292,125.23	12,216,715,858.75
Financial products	1,098,288,060.78	941,000,000.00
Policy loans	251,754,847.96	183,739,410.96
Separate account assets	22,080,358.53	21,647,507.70
Deferred expenses and others	224,542,886.96	207,380,764.09
Total	**16,193,958,279.46**	**13,570,483,541.50**

10. Available-for-sale financial assets

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

Items	Closing balance	Opening balance
Bond funds, etc.	32,457,462,761.02	33,809,190,776.04
Less: Provision for impairment	70,852,089.15	71,429,626.13
Carrying amount	**32,386,610,671.87**	**33,737,761,149.91**

11. Held-to-maturity investments

Item	Closing balance	Opening balance
Bonds, etc.	1,379,636,998.87	1,496,181,083.77
Total	**1,379,636,998.87**	**1,496,181,083.77**

12. Long-term equity investments

(1) Type of long-term equity investments

Item	Closing balance	Opening balance
Long-term equity investments	5,780,078,650.37	5,416,851,695.13
Total	**5,780,078,650.37**	**5,416,851,695.13**

(2) Details of long-term equity investments

Investee	Closing balance	Opening balance
① **The details of external investment of the parent company of the Group after combination and elimination**		
方正国际租赁有限公司(Founder International Leasing Co., Ltd. *)	16,300,000.00	16,300,000.00
北大资源集团有限公司(Peking University Resources Group Co., Ltd.*)	1,929,078,782.53	1,724,539,410.17
昆山高科电子艺术创意产业发展有限公司(Kunshan Hi-tech Electronic Arts Creative Industry Development Co. , Ltd. *)	38,000,000.00	38,000,000.00
北京北大科技园有限公司(Peking University Science Park Co., Ltd.*)	30,000,000.00	30,000,000.00
Founder Information (Hong Kong) Limited	142,430,632.84	-
国通信托有限责任公司(Guotong Trust Co., Ltd.*)	583,522,037.79	541,350,611.93
北京仁和联安房地产开发有限责任公司(Beijing Renhe Lian'an Property Development Co., Ltd.*)	5,000,000.00	5,000,000.00
Total	**2,744,331,453.16**	**2,355,190,022.10**

** For identification purpose only*

②**Amount of external investment made by the subsidiaries to be consolidated**

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

北大方正投资有限公司(PKU Founder Investment Company Limited*)	110,600,000.00	110,600,000.00
方正产业控股有限公司(Founder Industry Holdings Co. , Ltd.*)	917,893,284.76	925,301,330.66
北大医疗产业集团有限公司(PKU Healthcare Industry Group Co., Ltd *)	1,553,178,540.01	1,598,041,608.58
方正证券股份有限公司(Founder Securities Co., Ltd.*)	15,636,004.13	15,636,004.13
北京方正实业开发公司(Peking Founder Industrial Development Co., Ltd. *)	4,500,000.00	4,500,000.00
方正集团(香港)有限公司(Founder Group (Hong Kong) Limited*)	-	-
中国高科集团股份有限公司(China Hi-Tech Group Co., Ltd.*)	80,430,908.97	69,863,813.37
北大方正信息产业集团有限公司(Peking University Founder Information Industry Group Co., Ltd. *)	353,508,459.34	337,718,916.29
Total	**3,035,747,197.21**	**3,061,661,673.03**

** For identification purpose only*

13. Investment properties

Items	House and buildings	Total
Opening balance	6,742,088,282.82	6,742,088,282.82
Changes in the current period	9,155,899,557.61	9,155,899,557.61
Fixed assets transferred to investment properties	6,532,800,199.57	6,532,800,199.57
Add: Changes in fair value	2,652,798,759.63	2,652,798,759.63
Less: Disposal of investment properties and others	29,699,401.59	29,699,401.59
Closing balance	**15,897,987,840.43**	15,897,987,840.43

14. Fixed assets

Categories	Closing balance	Opening balance
(1) Original cost of fixed assets		
Houses and buildings	4,627,255,497.54	8,169,003,446.81
Machinery	6,826,165,031.36	6,750,039,754.20
Electronic equipment	1,247,471,739.26	1,240,623,560.22
Transportation equipment	235,450,888.63	247,952,044.99
Office equipment	126,465,021.14	133,376,128.81
Other equipment	3,184,478,897.00	2,910,577,418.78

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

Total original cost of fixed assets	**16,247,287,074.93**	**19,451,572,353.81**
(2) Accumulated depreciation		
Houses and buildings	1,499,081,511.11	1,457,960,236.30
Machinery	3,580,149,005.60	3,296,216,018.84
Electronic equipment	813,932,592.27	776,306,400.92
Transportation equipment	224,167,653.01	224,351,766.14
Office equipment	93,384,952.91	92,818,625.86
Other equipment	967,298,804.25	817,053,681.55
Total accumulated depreciation	**7,178,014,519.15**	**6,664,706,729.61**
Net value of fixed assets	**9,069,272,555.78**	**12,786,865,624.20**
Provisions for impairment of fixed assets	**896,789,619.07**	**896,790,274.96**
Net amount of fixed assets	**8,172,482,936.71**	**11,890,075,349.24**

15. Construction in progress

Name of construction in progress	Closing balance	Opening balance
北大医疗项目(PKU Healthcare Project*)	685,442,699.81	576,039,809.34
西南合成项目(Southwest Synthetic Project*)	879,643,527.89	547,484,266.12
方正科技技改工程(Founder Technology Technological Upgrading Project *)	80,555,828.08	43,096,914.47
苏钢集团技改工程(Suzhou Steel Group Technological Upgrading Project *)	126,553,205.75	100,697,547.76
方正宽带网络工程(Founder Broadband Network Engineering Project*)	465,635,291.92	330,482,742.08
微电子工程(Microelectronic Project *)	143,737,401.20	138,104,442.12
Others	18,018,127.51	14,463,462.82
Total	**2,399,586,082.16**	**1,750,369,184.71**

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16. Project materials

Item	Closing balance			Opening balance		
	Book balance	Impairment provisions	Net book value	Book balance	Impairment provisions	Net book value

Project materials	60,650,603.65	-	60,650,603.65	85,856,383.83	-	85,856,383.83
Total	**60,650,603.65**	-	**60,650,603.65**	**85,856,383.83**	-	**85,856,383.83**

17. ~~In~~tangible assets

Categories	Closing balance	Opening balance
Land use rights	736,141,458.26	872,689,698.96
Patent technology	41,900,000.00	41,900,000.00
Software	313,107,454.24	239,225,724.85
Patents	72,222,235.54	81,372,326.65
Non-patented technology	240,166,657.82	193,776,868.73
Others	55,621,099.53	37,773,613.14
Net value of intangible assets	**1,459,158,905.39**	**1,466,738,232.33**
Impairment provisions for intangible assets	**102,980,876.63**	**102,980,876.63**
Net amount of intangible assets	**1,356,178,028.76**	**1,363,757,355.70**

18. Development expenses

Name of project	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
A network resource analyzing method and device	963,053.31	-	-	963,053.31
A network resource push and device	1,740,222.46	-	-	1,740,222.46
A smart storage's door opening method and device	1,372,565.58	-	-	1,372,565.58
A resource cache method and device	1,081,073.97	-	-	1,081,073.97
Fingerprint calculation method and mapping framework research and development project	-	-	-	-
An interface tests method and device based on the http agreement	2,376,120.65	-	-	2,376,120.65
A remote control device	2,075,567.55	-	-	2,075,567.55
Fire safety location	777,095.02	362,626.29	-	1,139,721.31

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equipment project				
A car alarm method and device	366,494.48	-	-	366,494.48
A management system and method for dangerous goods	222,422.08	-	-	222,422.08
Big data platform project	-	94,537.56	-	94,537.56
Cloud service platform project	-	12,722.11	-	12,722.11
Other information industry project	38,564,999.59	10,270,342.91	-	48,835,342.50
Other medicine project	178,335,014.29	43,219,597.48	-	221,554,611.77
Total	**227,874,628.98**	**53,959,826.35**	-	**281,834,455.33**

19. Goodwill

Name of item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
方正证券股份有限公司 (Founder Securities Co., Ltd.*)	5,148,483,283.38	-	-	5,148,483,283.38
北大方正人寿保险有限公司(PKU Founder Life Insurance Co., Ltd.*)	624,205,107.67	-	-	624,205,107.67
北大方正信息产业集团有限公司 (Peking University Founder Information Industry Group Co., Ltd. *)	537,190,682.59	-	-	537,190,682.59
北大医疗产业集团有限公司 (PKU Healthcare Industry Group Limited *)	339,750,012.52	-	179,531,621.35	160,218,391.17
中国高科集团股份有限公司 (China Hi-Tech Group Co., Ltd.*)	254,170,295.67	-	-	254,170,295.67
Total	**6,903,799,381.83**	-	**179,531,621.35**	**6,724,267,760.48**

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20. Long-term deferred expenses

Categories	Closing balance	Opening balance
Renovation costs	206,099,206.67	167,948,865.14
Software, etc.	6,765,404.53	6,145,922.51

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Others	213,693,253.42	189,904,489.35
Total	**426,557,864.62**	**363,999,277.00**

21. Deferred income tax assets

Item	Closing balance	Opening balance
Deferred income tax assets	186,445,611.68	393,838,671.71
Total	**186,445,611.68**	**393,838,671.71**

22. Other non-current assets

Items	Closing balance	Opening balance
Mid-and-long-term loans	12,870,000.00	272,250,000.00
Mid-and-long-term Trust and Investment Scheme	3,318,500,000.00	1,800,000,000.00
Prepayments for equipment and projects	198,136,760.93	184,945,785.91
Accrued compensation for asset relocation	23,516,629.25	23,516,629.25
Unrealized finance income	39,800,528.52	-
Total	**3,592,823,918.70**	**2,280,712,415.16**

23. Provision for assets impairment

Categories	Opening balance	Provision during the current period	Decrease during the current period	Closing balance
Provisions for bad debts	1,373,939,421.15	76,332,823.32	14,819,594.97	1,435,452,649.50
Provisions for inventories impairment	193,460,322.62	20,617,542.70	40,270,918.97	173,806,946.35
Impairment provisions for available-for-sale financial assets	71,429,626.13	5,672,661.88	6,250,198.86	70,852,089.15
Impairment provisions for long-term investments	117,058,040.63	-	-	117,058,040.63
Impairment provisions for held-to-maturity investments	-	-	-	-
Impairment provisions for fixed assets	896,790,274.96	-	655.89	896,789,619.07
Impairment provisions for construction in progress	-	-	-	-
Impairment provisions for intangible assets	102,980,876.63	-	-	102,980,876.63
Impairment provisions for	-	-	-	-

goodwill				
Total	**2,755,658,562.12**	**102,623,027.90**	**61,341,368.69**	**2,796,940,221.33**

24. Short-term borrowings

Categories of borrowings	Closing balance	Opening balance
Guaranteed borrowings	15,079,924,607.64	16,837,825,321.41
Secured borrowings	249,060,826.47	272,060,826.47
Pledged borrowings	2,327,319,801.13	1,223,980,282.76
Credit borrowings	2,570,412,615.55	627,440,294.19
Total	**20,226,717,850.79**	**18,961,306,724.83**

25. Financial liabilities at fair value through current profit or loss

Items	Closing balance		
	Financial liabilities held for trading	Financial liabilities designated as at fair value through current profit or loss	Total
Shares of other investors in the structured entity	-	20,593,387,537.25	20,593,387,537.25
Others	-	2,450.00	2,450.00
Total	**-**	**20,593,389,987.25**	**20,593,389,987.25**

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(Continued)

Items	Opening balance		
	Financial liabilities held for trading	Financial liabilities designated as at fair value through current profit or loss	Total
Shares of other investors in the structured entity	-	10,109,466,241.68	10,109,466,241.68
Others	-	2,450.00	2,450.00
Total	**-**	**10,109,468,691.68**	**10,109,468,691.68**

26. Bill payables

Categories	Closing balance	Opening balance
Commercial acceptance bills	332,541,900.00	95,063,324.00
Bank acceptance bills	967,142,739.20	1,233,537,986.03
Letter of credit	-	-
Total	**1,299,684,639.20**	**1,328,601,310.03**

27. Account payables

(1) Ageing analysis

Ageing analysis	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	2,107,207,835.59	85.72	2,330,391,277.76	87.44
1-2 years (inclusive)	304,979,561.83	12.41	295,903,488.13	11.10
2-3 years (inclusive)	14,231,175.37	0.58	11,460,924.62	0.43
Over 3 years	31,765,861.69	1.29	27,364,257.09	1.03
Total	**2,458,184,434.48**	**100.00**	**2,665,119,947.60**	**100.00**

(2) Accounts payable to the top five companies

Name of creditors	Amount	Ageing	Reason
戴尔（中国）有限公司(Dell (China) Co., Ltd.*)	815,016,238.90	Within 1 year	Payment for goods
宏碁电脑（上海）有限公司(Acer Computer (Shanghai) Ltd.*)	300,140,168.04	Within 1 year	Payment for goods
ANGLO AMERICAN NORTE S.A	170,184,336.09	Within 1 year	Payment for goods
METAL CHALLENGE CO., LTD	160,598,044.97	Within 1 year	Payment for goods

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LOUIS DREYFUS COMPANY ASIA PTE LTD	138,145,521.07	Within 1 year	Payment for goods
Total	**1,584,084,309.07**		

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28. Advances received

(1) Ageing analysis

Ageing analysis	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	2,562,714,117.83	94.63	1,658,565,015.43	93.54
1-2 years (inclusive)	138,617,453.62	5.12	108,490,167.94	6.12
2-3 years (inclusive)	4,439,868.11	0.16	3,844,578.43	0.22
Over 3 years	2,520,044.94	0.09	2,208,398.89	0.12
Total	**2,708,291,484.50**	**100.00**	**1,773,108,160.69**	**100.00**

(2) Advances received from the top five creditors

Name of creditors	Amount	Ageing	Reason
Regional broadband access income	409,699,661.20	Within 1 year (inclusive)	Payment for goods
北京方正世纪信息系统有限公司(Beijing Founder Century Information System Co., Ltd.*)	459,938,156.93	Within 1 year (inclusive)	Payment for goods
Commonwealth Bank of Australia	259,395,908.31	Within 1 year (inclusive)	Payment for goods
江苏上上电缆集团有限公司(Jiangsu Shangshang Cable Group Co., Ltd.*)	182,365,627.65	Within 1 year (inclusive)	Payment for goods
裕隆控股集团有限公司(Yulong Holding Group Co., Ltd.*)	182,882,262.51	Within 1 year (inclusive)	Payment for goods
Total	**1,494,281,616.60**		

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29. Staff remuneration payables

(1) List of staff remuneration payables

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Short-term remuneration	1,516,930,087.13	4,851,946,537.79	5,481,424,475.93	887,452,148.99
Post-employment benefits-defined contribution plan	25,149,867.84	367,775,059.69	369,633,795.06	23,291,132.47

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Severance benefits	21,763,024.76	74,577,162.50	85,275,919.48	11,064,267.78
Other benefits due within 1 year	-	256,703.92	256,703.92	-
Total	**1,563,842,979.73**	**5,294,555,463.90**	**5,936,590,894.39**	**921,807,549.24**

(2) Short-term remuneration

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Salaries, bonuses, allowances and subsidies	1,446,345,533.67	4,387,719,058.33	4,999,047,673.90	835,016,918.10
Employee benefits	36,742,401.26	73,783,217.31	79,692,853.50	30,832,765.07
Social insurance fee	7,745,037.08	168,574,967.38	172,012,258.65	4,307,745.81
Among which: Medical insurance fee	6,417,774.33	140,716,479.40	144,356,149.88	2,778,103.85
Work injury insurance fee	207,471.34	6,090,110.92	5,963,331.20	334,251.06
Maternity insurance fee	348,470.97	11,311,351.71	11,122,927.96	536,894.72
Housing provident fund	2,556,306.66	199,202,881.92	200,006,373.72	1,752,814.86
Labor union expenditure and staff education costs	23,540,808.46	22,666,412.85	30,665,316.16	15,541,905.15
Total	**1,516,930,087.13**	**4,851,946,537.79**	**5,481,424,475.93**	**887,452,148.99**

30. Tax payables

Name of item	Closing balance	Opening balance
Value-added tax	25,790,537.67	65,678,146.10
Urban construction tax	5,456,348.76	13,889,745.27
Enterprise income tax	129,485,563.38	1,823,602,481.76
Individual income tax	98,920,885.95	105,848,636.23
Other taxes	6,847,526.73	35,129,413.56
Total	**266,500,862.49**	**2,044,148,422.92**

31. Interest payables

Category	Closing balance	Opening balance

Interest payables	1,032,246,761.01	1,547,264,554.73
Total	**1,032,246,761.01**	**1,547,264,554.73**

32. Dividend payables

Category	Closing balance	Opening balance
Dividend payables	15,242,473.44	15,242,473.44
Total	**15,242,473.44**	**15,242,473.44**

33. Other payables

(1) Ageing analysis

Ageing analysis	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	23,336,042,435.14	92.94	20,174,023,617.47	88.97
1-2 years (inclusive)	1,362,308,925.89	5.43	2,081,703,950.07	9.18
2-3 years (inclusive)	162,976,636.53	0.65	167,129,077.11	0.74
Over 3 years	246,781,026.46	0.98	252,594,995.36	1.11
Total	**25,108,109,024.02**	**100.00**	**22,675,451,640.01**	**100.00**

(2) Other payables to the top five creditors

Name of creditor	Amount	Ageing	Reason
Trusts and structured finance	22,789,529,942.84	Within 1 year (inclusive)	Payment for financing
北京银北医疗股权投资中心（有限合伙）(Beijing Yinbei Healthcare Equity Investment Centre (Limited Partnership)*)	600,000,000.00	1-2 years (inclusive)	Business contact
深圳市立润投资有限公司 (Shenzhen Lirun Investment Co., Ltd.*)	600,000,000.00	1-2 years (inclusive)	Deposit
重庆银海融资租赁有限公司 (Chongqing Yinhai Leasing Co., Ltd.*)	158,000,000.00	1-2 years (inclusive)	Lease payment
方正国际租赁有限公司(Founder International Leasing Co., Ltd.*)	149,952,102.42	Within 1 year (inclusive)	Lease payment
Total	**24,297,482,045.26**		

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34. Non-current liabilities due within 1 year

Item	Closing balance	Opening Balance
Long-term borrowings due within 1 year	3,570,231,920.50	3,752,217,502.84
Long-term payables due within 1 year	146,218,487.38	182,001,464.41
Deferred income due within 1 year	2,354,379.80	395,121.26
Total	**3,718,804,787.68**	**3,934,614,088.51**

35. Other current liabilities

Item	Closing balance	Opening Balance
Separate account liabilities	22,080,358.53	21,647,507.70
Unearned premium reserve	55,387,090.94	39,066,525.82
Outstanding claims reserve	27,058,163.69	26,538,883.34
Accruals	251,917,028.28	5,431,238.84
Financial assets sold under repurchase agreements	28,248,099,829.00	19,596,537,221.81
Total	**28,604,542,470.44**	**19,689,221,377.51**

36. Long-term borrowings

Categories of borrowings	Closing balance	Opening Balance
Guaranteed loan	8,590,692,228.48	8,703,517,669.87
Credit loan	299,324,178.63	124,405,026.08
Pledged loan	1,325,423,728.81	203,444,055.94
Secured loan	42,574,590.39	60,000,000.00
Total	**10,258,014,726.31**	**9,091,366,751.89**

37. Bond payables

(1) Book balance

Name of item	Closing balance	Opening balance
Bond payables-nominal value	64,783,420,000.00	78,419,500,000.00
Bond payables-interest	651,849,670.04	599,004,046.47
Total	**65,435,269,670.04**	**79,018,504,046.47**

(2) Breakdown of issuance and nominal value of bonds

Name of bonds	Nominal Value	Date of issuance	Maturity of bonds
Medium term notes	1,480,000,000.00	2011/11/21	7 years
Medium term notes	1,020,000,000.00	2011/11/21	7 years
Medium term notes	2,000,000,000.00	2012/3/8	7 years
Private bonds	2,000,000,000.00	2015/10/16	3 years
Private bonds	1,000,000,000.00	2015/10/20	3 years
Private bonds	2,000,000,000.00	2016/4/14	5 years
Corporate bonds	3,810,000,000.00	2016/2/19	5 years

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Corporate bonds	4,190,000,000.00	2016/3/11	5 years
Corporate bonds	2,000,000,000.00	2016/4/29	2 years
Corporate bonds	1,740,000,000.00	2016/6/7	2 years
Corporate bonds	2,200,000,000.00	2016/6/7	3 years
Corporate bonds	1,500,000,000.00	2016/7/26	3 years
Corporate bonds	700,000,000.00	2016/7/26	5 years
Corporate bonds	600,000,000.00	2016/7/26	5 years
2015 China Science Corporate Bonds	500,000,000.00	2015/11/10	5 years
2016 China Science Corporate Bonds	800,000,000.00	2016/5/20	5 years
USD bonds	1,995,690,000.00	2017/4/20	3 years
2014 Founder Corporate Bonds	3,000,000,000.00	2014/4/28	5 years
2016 Founder Bonds C1	10,000,000,000.00	2016/2/19	5 years
2016 Founder Bonds C2	3,000,000,000.00	2016/10/28	3 years
2017 Founder Bonds C1	1,900,000,000.00	2017/9/19	3 years
2016 Founder Bonds D1	6,000,000,000.00	2016/11/18	1 year
2017 Founder Bonds D1	4,000,000,000.00	2017/7/18	1 year
Income receipts (short-term financing)	3,941,250,000.00		Within 1 year
Income receipts (bond payables)	3,406,480,000.00	2016/9/27-2017/6/22	1.5-2 years
Total	**64,783,420,000.00**		

38. Long-term payables

Item	Closing balance	Opening balance
Fixed assets acquired under finance lease	1,445,374,117.34	792,065,914.41
Total	**1,445,374,117.34**	**792,065,914.41**

39. Special payables

Item	Opening balance	Increase during the current year	Decrease during the current year	Closing balance
Policyholder deposits and investment	2,441,487,133.12	132,463,676.43	602,120,132.29	1,971,830,677.26
Government environmental relocation grants	59,422,728.45	-	2,607,311.54	56,815,416.91
Composite publishing project	50,276,451.44	-	-	50,276,451.44
Yubei District	9,039,300.00	1,820,000.00	-	10,859,300.00

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Immigration Office				
Others	7,936,289.35	7,000,000.00	9,461,332.44	5,474,956.91
Total	**2,568,161,902.36**	**141,283,676.43**	**614,188,776.27**	**2,095,256,802.52**

40. Estimated liabilities

Item	Opening balance	Increase during the current year	Decrease during the current year	Closing balance
Outstanding litigation	293,197,870.07	30,000,000.00	271,979,187.80	51,218,682.27
Accrued fines	600,000.00		600,000.00	-
Total	**293,797,870.07**	**30,000,000.00**	**272,579,187.80**	**51,218,682.27**

41. Deferred income tax liabilities

Item	Closing balance	Opening balance
Deferred income tax liabilities	2,451,000,915.17	2,034,707,916.04
Total	**2,451,000,915.17**	**2,034,707,916.04**

42. Other non-current liabilities

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Insurance reserves	3,391,959,801.27	1,189,130,310.73	-	4,581,090,112.00
Others	-	6,600,000.00	-	6,600,000.00
Total	**3,391,959,801.27**	**1,195,730,310.73**	-	**4,587,690,112.00**

43. Paid-in capital

Name of investor	Closing balance		Opening balance	
	Investment amount	Percentage (%)	Investment amount	Percentage (%)
北大资产经营有限公司 (Peking University Asset Management Company Limited*)	771,770,000.00	70.00	771,770,000.00	70.00
北京招润投资管理有限公司 (Beijing Zhaorun Investment Management Co., Ltd*)	330,758,600.00	30.00	330,758,600.00	30.00
Total	**1,102,528,600.00**	**100.00**	**1,102,528,600.00**	**100.00**

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44. Capital reserves

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Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Capital reserves	2,547,530,523.99	-	185,632,013.54	2,361,898,510.45
Total	**2,547,530,523.99**	-	**185,632,013.54**	**2,361,898,510.45**

45. Surplus reserves

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Statutory surplus reserve	260,786,857.81	-	-	260,786,857.81
Statutory public welfare fund	130,393,428.91	-	-	130,393,428.91
Total	**391,180,286.72**	-	-	**391,180,286.72**

46. Undistributed profits

Item	Amount	Percentage of withdrawal or distribution (%)
Undistributed profits at the end of last period before adjustment	10,913,412,730.70	
Total adjustment for undistributed profits at the beginning of period (Increase +, Decrease -)	-	
Undistributed profits at the beginning of period after adjustment	10,913,412,730.70	
Add: Net profits attributable to owners of parent company during the current period	-657,602,786.25	
Less: Withdrawal of statutory surplus reserves	-	10.00
Undistributed profits at the end of period	**10,255,809,944.45**	

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47. Other comprehensive income

Items	Opening balance (attributable to the parent company)	Pre-tax amount incurred in current period	Less: Amount transferred to profit or loss during the current period from other comprehensive income in the previous period	Less: Income tax expense	After-tax income attributable to the parent company	After-tax income attributable to minority shareholders	Closing balance (attributable to the parent company)
I. Other comprehensive income that cannot be reclassified to profit or loss in subsequent periods	-	-	-	-	-	-	-
1. Remeasurement of net liabilities or net assets variance of defined benefit plans	-	-	-	-	-	-	-
2. Share of other comprehensive income of investees that cannot be reclassified to profit or loss under equity method	-	-	-	-	-	-	-
II. Other comprehensive income to be reclassified to profit or loss in subsequent periods	5,978,940,095.66	1,406,666,814.86	13,548,698.37	207,840,381.10	676,114,403.68	509,163,331.71	6,655,054,499.34
1. Share of other comprehensive income of investees that will be reclassified to profit or loss under equity method	4,125,483,146.67	116,116,326.09	-	-	116,116,326.09	-	4,241,599,472.76

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2. Gain and losses from changes in fair value of available-for-sale financial assets	1,709,610,583.02	418,808,375.31	11,744,408.25	-19,021,224.22	58,812,223.14	367,272,968.14	1,768,422,806.15
3. Gain and losses from held-to-maturity investments reclassified as available-for-sale financial assets	-	-	-	-	-	-	-
4. Effective portion of profit or loss from cash flow hedge	-	-	-	-	-	-	-
5. Difference from translation of financial statements denominated in foreign currency	62,239,162.09	-35,704,307.82	1,804,290.12	-	-29,087,439.96	-8,421,157.98	33,151,722.13
6. Others	81,607,203.88	907,446,421.28	-	226,861,605.32	530,273,294.41	150,311,521.55	611,880,498.28
Total	**5,978,940,095.66**	**1,406,666,814.86**	**13,548,698.37**	**207,840,381.10**	**676,114,403.68**	**509,163,331.71**	**6,655,054,499.34**

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48. Operating income and operating cost

Name	Amount for the current period		Amount for the corresponding period of last year	
	Operating income	Operating cost	Operating income	Operating cost
Principal activities	79,562,890,305.20	72,166,720,945.63	62,749,634,778.55	56,837,386,257.39
Other operations	434,111,927.91	284,406,608.80	419,421,627.32	224,185,192.50
Total	**79,997,002,233.11**	**72,451,127,554.43**	**63,169,056,405.87**	**57,061,571,449.89**

49. Tax and surcharges

Item	Amount for the current period	Amount for the corresponding period of last year	Tax base
Business tax		158,198,820.50	3%-5%
Urban maintenance and construction tax	37,524,086.11	40,811,928.82	7%
Education surcharges	18,804,727.04	21,444,332.02	4.50%
Property tax	109,918,303.19	-	
Land use tax	11,827,815.29	-	
Stamp duty	18,346,680.47	-	
Land appreciation tax	20,540,119.84	-	
Others	10,945,857.40	9,060,893.34	
Total	**227,907,589.34**	**229,515,974.68**	

50. Finance costs

Item	Amount for the current period	Amount for the corresponding period of last year
Interest expense	4,797,671,386.09	4,602,097,676.24
Less: Interest income	181,540,197.33	202,118,010.93
Exchange gain or loss, net	-882,551.86	79,258,516.59
Handling fees of financial institutions (Others)	128,086,629.52	73,185,287.34
Total	**4,743,335,266.42**	**4,552,423,469.24**

51. Investment income

Item	Amount for the current	Amount for the

	period	corresponding period of last year
Income from long-term equity investment accounted for using the equity method	308,810,663.15	-170,321,465.56
Investment gains from disposal of long-term equity investment	-140,765,714.57	1,008,975,171.81
Gains from investment in financial instruments	1,455,302,187.28	1,484,347,137.37
Gains from disposal of financial instruments	444,437,974.33	1,672,917,276.68
Gains on futures	165,992,096.24	182,843,000.59
Total	**2,233,777,206.43**	**4,178,761,120.89**

52. Non-operating income

Items	Amounts for the current period	Amounts for the corresponding period of last year
1. Sub-total of gains from disposal of non-current assets	7,353,481.95	999,180.07
Of which: Gains from disposal of fixed assets	6,880,204.59	999,180.07
Gains from disposal of intangible assets	473,277.36	-
2. Gains from debt restructuring	-	-
3. Gains from exchange of non-monetary assets	-	-
4. Donation received	89,065.99	-
5. Government grants	69,947,266.14	117,649,971.04
6. Others	53,000,056.00	75,405,234.20
Total	**130,389,870.08**	**194,054,385.31**

53. Non-operating expenses

Items	Amounts for the current period	Amounts for the corresponding period of last year
1. Sub-total of losses from disposal of non-current assets	17,559,153.76	3,933,196.57
Of which: Losses from disposal of fixed assets	17,559,153.76	3,933,196.57
Losses from disposal of intangible assets	-	-
2. Losses from debt restructuring	-	-
3. Losses from exchange of non-monetary assets	-	-

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4. Donation made	15,552,719.79	4,410,316.17
5. Others	121,320,727.77	199,185,482.25
Total	**154,432,601.32**	**207,528,994.99**

54. Income tax expense

Items	Amounts for the current period	Amounts for the corresponding period of last year
Current income tax expenses	481,307,611.58	1,162,968,191.00
Deferred income tax expenses	35,641,585.24	192,480,429.44
Total	**516,949,196.82**	**1,355,448,620.44**

VII. RELATED PARTIES AND CONNECTED TRANSACTIONS

1. Information on the Company's parent company

Name of parent company	Connected relationship	Registered location	Legal representative	Nature of business	Ultimate controlling party	Registered capital (RMB'0,000)	Percentage of parent company's shareholding in the Company
北大资产经营有限公司(Peking University Asset Management Company Limited *)	Controlling shareholder	Beijing	Xiao Qun	Investment holding	Peking University	307,227.67	70.00%
北京招润投资管理有限公司(Beijing Zhaorun Investment Management Co., Ltd. *)	Investor	Beijing	Wei Xin	Investment management		1,000.00	30.00%

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2. Related parties with controlling relationship

Name of company	Registered capital (RMB'0,000)	Consolidation	Direct investment percentage (%)	Final consolidation rate (%)
北京方正实业开发公司 (Peking Founder Industrial Development Co., Ltd. *)	1,000.00	Yes	100.00	100.00
方正产业控股有限公司 (Founder Industry Holdings Co., Ltd.*)	120,000.00	Yes	94.17	94.17
方正证券股份有限公司 (Founder Securities Co., Ltd.*)	823,210.14	Yes	27.75	29.20
北大医疗产业集团有限公司 (PKU Healthcare Industry Group Co., Ltd.*)	250,000.00	Yes	85.60	85.60
北大方正投资有限公司(PKU Founder Investment Company Limited*)	15,000.00	Yes	80.00	100.00
深圳方正微电子有限公司 (Shenzhen Founder Microelectronics Co., Ltd.*)	43,583.02	Yes	63.69	63.69
北大方正培训中心(PKU Founder Training Center*)	500.00	Yes	100.00	100.00
北大方正集团财务有限公司 (PKU Founder Group Finance Co., Ltd.*)	500,000.00	Yes	50.00	100.00
方正资本控股股份有限公司 (Founder Capital Holdings Co., Ltd.*)	20,000.00	Yes	70.00	100.00
北大方正信息产业集团有限公司(Peking University Founder Information Industry Group Co., Ltd. *)	100,000.00	Yes	100.00	100.00
中国高科集团股份有限公司 (China Hi-Tech Group Co., Ltd.*)	58,665.60	Yes	20.03	20.03
北大方正人寿保险有限公司 (PKU Founder Life Insurance Co., Ltd.*)	193,000.00	Yes	51.00	51.00
Founder Group (Hong Kong) Limited	18,294.06	Yes	100.00	100.00

* *For identification purpose only*

3. Related parties with no controlling relationship

Name of company	Relationship with the Company
Peking University	Ultimate controlling party of the Company
北京北大科技园有限公司(Peking University Science Park Co., Ltd.*)	Investee of the Company
方正国际租赁有限公司(Founder International Leasing Co., Ltd.*)	Investee of the Company
昆山高科电子艺术创意产业发展有限公司(Kunshan Hi-Tech Electronic Arts Creative Industry Development Co., Ltd.*)	Investee of the Company
北大资源集团有限公司(Peking University Resources Group Co., Ltd.*)	Investee of the Company
Founder Information (Hong Kong) Limited	Investee of the Company
北京仁和联安房地产开发有限责任公司(Beijing Renhe Lian'an Property Development Co., Ltd.*)	Investee of the Company
国通信托有限责任公司(Guotong Trust Co., Ltd.*)	Investee of the Company
北京北大科技园建设开发有限公司(Peking University Science Park Construction & Development Company Limited*)	Company controlled by the same controlling party
北京方正世纪信息系统有限公司(Beijing Founder Century Information System Co., Ltd.*)	Company controlled by the same controlling party
北大资源集团投资有限公司(Peking University Resources Group Investment Co., Limited*)	Company controlled by the same controlling party
北京北大方正软件技术学院(Peking University Founder Technology College*)	Company controlled by the same controlling party
北京北大国际旅行社有限公司(Beijing Beida International Travel Service Co., Ltd.*)	Company controlled by the same controlling party
北京北大英华科技有限公司(Chinalawinfo Co., Ltd.*)	Company controlled by the same controlling party
北京北大资源物业经营管理集团有限公司(Beijing Peking University Resource Property Management Group Co., Ltd.*)	Company controlled by the same controlling party
北京北大资源物业经营管理集团有限公司海淀分公司(Beijing Peking University Resource Property Management Group Co., Ltd., Haidian Branch*)	Company controlled by the same controlling party
北京方正数字科技有限公司(Beijing Founder Digital Technology Co., Ltd.*)	Company controlled by the same controlling party
济南源利置业有限公司(Jinan Yuanli Properties Co., Ltd.*)	Company controlled by the same controlling party
上海德麟物业管理有限公司(Shanghai Delin Property Management Co., Ltd.*)	Company controlled by the same controlling party
苏州方诚物业服务有限公司(Suzhou Fangcheng Property Service Co., Ltd.*)	Company controlled by the same controlling party
北京博雅禾木园林景观科技有限公司(Beijing Boyahemu Landscape Technology Co. Ltd*)	Company controlled by the same controlling party

北京盛荣饮食服务有限责任公司(Beijing Shengrong Catering Services Co., Ltd*)	Company controlled by the same controlling party
武汉长江世纪投资有限公司(Wuhan Changjiang Century Investment Company Limited*)	Company controlled by the same controlling party
北大资源集团控股有限公司(Peking University Resources Group Holdings Co., Ltd.*)	Company controlled by the same controlling party
北大资源集团商业有限公司(Peking University Resources Group Commercial Co., Ltd.*)	Company controlled by the same controlling party
北大资源（湖北）资产管理有限公司(Peking University Resources (Hubei) Asset Management Company Limited*)	Company controlled by the same controlling party
上海富世投资咨询有限公司(Shanghai Fushi Investment Consultation Co., Ltd.*)	Controlled by the same party
武汉天馨物业发展有限公司(Wuhan Tianxin Property Development Co., Ltd.*)	Controlled by the same party
北京方亚海泰科技有限公司(Beijing Fangya Haitai Technology Co., Ltd.*)	Controlled by the same party
珠海越亚封装基板技术股份有限公司(Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	Subsidiary's affiliated company
淮北智慧城市投资运营有限公司(Huaibei Smart City Investment Operation Co., Ltd.*)	Subsidiary's affiliated company
燕园高科（北京）教育科技有限公司(Yanyuan Hi-tech (Beijing) Education Technology Co., Ltd.*)	Subsidiary's affiliated company
北京北大医疗肿瘤医院管理有限公司(PKUCare Tumor Hospital Management Company Limited*)	Subsidiary's affiliated company
上海观臻股权投资基金合伙企业（有限合伙）(Shanghai Guanzhen Equity Investment Fund Partnership (Limited Partnership)*)	Subsidiary's affiliated company
华夏智城有限公司(Huaxia Zhicheng Co., Ltd.*)	Subsidiary's affiliated company
珠海华金方正创业股权投资基金(有限合伙)(Zhuhai Huajin Founder Entrepreneur Equity Investment Fund (Limited Partnership)*)	Subsidiary's affiliated company
北京山海经纬信息技术有限公司(Beijing Easymap Information Technology Co., Ltd.*)	Controlled by the key management of subsidiaries
北京高科股权投资基金管理合伙企业（有限合伙）(Beijing Hi-tech Equity Investment Fund Management Partnership (Limited Partnership)*)	Jointly established by the former senior management of subsidiaries
北京勤兢投资管理有限公司(Beijing Qinjing Investment Management Co., Ltd.*)	Legal person and the former president of the subsidiary acted by the same individual
高科教育科技（北京）有限公司(Hi-tech Education Technology (Beijing) Co., Ltd.*)	Legal person and the former president of the subsidiary acted by the same individual
山东高科教育科技有限公司(Shandong Hi-tech Education Technology Co., Ltd.*)	Legal person and the former president of the subsidiary

	acted by the same individual
高科教育（潍坊）股权投资合伙企业（有限合伙）(Hi-tech Education (Weifang) Equity Investment Partnership (Limited Partnership)*)	Executive partner and the former president of the Company acted by the same individual
北京北大医疗产业基金管理有限公司(Peking University Healthcare Industry Fund Management Co., Ltd.*)	Jointly controlled by Peking University
北京迦南门诊部有限公司(Beijing Canaan Clinic Co., Ltd.*)	Jointly controlled by Peking University
北京大学国际医院(Peking University International Hospital*)	Jointly controlled by Peking University
北京大学人民医院(Peking University People's Hospital*)	Jointly controlled by Peking University
北京市天元律师事务所(Beijing Tian Yuan Law Firm*)	Corporate directors acted by partners
方正国际商业保理有限公司(Founder International Business Factoring Co., Ltd*)	Others
北大培生（北京）文化发展有限公司(Peking University Pearson (Beijing) Cultural Development Co., Ltd.*)	Others
北京盘古氏投资有限公司(Beijing Pangu Investment Inc.*)	Others

* *For identification purpose only*

4. Information on Connected Transactions

(1) Connected transactions in relation to purchase of goods and acquisition of laboring services

Name of related parties	**Content of connected transactions**	**Amounts for the current period**	**Amounts for the corresponding period of last year**
Peking University	Acquisition of laboring services	768,000.00	
Peking University	Prepayments for gym and basketball stadium	13,000.00	8,000.00
Peking University	Courseware production for National School of Development	-	19,218.00
北京北大资源物业经营管理集团有限公司 (Beijing Peking University Resource Property Management Group Co., Ltd.*)	Lease and acquisition of laboring services, etc.	2,241,565.18	2,369,610.67
北大资源（湖北）资产管理有限公司(Peking University	Lease and acquisition of laboring services,	332,681.49	362,300.85

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Resources (Hubei) Asset Management Company Limited*)	etc.		
北京大学国际医院 (Peking University International Hospital*)	Lease and acquisition of laboring services, etc.	102,600.00	-
北大资源集团有限公司(Peking University Resources Group Co., Ltd.*)	Rents and rental deposits	145,672.39	47,093.27
北京北大科技园建设开发有限公司 (Peking University Science Park Construction & Development Company Limited*)	Accommodation and catering	7,000.00	34,278.00
北京市天元律师事务所 (Beijing Tian Yuan Law Firm*)	Legal service fees and travelling fees for due diligence	502,467.00	-
北京方正世纪信息系统有限公司 (Beijing Founder Century Information System Co., Ltd.*)	Purchase of goods	246,139.00	2,749,360.30
北京北大方正软件技术学院 (Peking University Founder Technology College*)	Acquisition of laboring services	16,000.00	-
珠海越亚封装基板技术股份有限公司 (Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	Acquisition of laboring services	1,457.33	-
Total		**4,376,582.39**	**5,589,861.09**

(2) Connected Transactions in relation to sale of goods and rendering of laboring services

Name of related parties	Content of connected transactions	Amounts for the current period	Amounts for the corresponding period of last year
Peking University	Business broadband access	127,150.70	115,628.40
北京大学人民医院 (Peking University People's Hospital*)	Sale of goods, etc.	137,580,968.34	96,752,355.96
北京大学国际医院 (Peking University International Hospital*)	Sale of goods, etc.	368,306,810.47	182,066,248.12
北京大学第一医院 (Peking University First Hospital*)	Business broadband access	20,684.91	25,205.50

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北京大学第三医院 (Peking University Third Hospital*)	Business broadband access	195,000.00	-
国通信托有限责任公司 (Guotong Trust Co., Ltd.*)	Rendering of laboring services	1,043,795.10	-
北大资源集团有限公司 (Peking University Resources Group Co., Ltd.*)	Business broadband access	29,041.08	18,896.17
北大资源集团有限公司 (Peking University Resources Group Co., Ltd.*)	Sale of goods, etc.	4,313,869.54	40,981.93
北京北大资源物业经营管理集团有限公司 (Beijing Peking University Resource Property Management Group Co., Ltd.*)	Premium income	5,366,590.98	1,958,801.50
北京北大科技园建设开发有限公司 (Peking University Science Park Construction & Development Company Limited*)	Premium income	310,131.71	-
北京北大科技园有限公司 (Peking University Science Park Co., Ltd.*)	Business broadband access	51,046.59	68,121.65
山东北大医疗鲁中医院有限公司 (Shandong PKUCare Luzhong Hospital Co., Ltd.*)	Sale of goods, etc.	14,305,476.25	25,523,972.89
北京迦南门诊部有限公司 (Beijing Canaan Clinic Co., Ltd.*)	Sale of goods, etc.	1,338,556.90	35,017,139.25
北京北大方正软件技术学院 (Peking University Founder Technology College*)	Sales contract	13,735.85	-
北京方正世纪信息系统有限公司 (Beijing Founder Century Information System Co., Ltd.*)	Service charge	58,258.00	49,812.60
北大英华科技有限公司 (Chinalawinfo Co., Ltd.*)	Business broadband access	20,120.52	-
北京阿博泰克北大青鸟信息科技有限公司 (Beijing Aptech Beida Jade Bird Information Technology Co., Ltd.*)	Business broadband access	42,632.87	28,734.26
北京方正数字科技有限公司 (Beijing Founder Digital Technology Co. Ltd.*)	Business broadband access	33,657.53	45,022.23
方正国际租赁有限公司 (Founder International Leasing Co., Ltd. *)	Business broadband access	23,803.82	31,999.98

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珠海越亚封装基板技术股份有限公司 (Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	Sale of goods	3,057,543.90	4,339,104.37
珠海越亚封装基板技术股份有限公司 (Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	Rendering of laboring services	1,895,623.42	2,225,810.70
Total		**538,134,498.48**	**348,307,835.51**

(3) The Company as lessor:

Name of lessees	Type of leased assets	Lease income recognised in the current period	Lease income recognised in the last period
北大资源集团有限公司 (Peking University Resources Group Co., Ltd.*)	Leasing of properties	2,171,428.68	-
珠海越亚封装基板技术股份有限公司(Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	Leasing of utility services and back-up facilities	2,097,142.86	3,072,264.21
北京方正世纪信息系统有限公司(Beijing Founder Century Information System Co., Ltd.*)	Leasing of properties	237,504.52	116,815.40
苏州方诚物业服务有限公司 (Suzhou Fangcheng Property Service Co., Ltd.*)	Leasing of properties	3,085,714.44	-
国通信托有限责任公司 (Guotong Trust Co., Ltd.*)	House	290,609.52	871,828.57
Total		**7,882,400.02**	**4,060,908.18**

(4) The Company as lessee:

Name of lessors	Type of leased assets	Lease fees recognised in the current period	Lease fees recognised in the last period
北大资源集团有限公司 (Peking University Resources Group Co., Ltd.*)	House and buildings, carpark	25,181,504.30	23,839,004.05
北京盘古氏投资有限公司 (Beijing Pangu Investment	Leasing of properties	55,470,079.80	55,470,079.80

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Inc.*)			
北京北大资源物业经营管理集团有限公司(Beijing Peking University Resource Property Management Group Co., Ltd.*)	Leasing of properties	24,992,332.74	28,503,312.39
北京方亚海泰科技有限公司(Beijing Fangya Haitai Technology Co., Ltd.*)	Rental expenses and property management expenses	422,796.15	7,201,360.50
珠海越亚封装基板技术股份有限公司(Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	Leasing of equipment	2,450,418.36	2,069,869.94
方正国际租赁有限公司(Founder International Leasing Co., Ltd.*)	Leasing of electronic equipment	6,699,080.17	9,245,489.69
Total		**115,216,211.52**	**126,329,116.37**

(5) Amount due from related parties

Name of projects	Related parties	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Account receivables	北京大学国际医院(Peking University International Hospital*)	231,797,453.65	1,150,383.06	128,170,306.34	632,247.33
Account receivables	北京大学人民医院(Peking University People's Hospital*)	-	-	100,172,515.80	500,862.58
Account receivables	北大医疗鲁中医院(PKUCare Luzhong Hospital*)	7,418,828.25	37,094.14	12,816,582.50	64,082.91
Account receivables	北京迦南门诊部有限公司(Beijing Canaan Clinic Co., Ltd.*)	526,109.11	2,630.55	5,000.22	25.00
Account receivables	淮北智慧城市投资运营有限	94,399,000.00	-	94,599,000.00	-

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	公司(Huaibei Smart City Investment Operation Co., Ltd.*)				
Account receivables	北京山海经纬信息技术有限公司(Beijing Easymap Information Technology Co., Ltd.*)	10,185,764.48	-	10,185,764.48	-
Account receivables	珠海越亚封装基板技术股份有限公司(Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	409,087.00	20,454.35	2,132,506.64	106,625.33
Account receivables	方正国际租赁有限公司(Founder International Leasing Co., Ltd.*)	-	-	4,185.29	-
Prepayments	苏州方正璞华信息技术有限公司(Suzhou Founder Purvar Information Technology Co. Ltd.*)	38,283.98	-	21,824.37	-
Prepayments	北京方正世纪信息系统有限公司(Beijing Founder Century Information System Co., Ltd.*)	31,500.00	-	61,500.00	-
Prepayments	北大培生（北京)文化发展有限公司(Peking	15,000,000.00	-	15,000,000.00	-

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—	University Pearson (Beijing) Cultural Development Co., Ltd.*)				
Other receivables	北京盘古氏投资有限公司 (Beijing Pangu Investment Inc.*)	12,000,000.00	9,600,000.00	12,000,000.00	9,600,000.00
Other receivables	北大资源集团有限公司 (Peking University Resources Group Co., Ltd.*)	1,890,551,290.37	9,452,756.45	3,253,923,167.20	16,269,615.84
Other receivables	北大国际医院集团有限公司 (PKU International Healthcare Group Co., Ltd.*)	345,000.00	-	345,000.00	-
Other receivables	北京方亚海泰科技有限公司 (Beijing Fangya Haitai Technology Co., Ltd.*)	600.00	90.00	600.00	90.00
Other receivables	珠海越亚封装基板技术股份有限公司 (Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	2,256,507.92	48,825.40	2,073,641.11	103,682.05
Other receivables	燕园高科（北京)教育科技有限公司 (Yanyuan Hi-tech	1,029,080.04	328,455.07	614,131.04	328,455.07

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	(Beijing) Education Technology Co., Ltd.*)				
—— Other receivables	北京北大科技园有限公司 (Peking University Science Park Co., Ltd.*)	453,431,278.00	90,686,255.60	453,431,278.00	90,686,255.60
Other receivables	北京北大科技园建设开发有限公司 (Peking University Science Park Construction & Development Company Limited*)	17,023,060.00	3,404,612.00	17,023,060.00	3,404,612.00
Total		**2,736,442,842.80**	**114,731,556.62**	**4,102,580,062.99**	**121,696,553.71**

(6) Payables to related parties

Name of projects	**Related parties**	**Book balance at the end of the period**	**Book balance at the beginning of the period**
Account payables	北京方正世纪信息系统有限公司 (Beijing Founder Century Information System Co., Ltd.*)	6,270,564.70	8,784,166.92
Account payables	苏州方正璞华信息技术有限公司 (Suzhou Founder Purvar Information Technology Co. Ltd.*)	39,624.04	-
Account payables	方正国际租赁有限公司 (Founder International Leasing Co., Ltd.*)	25,224,917.22	5,997,123.79
Account payables	北京北大纵横管理咨询有限责任公司(Beijing Alliance PKU Management Consultants Ltd.*)	80,000.00	341,792.46
Account payables	北京北大方正软件技术学院 (Peking University Founder Technology College*)	16,000.00	-
Advances received	上海方正科技软件有限公司 (Shanghai Founder Technology Software Limited*)	1,000.00	-
Advances	北京方正世纪信息系统有限公司	57,887.98	5,201.25

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received	(Beijing Founder Century Information System Co., Ltd.*)		
Advances received	方正东亚信托有限责任公司(Founder BEA Trust Co., Ltd.*)	305,140.00	-
Advances received	北京山海经纬信息技术有限公司(Beijing Easymap Information Technology Co., Ltd.*)	369,237.22	369,237.22
Advances received	方正国际租赁有限公司(Founder International Leasing Co., Ltd.*)	-	27,814.71
Interest payables	北京北大方正软件技术学院(Peking University Founder Technology College*)	60,000.00	621,291.67
Interest payables	方正国际商业保理有限公司(Founder International Business Factoring Co., Ltd*)	841,334.50	-
Accruals	北京方正世纪信息系统有限公司(Beijing Founder Century Information System Co., Ltd.*)	2,417.95	2,417.95
Accruals	苏州方正璞华信息技术有限公司(Suzhou Founder Purvar Information Technology Co. Ltd.*)	46,312.21	33,874.73
Other payables	国通信托有限责任公司(Guotong Trust Co., Ltd.*)	282,510.00	282,510.00
Other payables	珠海越亚封装基板技术股份有限公司(Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	1,384,900.81	106,837.60
Long-term payables	方正国际租赁有限公司(Founder International Leasing Co., Ltd.*)	58,538,876.67	39,200,042.31
Non-current liabilities due within 1 year	方正国际租赁有限公司(Founder International Leasing Co., Ltd.*)	8,401,474.93	54,454,787.62
Total		**101,922,198.23**	**110,227,098.23**

(7) Borrowings balance of related parties - Borrowed

Related parties	Closing balance	Opening balance
方正国际商业保理有限公司(Founder International Business Factoring Co., Ltd*)	268,924,766.79	732,599,474.13
方正国际租赁有限公司(Founder International Leasing Co., Ltd.*)	340,697,220.60	372,561,827.51
Total	**609,621,987.39**	**1,105,161,301.64**

Borrowings balance of related parties - Lent

Related parties	Closing balance	Opening balance

北京方正世纪信息系统有限公司 (Beijing Founder Century Information System Co., Ltd.*) (Lent)	198,000,000.00	-
Total	**198,000,000.00**	-

(8) Other connected transactions

Related parties	Content of connected transactions	Current period	Previous period
北京方正世纪信息系统有限公司(Beijing Founder Century Information System Co., Ltd.*)	Interest income	6,858,773.58	-
北大资源集团有限公司 (Peking University Resources Group Co., Ltd.*)	Interest income	3,340,790.31	-
方正中鸿（上海）融资租赁有限公司(Founder Zhonghong (Shanghai) Leasing Co., Ltd.*)	Interest expense	3,619,211.22	-
方正中鸿（深圳）融资租赁有限公司(Founder Zhonghong (Shenzhen) Leasing Co., Ltd.*)	Interest expense	163,738.99	-
北京方正世纪信息系统有限公司(Beijing Founder Century Information System Co., Ltd.*)	Interest expense	59,588.42	-
方正国际租赁有限公司 (Founder International Leasing Co., Ltd.*)	Interest expense	3,211,756.51	1,387,288.51
北京北大资源物业经营管理集团有限公司(Beijing Peking University Resource Property Management Group Co., Ltd.*)	Interest expense	671,404.80	-
北京北大科技园建设开发有限公司(Peking University Science Park Construction & Development Company Limited*)	Interest expense	64.73	-
北京北大科技园有限公司 (Peking University Science Park Co., Ltd.*)	Interest expense	1,557.72	-
北京北大方正软件技术学院 (Peking University Founder	Interest expense	1,735,577.58	-

Technology College*)			
北大资源集团有限公司 (Peking University Resources Group Co., Ltd.*)	Interest expense	10,101,849.83	-
方正国际商业保理有限公司 (Founder International Business Factoring Co., Ltd*)	Interest expense	6,869,395.25	6,316,999.99
珠海越亚封装基板技术股份有限公司(Zhuhai Advanced Chip Carriers & Electronic Substrate Solutions Technologies Co., Ltd*)	Collection and payment of utilities	773,318.03	1,017,731.21
苏州方诚物业服务有限公司 (Suzhou Fangcheng Property Service Co., Ltd.*)	Collection and payment of utilities	264,079.30	576,301.94
Total		**37,671,106.27**	**9,298,321.65**

(9) Guarantee by Related Parties (Unit: RMB100 million)

The Company as a guarantor

Entities receiving guarantees	Type of guarantee	Currency	Term	Guarantee balance
北大资源集团有限公司(Peking University Resources Group Co., Ltd.*)	Guarantee by assurance	RMB	2015-2021	160.76
北京北大科技园建设开发有限公司 (Peking University Science Park Construction & Development Company Limited*)	Guarantee by assurance	RMB	2017-2032	15.00
方正国际租赁有限公司(Founder International Leasing Co., Ltd.*)	Guarantee by assurance	RMB	2014-2019	4.05
方正国际商业保理有限公司(Founder International Business Factoring Co., Ltd*)	Guarantee by assurance	RMB	2016-2017	5.37
北京方正世纪信息系统有限公司 (Beijing Founder Century Information System Co., Ltd.*)	Guarantee by assurance	RMB	2016-2018	6.30
Total in RMB				**191.48**

The Company (including subsidiaries) as a guaranteed party

Entities providing guarantees	Relationship with the Company	Purpose of the guarantee	Guarantee balance

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北大资源集团有限公司(Peking University Resources Group Co., Ltd.*)	Enterprise under the same control	Acquiring loans	57.71
Total in RMB			**57.71**

VIII. CONTINGENCIES

1. Contingent liabilities of pending litigation or arbitration and its financial effects

(1) Entrusted asset management dispute (Loan transfer dispute)

In January 2001, the former 湖南证券有限责任公司 (Hunan Securities Co., Ltd*) (thereafter changed its name to 泰阳证券 (Taiyang Securities*), hereinafter referred to as "Taiyang Securities") and 航天固体运载火箭有限公司 (Aerospace Solid-propellant Launch Vehicle Co., Ltd.*, hereinafter referred to as "Aerospace") entered into the Entrusted Asset Management Agreement and the Supplemental Entrusted Asset Management Agreement, pursuant to which Aerospace agreed to entrust Taiyang Securities to manage its cash assets of RMB200 million with an annual return of 15%. On 29 September 2007, Aerospace issued the Letter Regarding Return of the Entrusted Assets to Taiyang Securities, requesting Taiyang Securities to return the capital of RMB230 million by 31 December 2007. On 24 December 2007, Aerospace filed a lawsuit against Taiyang Securities in the Higher People's Court of Hunan Province (the "Hunan High Court") in respect of the entrusted asset management dispute, demanding Taiyang Securities to return the principal and interest of the entrusted assets. On 25 March 2008, the Hunan High Court issued a civil ruling (2008) Xiang Gao Fa Min Er Chu Zi No. 2-1 that "the case was related to the suspected crime of manipulating prices of securities transactions committed by the Plaintiff, Chen Jun, the general manager, and the Defendant, Li Xuanmin, the former president and others", and ruled to suspend the trial of the case according to the law.

On 14 March 2012, the Hunan High Court issued a written notice, stating that the case was referred to Economic Crime Investigation Division of Hunan Public Security Bureau, and the civil case regarding the entrusted asset management handled by the Hunan High Court has been closed accordingly as at the date hereof.

In July 2013, 航天科工资产管理有限公司 (CASIC Assets Management Co., Ltd.*, hereinafter referred to as "CASIC Assets Management") filed a lawsuit against Aerospace in the First Intermediate People's Court of Beijing Municipality (hereinafter referred to as "First Intermediate Court of Beijing") by reason of signing the Loan Transfer Agreement with Aerospace and its failure to recover debt. Further, in August 2013, CASIC Assets Management made an application to the First Intermediate Court of Beijing to add Founder Securities as the First Defendant, for the repayment to the applicant of RMB238,885,700 together with the provisional interest totaling RMB124,480,000 of the principal of RMB200 million from the corresponding period of 10 January 2002 to 31 October 2012 which was calculated at the 5-year bank loan interest rate of 5.76% for the corresponding period, and in addition, to claim Aerospace as the Second Defendant to be jointly and severally liable for the guarantee on the abovementioned debt.

Founder Securities submitted its objection to the jurisdiction of the case. Subsequently, the Supreme People's Court made a judgement after retrial to refer the case to the Higher People's Court of Beijing Municipality (hereinafter referred to as "Beijing High Court"). After holding oral hearings of the case, Beijing High Court made a judgement on 7 August 2015 (the Judgement was received on 14 August) ruling against Founder Securities. In September 2015, Founder Securities appealed to Supreme People's Court and the case was for oral hearing on 2 December 2015. On 17 April 2017, Founder Securities received a civil ruling (2015) Min Er Zhong Zi No. 386 from Supreme People's Court ruling that Founder Securities shall return to CASIC Assets Management an amount of RMB140 million and the interests thereof (calculated for the period from 12 December 2001 to the date of payment at the loan interest rate for the corresponding period stipulated by the People's Bank of China, net of RMB14,114,322.87 paid by Taiyang Securities) within 10 days after the ruling came into force, and Aerospace shall be jointly and severally liable for the guarantee on the abovementioned debt. The ruling has been effective and the trial of the case has been concluded.

* *For identification purpose only*

(2) Dispute of Commodity Housing Sale and Purchase Contract sued by Founder Industry Holdings and Resource Property against Zenith Holdings

方正产业控股有限公司 (Founder Industry Holdings Co., Ltd.*, hereinafter referred to as "Industry Holdings") entered into a commodity housing sale and purchase contract with Zenith Holdings in October 2013, pursuant to which, Industry Holdings intended to purchase apartments in Golden Spring Plaza at a total consideration of RMB670 million. Industry Holdings paid the total sum of housing price under the contract. Subsequently, both parties terminated the contract, and Zenith Holdings refunded RMB230 million, with the outstanding principal of RMB440 million. Industry Holdings filed a lawsuit against Zenith Holdings in Beijing High Court in request of the refund of the principal and interests. The case was proceeded to provide evidence for cross-examination on 14 April 2016. On 30 November 2016, the Higher People's Court of Beijing Municipality made its first instance judgement in favor of all the requests claimed by Industry Holdings except for the penalty for delay in delivery of houses and the interests of overdue refund of housing price being calculated at the bank loan interest rates for the corresponding period. Zenith Holdings filed an appeal on 15 December 2016 but did not pay the legal fees so the judgement has become effective. The trial of the case has been concluded and entered into the execution process.

北京北大资源物业经营管理集团有限公司 (Beijing Peking University Resource Property Management Group Co., Ltd.*, hereinafter referred to as "Resource Property") entered into a commodity housing sale and purchase contract with Zenith Holdings in December 2013, pursuant to which, Resource Property purchased apartments in Golden Spring Plaza at a total consideration of RMB900 million. Resource Property paid the total sum of housing price under the contract. However, Zenith Holdings failed to deliver the house and refund the housing price under the contract. Resource Property filed a lawsuit against Zenith Holdings in Beijing High Court in request of the refund of the principal and interests. On 30 November 2016, the Higher People's Court of Beijing Municipality made its first instance judgement in favor of all the requests claimed by Resource Property. The judgement has become effective. The trial of the case has been concluded and entered into the execution process.

* *For identification purpose only*

(3) The case filed by Zenith Holdings against Founder Securities claiming to void the resolutions of the board

On 14 May 2015, Zenith Holdings, the second largest shareholder of Founder Securities, filed a lawsuit against Founder Securities by reason of a dispute over the validity of the Company's resolution, claiming the contents of "the Resolution in relation to the election of the Chairman of the Board" contained in the announcement no. 2015-038 issued by the Company on 12 March 2015, titling "Resolutions of the sixteenth meeting of the second session of the Board of Founder Securities Co., Ltd.", invalid. Subsequently, Founder Securities submitted to the court its objection to the jurisdiction of the case. On 10 June 2015, the first instance court, Xicheng District People's Court of Beijing Municipality made a judgment to refer the case to the Tianxin District People's Court of Changsha, Hunan. On 23 May 2016, the case was for oral hearing. Founder Securities received a civil ruling [(2015) Tian Min Chu Zi No. 05450] from Tianxin District People's Court of Changsha, Hunan ruling rejecting the claims made by the Plaintiff, 北京政泉控股有限公司(Beijing Zenith Holdings Co. Ltd.*). The judgement has become effective.

* *For identification purpose only*

(4) 北京万顺达房地产开发有限公司 (Beijing Wanshunda Real Estate Development Co., Ltd.*) was sued by a group of 6 people (including 刘玉霞 (Liu Yuxia*)) for a dispute over the Commodity Housing Presale Contract

北京万顺达房地产开发有限公司 (Beijing Wanshunda Real Estate Development Co., Ltd.*, hereinafter referred to as "Wanshunda") is a subsidiary controlled by 中国高科 (China Hi-Tech*). A group of 6 people including Liu Yuxia (hereinafter referred to as the "Plaintiffs") acquired medical auxiliary service facilities on the commercial land developed by Wanshunda, i.e. totaling 34 housing units, and entered into Beijing Commodity Housing Presale Contract (for Commercial, Office and Other Non-Residential Purpose) (hereinafter referred to as the "Presale Contract") with Wanshunda. The Plaintiffs considered that they had suffered losses arising from Wanshuanda's breach of the Presale Contract in many aspects, such as late housing delivery, design and construction defects in delivered housing units, incompliance with contracted conditions and providing neither renovation service nor assistance thereto, etc. Therefore they claimed a compensation of approximately RMB143 million for loss of late housing delivery, renovation expenditure and loss of income suffered by the Plaintiffs arising from abnormal operation of the delivered housing units due to incompliance with contracted terms of such housing units, and filed a lawsuit in the court of Haidian. In November 2016, a hearing was held by the People's Court of Haidian District, Beijing.

Wanshunda received a Civil Ruling issued by the People's Court of Haidian District, Beijing on 15 August 2017, stating the following judgements: (1) all the complains from the Plaintiffs were rejected; (2) the Plaintiffs shall be liable for the litigation fee (settled); (3) the Plaintiffs shall be liable for the preservation fee (settled) and (4) the Plaintiffs shall be liable for the related expense of appraisal (settled), all the above being calculated on the basis of 34 housing units involved.

** For identification purpose only*

(5) Founder International and Founder Group were sued for patent infringement

On 29 June 2016, 吴建明 (Wu Jianming*) filed a lawsuit against Founder International and Founder Group in the Intellectual Property Court of Beijing Municipality, asserting that the "Founder Electronic Stamp" system owned by Founder International infringed its patent of invention, and as the PPT materials with logo of Founder Group had been used by Founder International for advertising purpose, Founder Group shall assume joint legal liability. Therefore, he requested the two defendants to publish a letter of apology on CHINA INTELLECTUAL PROPERTY NEWS to eliminate the negative effect of their infringement on the plaintiff.

Founder International and Founder Group received a notice of respondence to action and other materials in relation to this case in July 2016. After hearing, the court made the first-instance judgement to reject the plaintiff's claim on 23 June 2017. The judgement has become effective and the case has been concluded.

** For identification purpose only*

(6) Founder Commodities and Founder Chemicals was sued for proprietary technology infringement

On 20 July 2016, Founder Commodities received an indictment served by the Higher People's Court of Fujian Province, pursuant to which, 汕头海洋公司 (Shantou Ocean Company*) filed a lawsuit against Founder Commodities, Founder Chemicals and another two companies and asserted that the machinery equipment acquired by the Founder Commodities through auction in 2007 and later contributed to Founder Chemicals were closely correlated to the proprietary technology it was interested in, while Founder Commodities infringed its trade secrets by engaging former employees of Shantou Ocean Company. Therefore, it requested Founder Commodities and Founder Chemicals to stop such act of infringement and jointly indemnified for its economic loss incurred of RMB100 million.

On 31 August 2016, Founder Commodities submitted its objection to the jurisdiction of the case to the Supreme People's Court, which, however, was dismissed and the case was referred to the Higher People's Court of Fujian Province for further trial. On 5 May 2017, the Higher People's Court of Fujian Province added 福建天原化工有限公司 (Fujian Tianyuan Chemicals Co., Ltd.*) into the list of defendants. Fujian Tianyuan Chemicals Co., Ltd. submitted its objection to the jurisdiction of the case. On 7 June 2017, Founder Commodities received a written ruling from the Higher People's Court of Fujian Province rejecting the objection of Fujian Tianyuan Chemicals Co., Ltd., who then lodged an appeal in response. As of 31 October 2017, the case has not been concluded.

* *For identification purpose only*

(7) Shandong Dongying Zhongtuo sued Founder Securities for a contract dispute

As confirmed in the Civil Ruling from the Higher People's Court of Shangdong Province (2015) Lu Shang Zhong Zi No. 255, "the Agreement entered into between Taiyang Securities and Dongying Zhongtuo on 11 May 2007 is null and void", on 3 March 2016, 东营中拓投资有限责任公司 (Dongying Zhongtuo Investment Co., Ltd.*) filed a lawsuit in the People's Court of Tianxin District, Changsha, requesting an order from the court to demand Founder Securities to refund the proceeds of RMB13,016,711 received under the Agreement and be liable for the litigation fee of the case.

Founder Securities submitted an application to the Supreme People's Court for the commencement of the rehearing process of the key evidence in respect of the case [(2015) Lu Shang Zhong Zi No. 255] of the Higher People's Court of Shandong Province. The Supreme People's Court accepted the application and heard the case on 7 July 2016. Founder Securities submitted an application to the People's Court of Tianxin District, Changsha to adjourn the case. After hearing, on 28 September 2016, the Supreme People's Court rejected the request of Founder Securities for rehearing. Founder Securities has received a summons from the People's Court of Tianxin District, Changsha, which states that the case was intended to be heard on 13 January 2017. On 15 March 2017, Founder Securities received the first instance judgement from the People's Court of Tianxin District, ruling a refund of RMB13,016,711.05 by Founder Securities to Dongying Zhongtuo within 15 days after the judgement became effective.

Founder Securities has lodged an appeal to the Intermediate People's Court of Changsha, Hunan Province, which then held a hearing for the second instance on 11 May 2017. As of 31 October 2017, the case has not been concluded.

* *For identification purpose only*

(8) 刘冬成 (Liu Dongcheng*) sued Founder Securities' business office in Sanshi Street, Kunming for a dispute over consumer rights protection

On 3 December 2015, Liu Dongcheng, a client of Founder Securities' business office in Sanshi Street, Kunming, filed a lawsuit against Founder Securities' business office in Sanshi Street, Kunming in the Intermediate People's Court of Kunming on the ground of a dispute over consumer rights protection arising from a forced liquidation due to the guarantee proportion maintained in his credit account being less than 130% as a result of discount of a structured fund B he bought through financing, claiming for a compensation of RMB35,888,900. On 5 May 2017, the Intermediate People's Court of Kunming issued a civil ruling, pursuant to which, the case was revoked due to the late payment of litigation fee by Liu Dongcheng.

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** For identification purpose only*

(9) 刘冬成 (Liu Dongcheng*) sued Founder Securities' business office in Sanshi Street, Kunming for a dispute over securities margin trading contract

On 3 December 2015, Liu Dongcheng, a client of Founder Securities' business office in Sanshi Street, Kunming, filed a lawsuit against Founder Securities' business office in Sanshi Street, Kunming in the Intermediate People's Court of Kunming on the ground of an entrusted contract dispute arising from a forced liquidation due to the guarantee proportion maintained in his credit account being less than 130% as a result of discount of a structured fund B he bought through financing, claiming for a compensation of RMB1,856.70. On 31 December 2015, Founder Securities submitted an application for objection against the jurisdiction to the Intermediate People's Court of Kunming, accordingly, the case was decided to be referred to the jurisdiction of the People's Court of Tianxin District, Changsha. On 7 June 2016, Liu Dongcheng submitted a modified indictment in respect of the case to the People's Court of Tianxin District, Changsha to change the cause thereof into a dispute over securities margin trading contract and change the claim into a compensation of RMB25,874,916 by Founder Securities.

Following a first instance judgement by the People's Court of Tianxin District, Changsha rejecting the claim of Liu Dongcheng in January 2017, Liu Dongcheng was not satisfied with the first instance judgement and therefore appealed to the Intermediate People's Court of Changsha. On 26 June 2017, the Intermediate People's Court of Changsha held a hearing for the second instance. As of 31 October 2017, Founder Securities had not announced the update thereof.

** For identification purpose only*

(10) Outstanding cases of PKU HealthCare

Basic information of the litigation (arbitration)	Amount involved (RMB'0,000)	Progress of the litigation (arbitration)	Results of trial of the litigation (arbitration) and effects thereof
Sale and purchase contract dispute between Fanggang Pharmaceutical (a subsidiary of PKU HealthCare) and Kang Chen Biopharm Development (Hainan) Co., Ltd.	2,649.29	Trial stage of the first instance	Judgements have not been formed
Construction contract dispute filed by Jiangsu Huajian Construction Co., Ltd. against	4,999.43	Trial stage of the first instance	Judgements have not been formed

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PKU HealthCare			

(11) Contract disputes between Founder Eeestone, Founder Aipu and Fuzhou Jitong, Eading Group (totally 3 cases)

Founder Eeestone and Founder Aipu entered into supply contracts with Fuzhou Jitong and Eading Group. Subsequently, the overdue outstanding payments for goods of Fuzhou Jitong and Eading Group amounted to nearly RMB100,000,000. In June 2016, Founder Eeestone and Founder Aipu brought a lawsuit against Eading Group, Fuzhou Jitong and Industrial and Commercial Bank of China and China Construction Bank, the guarantors, to Beijing Municipality Haidian District People's Court, demanding for the payment of goods and liquidated damages of over RMB110,000,000 in total.

In July 2016, Industrial and Commercial Bank of China and China Construction Bank submitted an application for objection against the jurisdiction of the case. In October 2016, Beijing Municipality Haidian District People's Court dismissed the application for objection from Industrial and Commercial Bank of China and China Construction Bank to its jurisdiction. In November 2016, Industrial and Commercial Bank of China and China Construction Bank filed an appeal regarding the dismissal of jurisdiction objection. On 17 May 2017, the First Intermediate People's Court of Beijing Municipality delivered the second instance judgment, which dismissed the appeal and upheld the first instance judgement. As of 31 October 2017, the case was not settled.

(12) Contract dispute filed by the Liaoning Branch of Agricultural Bank of China against Minzu Securities

In September 2016, the Liaoning Branch of Agricultural Bank of China brought a lawsuit against Minzu Securities (as the defendant) and Minzu Trust (as the third party) to Liaoning Higher People's Court on the grounds that: subsequent to the settlement of its loan contract dispute with China Minzu International Trust Investment Company, Minzu Trust defaulted on its obligations during the enforcement process (i.e. transferring its quality assets in 2001 and jointly establishing Minzu Securities with other parties by contributing the capital in form of security business and security assets), triggering the requirements of the Article 7 of the Provisions of the Supreme People's Court on Several Issues concerning the Trial of Cases of Civil Disputes Related to Enterprise Restructuring (《最高人民法院关于审理与企业改制相关的民事纠纷案件若干问题的规定》), pursuant to which, Minzu Securities, as defendant, was demanded to pay the principal and interests of RMB140,717,612 (principal of RMB 25,727,600 and interests of RMB114,990,012) in total and bear the litigation fee of RMB150,000. The first court session for the case was held on 7 December 2016. Upon the end of the court session, Minzu Securities submitted an application for taking evidence regarding the case to the Liaoning Higher People's Court. On 7 February 2017, the court held the second court session for the case. On 21 May 2017, Founder Securities received the first instance judgment from the Liaoning Higher People's Court, which dismissed the claim of the Liaoning Branch of Agricultural Bank of China against Minzu Securities. On 6 June 2017, Minzu Securities received the petition of appeal for the case served by the court. The Liaoning Branch of Agricultural Bank of China has already appealed to the Supreme People's Court regarding the case. As of 31 October 2017, the case was not settled.

(13) Bond transaction contract disputes filed by Minzu Securities against Sichuan

Shengda

Minzu Securities subscribed for the corporate bonds of RMB80,000,000 issued by Sichuan Shengda Group Co., Ltd. in 2012, and opted to sell back the bonds in 2015. Subsequently, Sichuan Shengda was unable to pay the principal and interests of the bonds. In June 2016, Minzu Securities brought a lawsuit against Sichuan Shengda to the Intermediate People's Court of Chengdu City in Sichuan Province, demanding Sichuan Shengda to pay the principal and interests of the bonds of over RMB93,000,000 in total. In August 2016, the court held court sessions for the case and enabled the parties to attempt mediation.

Pursuant to the settlement plan proposed by Sichuan Shengda Group Co., Ltd., the Chengdu branch of Bank of Tianjin Co., Ltd., the bond trustee, convened and held the bond holders meeting on 13 January 2017 at which the "Resolution on the Signing of 'Settlement Agreement' by the Chengdu branch of Bank of Tianjin Co., Ltd." was considered and approved. According to the provisions under the Settlement Agreement entered into between the Chengdu branch of Bank of Tianjin Co., Ltd. and Sichuan Shengda Group Co., Ltd., Sichuan Shengda Group Co., Ltd. shall, through the disposal of equity interest in 78,000,000 shares held by it in Sichuan Shengda Hydropower Development Co., Ltd. and 10,000,000 outstanding A shares held by it in Great Wall International Acg Co., Ltd., apply all the proceeds therefrom as the repayment of the principal and interests of the bonds concerned (on a pro-rata basis of the principal and interests). Pursuant to the Settlement Agreement, the 12 Shengda Bond at a principal amount of RMB80 million held by Minzu Securities may be utilized in repaying RMB67.184 million on a pro-rata basis. Minzu Securities was urging Sichuan Shengda Group Co., Ltd. to dispose of assets in accordance with the Settlement Agreement, and lodged an application for enforcement to the court on 9 February 2017 which has now entered the enforcement process.

(14) Investment treaty disputes between Founder H Fund and Chen Si and Chen Xing

On 14 August 2015, Founder H Fund invested RMB25 million in Shandong Xinlv Food Co., Ltd. (hereinafter referred to as "Xinlv Food") and agreed upon the ratchet terms. Since Xinlv Food failed to meet the performance criteria for the year 2015 as agreed between the parties, and the actual controller was materially suspected of misappropriation and withdrawal of fund in the target company, Founder H Fund filed an application for arbitration to China International Economic and Trade Arbitration Commission in November 2016, demanding that: (1) Chen Xing and Chen Si shall repurchase in cash all the equity interests held by Found H Fund in Xinlv Food and shall pay Founder H Fund the total repurchase amount of RMB29,397,260.27 (as of 18 October 2016) whereby Chen Xing and Chen Si shall assume the joint and several liability for such repurchase amount; (2) Chen Xing and Chen Si shall jointly pay Found H Fund the liquidated damage for late payment amounting to RMB650,804.79 (as of 18 October 2016); (3) Chen Xing and Chen Si shall jointly bear all the fees incurred by Founder H Fund for the arbitration.

In September 2017, the Arbitration Commission made an arbitral award, pursuant to which, principally: (1) Chen Xing and Chen Si shall repurchase in cash all the equity interests held by Found H Fund in Xinlv Food and shall jointly pay Founder H Fund the repurchase amount, which is calculated on the basis of RMB25 million * (1+15% * the days from the date of capital contribution (i.e. 17 August 2015) to the date of actual payment of the repurchase amount/365 days), until the date of actual payment; (2) Chen Xing and Chen Si shall jointly pay the liquidated damage for late payment, which was calculated on the basis of five in ten thousand of RMB29,582,191.78 per day, for the period from 6 November 2016 to the date of actual payment; (3) Chen Xing and Chen Si shall jointly pay the relevant attorney fees, case fees, notary fees, property preservation insurance expenses and property preservation costs in a total amount of RMB314,348.15 arising from this case; (4) the arbitration costs of RMB355,509 for this case shall be jointly borne by Chen Xing and Chen Si. Chen Xing and Chen Si shall make the abovementioned payment to Found H Fund within 15 days from the date of making the arbitral award. As of the date of this announcement, Chen Xing and Chen Si have not yet performed their obligations as set out in the arbitral award and the mandatory enforcement procedures in relation to this case are in process.

(15) Sales contract disputes between China Hi-Tech and Shanghai Yueyuechao Group Co., Ltd.

In November 2014, China Hi-Tech Group Co., Ltd. (hereinafter referred to as "China Hi-Tech") and Shanghai Yueyuechao Group Co., Ltd. (hereinafter referred to as "Yueyuechao") entered into a Sales Contract, pursuant to which China Hi-Tech shall sell a total of 9,444 tons of seamless pipes and welded pipes to Yueyuechao at a total price of RMB39,285,780. However, Yueyuechao failed to settle the payment of goods in full under the Sales Contract and take delivery of goods. This failure seriously violated the terms of the contract and brought significant losses to China Hi-Tech. Yueyuechao shall assume the legal obligations and liabilities for breach of contract. Meanwhile, pursuant to the Personal Statement of Commitment, Yin Jianfei, the major shareholder and actual controller of Yueyuechao, shall assume the joint and several liabilities therefor. In December 2016, China Hi-Tech brought a lawsuit to the First Intermediate People's Court of Beijing Municipality, claiming that: 1) Yueyuechao shall be ordered to continue fulfilling the Sales Contract and the Trade Regulatory Cooperation Agreement, pursuant to which it shall take the delivery of goods as agreed and pay the company a total amount of RMB31,147,938 for goods; 2) Yueyuechao shall be ordered to pay the company liquidated damages of RMB20,000,000; 3) Yueyuechao shall be ordered to indemnify the company for the regulatory fees, travelling expenses and legal expenses totaling RMB1,035,322 sustained by the company as a result of its breach; 4) Yin Jianfei shall be ordered to assume the joint and several liabilities for the aforesaid debts of Yueyuechao; 5) the two defendants shall be ordered to bear all the litigation expenses for this case.

According to the Civil Order (2017) Jing 01 Min Chu No. 4 issued by the First Intermediate People's Court of Beijing Municipality on 20 June 2017 received by China Hi-Tech, the court ruled as follows: 1. Shanghai Yueyuechao Group Co., Ltd. settled the payment of goods of RMB25,617,089.60 to China Hi-Tech Group Co., Ltd. within ten days after this judgment became effective, and Shanghai Yueyuechao Group Co., Ltd. withdrew seamless pipes of 4,558 tons and welded pipes of 3,157 tons within ten days after this judgment became effective; 2. Shanghai Yueyuechao Group Co., Ltd. paid liquidated damages of RMB18,410,697.06 to China Hi-Tech Group Co., Ltd. within ten days after this judgment became effective; 3. Shanghai Yueyuechao Group Co., Ltd. paid security fees of RMB5,000 to China Hi-Tech Group Co., Ltd. within ten days after this judgment became effective; 4. Yin Jianfei bore joint and several liabilities for payment of debts owed by Shanghai Yueyuechao Group Co., Ltd. to China Hi-Tech Group Co., Ltd. as mentioned in number 1, 2 and 3 of this judgment; 5. Other claims filed by China Hi-Tech Group Co., Ltd. were rejected. Such amounts have not yet been received.

(16) Dispute related to the Company opened by Founder Securities Co., Ltd. against

Beijing Zenith Holdings Co., Ltd

As approved by the Reply on Approving Founder Securities Co., Ltd. to Issue Shares to Companies Including Beijing Zenith Holdings Co., Ltd for Purchasing Assets (《关于核准方正证券股份有限公司向北京政泉控股有限公司等发行股份购买资产的批复》) issued by the China Securities Regulatory Commission, Founder Securities issued shares to legal persons including Zenith Holdings in August 2014 for purchasing 100% equity interests in China Minzu Securities Co., Ltd. (hereinafter referred to as "Minzu Securities"). Minzu Securities became a wholly-owned subsidiary of Founder Securities. Zenith Holdings acquired 1,799,561,764 shares in Founder Securities and completed the procedures for share registration on 8 August 2014.

On 19 August 2015, Founder Securities promoted re-election for the board of directors and supervisory committee of Minzu Securities and thus realized actual control over Minzu Securities. During the period from 5 August 2014 to 19 August 2015, Minzu Securities was actually controlled by Zenith Holdings.

On 24 July 2015, Minzu Securities received the Decision on Implementing Restriction on Business Activities, Suspension on Application for Approved Business and Condemnation on China Minzu Securities Co., Ltd. (《关于对中国民族证券有限责任公司采取限制业务活动、暂停核准业务申请以及谴责措施的决定》) issued by the China Securities Regulatory Commission Beijing Bureau, stating "In investigating the investment with proprietary funds in an amount of RMB2.050 billion made by your company, we found that your company has the following behaviors in breach of laws and regulations: the first one is that during the period from September to December 2014, your company invested proprietary funds in an aggregate amount of RMB2.050 billion to a single fund trust scheme in seven tranches...". After investigation by Founder Securities and Minzu Securities, it was found that the amount of RMB2.05 billion was not placed as deposits as agreed, but entirely as an entrusted investment made in a single fund trust scheme of Sichuan Trust Co., Ltd. according to the investment instructions of Minzu Securities, of which Minzu Securities was the entrustor while HengFeng Bank Co., Ltd. was the agent and trustee. The key responsible personnel of the above behaviors in breach of laws and regulations was Yang Ying, a then director and the chief financial officer of Minzu Securities, who was nominated by Zenith Holdings. As of today, out of the amount of RMB2.05 billion, Minzu Securities has received a fund of more than RMB410 million in total. Among which, the principal transferred back amounted to more than RMB308 million and the remaining principal and interests thereon in an amount of RMB1.7415 billion have not yet been recovered.

Based on the aforementioned facts, during the process of the reorganization of Founder Securities and Minzu Securities, Zenith Holdings acquired the corresponding shares of Founder Securities with the equity interests in Minzu Securities as the consideration. However, during the period of effective control over Minzu Securities by Zenith Holdings, Minzu Securities invested in the trust scheme with its proprietary funds amounting to RMB2.05 billion which led to the non-recovery of principal and interest thereon totaling RMB1.7415 billion and a substantial decrease in the asset value of Minzu Securities. This has further resulted in a substantial decline in the value of equity interests in Minzu Securities held by Founder Securities, which has significantly infringed the interests of all shareholders of Founder Securities. In light of this, the act in breach of laws and regulations with the investment of RMB2.05 billion during the period of effective control over Minzu Securities by Zenith Holdings as becoming a shareholder of Founder Securities arising from the contribution of Zenith Holdings with its equity interests in Minzu Securities held for the consideration by way of share exchange, has constituted a surreptitious withdrawal of contributed capital in disguise. On 20 July 2016, the company made a profit distribution for the year 2015 and distributed RMB161,963,204.76 to Zenith Holdings.

Pursuant to Article 16 of the Provisions of the Supreme People's Court on Several Issues concerning the Application of the Company Law of the People's Republic of China (III) (《最高人民法院关于适用<中华人民共和国公司法>若干问题的规定（三）》), "Where a shareholder fails to or has not completely performed its obligations in capital contribution or has contributed capital surreptitiously withdrawn, and the company has imposed reasonable restrictions accordingly on the shareholder's rights such as the rights in requisition for profit distribution, preference subscription option of new shares, requisition for residual property distribution according to the articles of association or resolutions of shareholders' meetings, if the shareholder requests to have these restrictions null and void, then the People's Court shall not uphold it." Pursuant to Article 30 of the Articles of Association of Founder Securities, "Where false capital contribution, fraudulent capital contribution, surreptitious withdrawal of contributed capital or surreptitious withdrawal of contributed capital in disguise is committed by a shareholder, the shareholder's rights shall not be exercised and the dividends which had been distributed to that shareholder shall be recovered by the board of directors of the company prior to the rectification of the above acts."

Based on the aforesaid legal provisions and the provisions of the Articles of Association, Founder Securities has pleaded to the court to uphold the order that Zenith Holdings shall refund the dividends received amounting to RMB161,963,204.76 and, prior to the rectification of the act of its surreptitious withdrawal of contributed capital, Zenith Holdings shall not exercise all of its shareholder's rights in Founder Securities, including the rights in voting and nomination, requisition for profit distribution, preference subscription option of new shares, requisition for residual property distribution.

On 18 April 2017, the Notice of Case Acceptance issued by the Higher People's Court of Hunan Province was received.

As of 31 October 2017, the case was not settled.

2. The Announcement in relation to the Administrative Penalty Decision received by Peking University Founder Group Company Limited and its subsidiaries, namely Founder Securities Co., Ltd., Founder Technology Group Co., Ltd., China Hi-Tech Group Co., Ltd. and PKU HealthCare Corp., Ltd., from China Securities Regulatory Commission

Peking University Founder Group Company Limited (hereinafter referred to as "Founder Group") and its subsidiaries, namely Founder Securities Co., Ltd. (hereinafter referred to as "Founder Securities"), Founder Technology Group Co., Ltd. (hereinafter referred to as "Founder Technology"), China Hi-Tech Group Co., Ltd. (hereinafter referred to as "China Hi-Tech") and PKU HealthCare Corp., Ltd. (hereinafter referred to as "PKU HealthCare"), received the Administrative Penalty Decision from China Securities Regulatory Commission (hereinafter referred to as "CSRC") on 9 May 2017. The Company has announced the relevant matter on Chinamoney website according to the information disclosure requirements. The related link is as follows:

http://www.chinamoney.com.cn/fe/jsp/CN/chinamoney/infoPublish/searchInfoPublishRe sult.jsp?entyCode=3000000153&entyName=北大方正集团有限公司

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

3. Internal guarantee amount

As of 30 September 2017, the total internal guarantee amount of Founder Group was RMB15.654 billion.

IX. Commitment

As of 30 September 2017, there was no material commitment of the Company that is required to be but has not yet been disclosed.

X. Post balance sheet event

Nil.

XI. Notes to the principal items in the financial statements of parent company

1. Account receivables

(1) Ageing analysis of account receivables

Age	Closing balance			Opening balance		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	143,628,454.33	38.31	-	150,917,007.57	39.36	-
1-2 years	198,496,920.81	52.94	-	199,839,985.40	52.12	-
2-3 years	32,791,304.01	8.75	-	32,680,191.36	8.52	-
Over 3 years			-	-	-	-
Total	**374,916,679.15**	**100.00**	-	**383,437,184.33**	**100.00**	-

(2) No amount due from shareholder who holds more than 5% (inclusive) voting shares of the Company was included in the closing account receivables.

(3) Status of account receivables from the top five companies

Name of company	**Amount**	**Term**	**Percentage of total amount (%)**
上海赋唐贸易发展有限公司 (Shanghai Futang Trading Co., Ltd.*)	184,223,754.73	1-2 years (inclusive)	49.14
北京北大资源物业经营管理集团有限公司海淀分公司(Beijing Peking University Resource Property Management Group Co., Ltd., Haidian Branch*)	29,411,837.94	2-3 years (inclusive)	7.84
十六局 (16th Bureau*)	11,996,779.20	Within 1 year (inclusive)	3.20

January - September 2017 (The amounts are stated in RMB Yuan unless otherwise indicated)

天津市国家密码管理局 (State Cryptography Administration of Tianjin*)	3,166,192.02	2-3 years (inclusive)	0.84
北京市公安局 (Beijing Municipal Public Security Bureau*)	2,274,108.50	Within 1 year (inclusive)	0.61
Total	**231,072,672.39**		**61.63**

** For identification purpose only*

2. Other receivables

(1) Ageing analysis of other receivables

Age	Closing balance			Opening balance		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	46,014,231,296.19	95.11	-	47,253,356,978.94	95.24	-
1-2 years	1, 664,429,356.13	3.44	-	1,673,951,865.67	3.38	-
2-3 years	579,733,419.39	1.20	-	565,021,282.24	1.14	-
Over 3 years	120,075,488.52	0.25	-	120,135,131.77	0.24	-
Total	**48,378,469,560.23**	**100.00**	-	**49,612,465,258.62**	**100.00**	-

(2) Status of other receivables from the top five companies

Name of company	Amount	Term	Percentage of total amount (%)
华融证券股份有限公司 (Huarong Securities Co., Ltd.*)	5,591,076,166.70	Within 1 year	11.56
方正产业控股有限公司 (Founder Industry Holdings Co., Ltd.*)	3,593,548,988.44	Within 1 year	7.43
北大方正物产集团有限公司 (PKU Founder Commodities Group Co., Ltd.*)	2,165,759,294.52	Within 1 year	4.48
深圳方正微电子有限公司 (Shenzhen Founder Microelectronics Co., Ltd.*)	1,669,028,928.72	Within 1 year	3.45
江苏苏钢集团有限公司 (Jiangsu Suzhou Steel Group Co., Ltd.*)	1,663,255,504.64	Within 1 year	3.44
Total	**14,682,668,883.02**		**30.36**

** For identification purpose only*

Peking University Founder Group Company Limited

31 October 2017

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF HONGKONG JHC CO., LIMITED
(Incorporated in Hong Kong with limited liability)

Opinion
We have audited the financial statements of Hongkong JHC Co., Limited ("the Company") set out on pages 5 to 16, which comprise the statement of financial position as at 31 December, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December, 2016, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion
We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements
The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion made soley to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

GLOBAL CPA (HK) LIMITED
Certified Public Accountants
Hong Kong

7 April, 2017

HONGKONG JHC CO., LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER, 2016

	Notes	2016 US$	2015 US$
REVENUE	2	1,495,943,633	869,601,852
COST OF SALES		(1,482,261,250)	(881,308,283)
GROSS PROFIT / (LOSS)		13,682,383	(11,706,431)
OTHER INCOME		2,204,029	26,269
(LOSS) / GAIN FROM SETTLEMENT OF DERIVATIVE FINANCIAL INSTRUMENTS		(14,555,598)	5,093,793
GAIN FROM CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS		5,551,148	9,817,055
ADMINISTRATIVE EXPENSES		(908,936)	(393,951)
FINANCE COSTS		(3,578,255)	(1,881,352)
PROFIT BEFORE TAX	3	2,394,771	955,383
INCOME TAX EXPENSE	4	2,590	-
PROFIT FOR THE YEAR		2,397,361	955,383
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,397,361	955,383
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		2,397,361	955,383
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		2,397,361	955,383

The notes on pages 9 to 16 form an integral part of these financial statements.

HONGKONG JHC CO., LIMITED
STATEMENT OF FINANCIAL POSITION - 31 DECEMBER, 2016

	Notes	2016 US$	2015 US$
ASSETS			
CURRENT ASSETS			
Amounts due from fellow subsidiaries	7	**43,025,477**	32,009,238
Inventories	6	**11,692,166**	2,003,859
Accounts receivable		**230,300,883**	107,653,118
Other receivable		**13,902,912**	5,571,795
Trade deposits paid		**34,249,640**	29,425,881
Derivative financial instruments	12	**56,317,551**	16,731,940
Pledged time deposits	16	**80,493,152**	8,000,000
Bank balances and cash		**35,695,374**	64,396,037
TOTAL CURRENT ASSETS		**505,677,155**	265,791,868
TOTAL ASSETS		**505,677,155**	265,791,868
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	5	**9,980,000**	9,980,000
Retained profits carried forward		**3,580,444**	1,183,083
TOTAL EQUITY		**13,560,444**	11,163,083
CURRENT LIABILITIES			
Amounts due to fellow subsidiaries	8	**152,194,684**	78,462,733
Amount due to immediate holding company	9	-	2,929,791
Accounts payable		**87,263,014**	34,125,535
Trade deposits received		**151,866,579**	55,100,554
Accrued expenses		**26,031**	48,736
Inward cargoes loans		**50,000,000**	77,040,303
Derivative financial instruments	12	**50,766,403**	6,914,885
Tax payable		-	6,248
TOTAL CURRENT LIABILITIES		**492,116,711**	254,628,785
TOTAL LIABILITIES		**492,116,711**	254,628,785
TOTAL EQUITY AND LIABILITIES		**505,677,155**	265,791,868

On behalf of the Board

Chen Nian	**Li Jun**
Director	**Director**

The notes on pages 9 to 16 form an integral part of these financial statements.

HONGKONG JHC CO., LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER, 2016

	Share capital US$	Retained profits US$	Total equity US$
Balance at 1 January, 2015	9,980,000	227,700	10,207,700
Total comprehensive income for the year	-	955,383	955,383
Balance at 31 December, 2015	9,980,000	1,183,083	11,163,083
Total comprehensive income for the year	-	2,397,361	2,397,361
Balance at 31 December, 2016	9,980,000	3,580,444	13,560,444

The notes on pages 9 to 16 form an integral part of these financial statements.

HONGKONG JHC CO., LIMITED
STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER, 2016

	Notes	2016 US$	2015 US$
CASH FLOWS FROM OPERATING ACTIVITIES	10	**33,975,434**	85,944,912
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in pledged time deposits		**(72,493,152)**	(5,000,000)
Settlement of derivative financial instruments		**9,817,055**	195,045
NET CASH USED IN INVESTING ACTIVITIES		**(62,676,097)**	(4,804,955)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**-**	(34,000,000)
NET CASH USED IN FINANCING ACTIVITIES		**-**	(34,000,000)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(28,700,663)**	47,139,957
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**64,396,037**	17,256,080
CASH AND CASH EQUIVALENTS AT END OF YEAR		**35,695,374**	64,396,037
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**35,695,374**	64,396,037
		35,695,374	64,396,037

The notes on pages 9 to 16 form an integral part of these financial statements.

1 CORPORATE INFORMATION

The Company is a private limited company incorporated in Hong Kong. The Company's registered office is located at Unit 1501, 15th Floor of Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong. The principal activity of the Company is trading of commodities.

2 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below and have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The financial statements are presented in United States dollars ("US$"), which is the same as the functional currency of the Company.

Revenue

Revenue represents the net amount received and receivable for goods sold during the year.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

Sales of goods are recognized when the goods are delivered and the risks and rewards of ownership have passed to the customers.

Bank interest income is recognized on a time proportion basis.

Foreign currencies

Transactions in foreign currencies are translated into United States dollars at the approximate rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the approximate rates of exchange ruling at the end of the reporting period. Gains and losses arising from exchange are dealt with in the statement of profit or loss.

Income tax expense

Income tax expense comprises current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Inventories

Inventories are valued at lower of cost and net realizable value. Cost is determined on a first in, first out basis. Cost includes purchase costs. Net realizable value is based on selling price.

Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Company designates certain derivatives as either:

(a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
(b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
(c) hedges of a net investment in a foreign operation (net investment hedge).

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Impairment of assets

An assessment is made at the end of each reporting period to determine whether there is any indication of impairment or reversal of previous impairment. In the event that an asset's carrying amount exceeds its recoverable amount, the carrying amount is reduced to recoverable amount and an impairment loss is recognised in the statement of profit or loss. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined, had no impairment losses been recognised for the asset in prior years.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties

(a) A person, or a close member of that person's family, is related to the Company if that person:
- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions applies:
- (i) The entity and the Company are members of the same group.
- (ii) One entity is an associate or joint venture of the other entity or an associate or joint venture of a member of a group of which the other entity is a member.
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third party and the other entity is an associate of the third party.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Use of accounting estimates and judgments

The preparation of these financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from those estimates.

3 PROFIT BEFORE TAX

Profit before tax for the year is arrived at after charging and crediting the following:

	2016	2015
	US$	US$
Charging:		
Directors' remuneration		
Fees	-	-
Other emoluments	-	-
Retirement benefits	-	-
Other employee benefits expense	-	-
Total employee benefits expense	-	-
Auditors' remuneration	**25,515**	12,887
Cost of inventories sold	**1,482,261,250**	881,308,283
Exchange loss	-	157,642
Interest expenses on bank loans and overdraft	**3,578,255**	1,881,352
Crediting:		
Bank interest income	**83,482**	24,779
Exchange gain	**2,118,505**	-

4 INCOME TAX EXPENSE

	2016	2015
	US$	US$
The charge comprises:		
Hong Kong profits tax		
Current year	-	-
Tax reduction in prior year	(2,590)	-
	(2,590)	-

Hong Kong profits tax has not been provided as the Company has tax losses brought forward to offset current year's assessable profit. (2015 - Nil)

The Company has tax losses arising in Hong Kong of US$2,030,728 (2015 - US$8,691,406) that are available indefinitely for offsetting against future taxable profits.

The tax charge for the year can be reconciled to the profit per the statement of profit or loss as follows:

	2016	2015
	US$	US$
Profit before tax	2,394,771	955,383
Tax at Hong Kong profits tax rate of 16.5% (2015 - 16.5%)	395,137	157,638
Tax effect of income not taxable for tax purpose	(915,939)	-
Tax effect of expenses not deductible for tax purpose	1,619,814	-
Tax effect of utilisation of tax losses previously not recognised	(1,099,012)	-
Tax effect of off-shore profit	-	(157,638)
Tax reduction in prior year	(2,590)	-
Tax charge for the year	(2,590)	-

The Company did not have any significant unprovided deferred tax in respect of the year. (2015 - Nil)

5 SHARE CAPITAL

	2016	2015
	US$	US$
Issued and fully paid up:		
9,980,000 ordinary shares of no par value	9,980,000	9,980,000

6 INVENTORIES

	2016	2015
	US$	US$
Finished goods	11,692,166	2,003,859

7 AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are unsecured, interest free and without any fixed repayment terms.

8 AMOUNTS DUE TO FELLOW SUBSIDIARIES

The amounts due to fellow subsidiaries are unsecured, interest free and without any fixed repayment terms.

9 AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company is unsecured, interest free and without any fixed repayment terms.

10 CASH FLOWS FROM OPERATING ACTIVITIES

	2016 US$	2015 US$
Profit before tax	2,394,771	955,383
Adjustments for:		
Gain from change in fair value of derivative financial instruments	(5,551,148)	(9,817,055)
Interest received	(83,482)	(24,779)
Interest paid	3,578,255	1,881,352
Operating profit / (loss) before working capital changes	338,396	(7,005,099)
Increase in amounts due from fellow subsidiaries	(11,016,239)	(32,009,238)
(Increase) / decrease in inventories	(9,688,307)	16,502,617
Increase in accounts receivable	(122,647,765)	(72,312,243)
Increase in other receivable	(8,331,117)	(5,048,425)
Increase in trade deposits paid	(4,823,759)	(29,371,874)
Increase in amounts due to fellow subsidiaries	73,731,951	78,461,787
(Decrease) / increase in amount due to immediate holding company	(2,929,791)	2,929,114
Increase in accounts payable	53,137,479	34,125,535
Increase in trade deposits received	96,766,025	53,327,208
(Decrease) / increase in accrued expenses	(22,705)	2,007
(Decrease) / increase in inward cargoes loans	(27,040,303)	48,200,096
Cash generated from operations	37,473,865	87,801,485
Interest received	83,482	24,779
Interest paid	(3,578,255)	(1,881,352)
Income tax paid	(3,658)	-
NET CASH GENERATED FROM OPERATING ACTIVITIES	33,975,434	85,944,912

11 FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

	2016 US$	2015 US$
Financial assets - loans and receivables		
Amounts due from fellow subsidiaries	43,025,477	32,009,238
Accounts receivable	230,300,883	107,653,118
Other receivable	13,902,912	5,571,795
Pledged time deposits	80,493,152	8,000,000
Bank balances and cash	35,695,374	64,396,037
	403,417,798	217,630,188
Financial assets at fair value through profit or loss		
Derivative financial instruments	56,317,551	16,731,940
	459,735,349	234,362,128

11 **FINANCIAL RISK MANAGEMENT (Continued)**

(a) Categories of financial instruments (Continued)

	2016	2015
	US$	US$
Financial liabilities		
Amounts due to fellow subsidiaries	**152,194,684**	78,462,733
Amount due to immediate holding company	**-**	2,929,791
Accounts payable	**87,263,014**	34,125,535
Inward cargoes loans	**50,000,000**	77,040,303
	289,457,698	192,558,362
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	**50,766,403**	6,914,885
	340,224,101	199,473,247

(b) Financial risk factors

The main risks arising from the Company's financial instruments are credit risk, price risk, foreign exchange risk, liquidity risk and interest rate risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Capital management

The Company's capital management is primarily to provide a reasonable return for shareholders and to safeguard the Company's ability to continue as a going concern. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

12 **DERIVATIVE FINANCIAL INSTRUMENTS**

The Company entered into forward foreign exchange contracts and commodities future contracts.

The contract amounts of forward foreign exchange contracts at 31 December, 2016 were to sell EUR2,800,000 in RMB20,356,000, sell US$20,000,000 in RMB140,094,000, buy US$114,800,000 in RMB796,316,500. (2015 - sell EUR4,050,000 in US$4,427,325, sell US$234,100,000 in RMB1,558,144,758, buy EUR8,250,000 in US$9,019,725 and buy US$22,200,000 in RMB143,460,000)

The contract amounts of commodities future contracts at 31 December, 2016 were to sell and buy commodities in US$7,812,142,558 (2015 - US$233,029,798) and US$8,380,391,862 (2015 - US$281,621,590) respectively.

The derivatives are not accounted for under hedge accounting and the fair values of the derivative financial instruments at 31 December, 2016 are as follows:

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
	US$	US$	US$	US$
Forward foreign exchange contracts	633,755	4,793,297	144,262	1,550,450
Commodities future contracts	55,683,796	45,973,106	16,587,678	5,364,435
	56,317,551	50,766,403	16,731,940	6,914,885

13 FAIR VALUE MEASUREMENTS

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 December, 2016.

	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives				
- Foreign exchange contracts	633,755	-	-	633,755
- Commodities future contracts	55,683,796	-	-	55,683,796
Total assets	56,317,551	-	-	56,317,551
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives				
- Foreign exchange contracts	4,793,297	-	-	4,793,297
- Commodities future contracts	45,973,106	-	-	45,973,106
Total liabilities	50,766,403	-	-	50,766,403

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 December, 2015.

	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives				
- Foreign exchange contracts	144,262	-	-	144,262
- Commodities future contracts	16,587,678	-	-	16,587,678
Total assets	16,731,940	-	-	16,731,940
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives				
- Foreign exchange contracts	1,550,450	-	-	1,550,450
- Commodities future contracts	5,364,435	-	-	5,364,435
Total liabilities	6,914,885	-	-	6,914,885

14 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, significant related party transactions, which were carried out in the normal course of the Company's business and at terms as agreed between the Company and the relevant parties during the year are as follows:

	2016 US$	2015 US$
Sales to		
Fellow subsidiaries	**27,362,874**	96,268,414
Purchases from		
Immediate holding company	-	2,929,114
Fellow subsidiaries	**164,016,865**	256,534,859

15 IMMEDIATE AND ULTIMATE HOLDING COMPANIES

The directors consider the immediate holding company at 31 December, 2016 to be 北京京慧誠國際貿易有限責任公司, a company incorporated in the People's Republic of China and the ultimate holding company at 31 December, 2016 to be 北京北大資產經營有限公司, a company incorporated in the People's Republic of China and is wholly owned by 北京大學.

16 BANKING FACILITIES

The banking facilities are secured by the time deposits of the Company and corporate guarantees executed by the intermediate holding company and the fellow subsidiary.

17 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 07 April, 2017.

HONGKONG JHC CO., LIMITED
DETAILED STATEMENT OF PROFIT OR LOSS
YEAR ENDED 31 DECEMBER, 2016
(for management purposes only)

	2016	2015
	US$	US$
SALES	1,495,943,633	869,601,852
COST OF SALES		
Opening inventories	2,003,859	18,506,476
Purchases	1,490,801,216	864,634,075
Commission	762,297	16,924
Warehousing	386,044	154,667
Less: Closing inventories	(11,692,166)	(2,003,859)
	1,482,261,250	881,308,283
GROSS PROFIT / (LOSS)	13,682,383	(11,706,431)
OTHER INCOME		
Bank interest income	83,482	24,779
Compensation income	-	1,490
Exchange gain	2,118,505	-
Sundry income	2,042	-
	2,204,029	26,269
(LOSS) / GAIN FROM SETTLEMENT OF DERIVATIVE FINANCIAL INSTRUMENTS	(14,555,598)	5,093,793
GAIN FROM CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	5,551,148	9,817,055
	(6,800,421)	14,937,117
	6,881,962	3,230,686
ADMINISTRATIVE EXPENSES - PAGE 18	908,936	393,951
FINANCE COSTS - PAGE 18	3,578,255	1,881,352
	4,487,191	2,275,303
PROFIT FOR THE YEAR	2,394,771	955,383

HONGKONG JHC CO., LIMITED
DETAILED STATEMENT OF PROFIT OR LOSS
YEAR ENDED 31 DECEMBER, 2016
(for management purposes only)

	2016 US$	2015 US$
ADMINISTRATIVE EXPENSES		
Auditors' remuneration	25,515	12,887
Bank charges	762,836	222,351
Business registration fee	65	354
Consulting fee	119,725	-
Exchange loss	-	157,642
Legal and professional fee	795	717
	908,936	393,951
FINANCE COSTS		
Bank loan interest	3,578,255	1,881,352

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