



丽珠医药
LIVZON

麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.*

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 1513)

Annual Report 2013



* For identification purpose only



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The board of directors ("the Board"), the Supervisory Committee and the Directors, Supervisors and senior management of Livzon Pharmaceutical Group Inc.* (the "Company", together with its subsidiaries collectively known as the "Group") guarantee that the information in this report does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents.

Mr. Zhu Baoguo (朱保國先生), person-in-charge of the Company, as person-in-charge of accounting affairs, and Ms. Si Yanxia (司燕霞女士), person-in-charge of the accounting department, declare that they guarantee the truthfulness, accuracy and completeness of the financial statements in this report.

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

The Company approved the annual profit distribution proposal for 2013, declaring a cash dividend of RMB5.00 per 10 shares (tax inclusive) to all shareholders with reference to the total number of shares of the Company on 31 December 2013. Such proposal was approved and passed in the Board meeting. There was no issue of bonus share and no transfer of capital reserve to share capital.

During the year ended 31 December 2013 (the "Reporting Period"), the Company implemented the plan regarding the change of the listing and trading venue of its domestically listed foreign shares ("B Shares") to the Main Board of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") by way of introduction (the "B-to-H Share Conversion"). On 10 January 2014, the Company's B Shares were delisted from the Shenzhen Stock Exchange (the "Shenzhen Stock Exchange"). On 16 January 2014, the Company's H Shares were listed and traded on the Main Board of the Hong Kong Stock Exchange by way of introduction.

The Company analysed possible risk factors and corresponding strategies in respect of the future development of the Company in "Section IV – Report of the Board" of this report. Investors are advised to review it.

This report contains future plans and forward-looking statements, which do not constitute a substantive commitment by the Company to investors. Investors shall be aware of the investment risks.

This report has been prepared in both English and Chinese. Where there is any inconsistency between the English and the Chinese version, the Chinese version shall prevail.

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I. COMPANY INFORMATION

	A Shares	H Shares ^{Note 1}
Stock abbreviation	Livzon Group	Livzon Pharma, 麗珠H代 ^{Note 2}
Stock code	000513	01513, 299902 ^{Note 3}
Stock exchange	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Chinese name of the Company	麗珠醫藥集團股份有限公司	
English name of the Company	LIVZON PHARMACEUTICAL GROUP INC.*	
Abbreviation of Chinese name of the Company	麗珠集團	
Abbreviation of English name of the Company	LIVZON GROUP	
Legal representative of the Company	Zhu Baoguo (朱保國)	
Registered address of the Company in China	Administration and Research Building, 38 Chuangye North Road, Shuang Linpian Area, Liangang Industrial Zone, Hongqi Town, Jinwan District, Zhuhai, China	
Postal code of the registered address of the Company	519090	
Domestic business address of the Company	Livzon Building, 132 Guihua North Road, Gongbei, Zhuhai, Guangdong Province, China	
Postal code of the domestic business address of the Company	519020	
Principal place of business in Hong Kong	Flat 02, 17/F Bayfield Building, 99-101 Hennessy Road, Wanchai, Hong Kong Special Administrative Region	
Company's website	http://www.livzon.com.cn	
E-mail	LIVZON_GROUP@livzon.com.cn	

Note 1: On 16 January 2014, the Company's domestically listed foreign shares ("B Shares") were converted into overseas listed foreign shares ("H Shares"), and H Shares were listed and traded on the Main Board of the Hong Kong Stock Exchange by way of introduction. The stock code of the original B Shares was 200513 and the stock abbreviation of which was Livzon B.

Notes 2 and 3: The abbreviation and the stock code are only used by domestic shareholders of original B Shares of the Company in the People's Republic of China ("China" or "PRC") in respect of their trading of H Shares of the Company after H Shares of the Company were listed on the Hong Kong Stock Exchange.

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II. CONTACT PERSONS AND CONTACT DETAILS

	Secretary to the Board	Representative of securities affairs
Name	Li Rucai	Wang Shuguang
Address	Livzon Building, 132 Guihua North Road, Gongbei, Zhuhai, Guangdong Province, China	Livzon Building, 132 Guihua North Road, Gongbei, Zhuhai, Guangdong Province, China
Telephone	(0756)8135888	(0756)8135888
Fax	(0756)8886002	(0756)8886002
E-mail	lirucai2008@livzon.com.cn	wangshuguang2008@livzon.com.cn

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

Designated newspapers for information disclosure	Securities Times, China Securities Journal, Hong Kong Wen Wei Po
Website designated by China Securities Regulatory Commission (the "CSRC") for publishing this report	http://www.cninfo.com.cn
Website in Hong Kong for publishing this report	http://www.hkexnews.hk
Place where copies of this report are available	Office of the Secretary to the Board of the Company

IV. CHANGE IN REGISTRATION DETAILS

Initial registration date	26 January 1985
Change of registration date	21 November 2013
Place of registration	Guangdong Province Zhuhai Administration for Industry and Commerce of China
Corporate legal person business registration number	440400400032571
Tax registration number	440401617488309
Organisation code	61748830-9

V. OTHER RELEVANT INFORMATION**Auditor appointed by the Company**

Name of the accounting firm	Ruihua Certified Public Accountants (LLP)
Business address of the accounting firm	215 Xingye Road, Zhuhai, Guangdong Province, China
Name of signing accountants	Wang Shuyan, Li Encheng

H share compliance advisor appointed by the Company

Name of compliance advisor	Guosen Securities (HK) Capital Company Limited
Address of compliance advisor	Unit Nos. 1604-06, 16th Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong

During the Reporting Period, the principal financial data and financial indicators prepared according to China Accounting Standards for Business Enterprises are as follows:

1. PRINCIPAL FINANCIAL DATA

	2013	2012	Year-on-year change	2011	2010	2009
Total operating income (RMB'000)	4,618,680.04	3,943,525.31	17.12%	3,162,915.29	2,726,718.90	2,595,847.05
Net profit attributable to the shareholders of the Company (RMB'000)	487,502.35	441,671.52	10.38%	359,369.88	418,180.83	481,578.25
Net profit attributable to the shareholders of the Company after deducting the extraordinary gain or loss (RMB'000)	462,159.19	396,190.25	16.65%	341,610.16	392,186.22	407,124.52
Net cash flow from operating activities (RMB'000)	439,986.53	593,964.66	-25.92%	708,201.34	633,296.31	494,877.10
Profit before income tax (RMB'000)	628,940.45	560,312.74	12.25%	463,151.23	533,667.30	589,418.07
	At the end of 2013	At the end of 2012	Year-on-year change	At the end of 2011	At the end of 2010	At the end of 2009
Total assets (RMB'000)	6,566,006.12	5,633,753.96	16.55%	4,602,908.98	3,661,991.63	3,124,376.78
Total liabilities (RMB'000)	2,961,486.64	2,453,634.71	20.70%	1,591,291.15	1,022,841.04	898,918.24
Net assets attributable to the shareholders of the Company (Equity attributable to the shareholders of the Company) (RMB'000)	3,344,648.58	3,008,015.81	11.19%	2,843,169.71	2,517,438.11	2,149,084.84
Share capital (RMB'000)	295,721.85	295,721.85	–	295,721.85	295,721.85	295,721.85
Shareholders' equity per share attributable to the shareholders of the Company (RMB/share)	11.31	10.17	11.21%	9.61	8.51	7.27

2. PRINCIPAL FINANCIAL INDICATORS

Basic earnings per share (RMB/share)	1.65	1.49	10.74%	1.22	1.41	1.61
Diluted earnings per share (RMB/share)	1.65	1.49	10.74%	1.22	1.41	1.61
Basic earnings per share after deducting extraordinary gain or loss (RMB/share)	1.56	1.34	16.42%	1.16	1.33	1.36
Weighted average return on net assets (%)	15.34%	15.17%	An increase of 0.17 percentage points	13.41%	17.94%	24.90%
Return on total equity attributable to shareholders of the Company (%)	14.58%	14.68%	A decrease of 0.10 percentage points	12.64%	16.61%	22.41%
Total equity attributable to shareholders of the Company to total assets ratio (%)	50.94%	53.39%	A decrease of 2.45 percentage points	61.77%	68.75%	68.78%

3. EXTRAORDINARY GAINS OR LOSSES

Name of item	2013 (RMB)	Note	2012 (RMB)	2011 (RMB)
Gains or losses from the disposal of non-current assets (including those already written off in the provision for impairment of assets as provided)	180,148.18		-69,242.34	462,004.84
Ultra vires or without official approval documents, or incidental tax rebate or relief	362,000.00		-	-
Government grants included in the profit or loss for the period (save as those government grants closely associated to the operations of the Company, being entitled at a certain standard amount or certain level in accordance with the national standards)	38,842,657.52	Various government grants received by the Company	42,064,456.38	32,046,594.98
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the effective hedging activities of the normal operations of the Company)	499,437.51	Gains arising from changes in fair value of financial assets held for trading and investment income derived from the holding and disposal of financial assets held for trading	18,086,042.35	-9,851,944.38
Reversal of provision for impairment of receivables on the basis of individual impairment test	-		636,406.43	-
Other non-operating income and expenditures apart from the above	-1,001,272.08		-435,271.79	897,876.93
Less: Effect of income tax	7,150,619.26		8,151,476.68	5,156,062.49
Less: Effect of non-controlling interests (after tax)	6,389,185.80		6,649,649.17	638,752.79
Total	25,343,166.07		45,481,265.18	17,759,717.09



4. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Item	At the beginning of the year (RMB'000)	Gains or losses from changes in fair value for the year (RMB'000)	Accumulated change in fair value included in equity (RMB'000)	Provision of impairment for the year (RMB'000)	Purchase amount for the year (RMB'000)	Disposal amount for the year (RMB'000)	At the end of the year (RMB'000)
Financial assets							
Of which: 1. Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	59,319.62	-1,236.41	-	-	-	46,531.88	11,335.13
Of which: Derivative financial assets	-	-	-	-	-	-	-
2. Available-for-sale financial assets	10,612.86	-	-571.30	-	-	-	10,041.56
Sub-total for financial assets	69,932.48	-1,236.41	-571.30	-	-	46,531.88	21,376.69
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	69,932.48	-1,236.41	-571.30	-	-	46,531.88	21,376.69
Financial liabilities	-	-	-	-	-	-	-



MANAGEMENT DISCUSSION AND ANALYSIS

1. OPERATING ACTIVITIES

During the year ended 31 December 2013 (the "Reporting Period"), there was no change to the core business of Livzon Pharmaceutical Group Inc.* (the "Company", together with its subsidiaries collectively known as the "Group"), primarily including the research and development, production and distribution of pharmaceutical products. The products of the Group covered drug preparation products, bulk medicines and intermediates as well as diagnostic reagents and equipment. Major products included Chinese and Western drug preparation products such as Shengqi Fuzheng Injection (參芪扶正注射液), a series of Bismuth Potassium Citrate Granules (麗珠得樂) products, Anti-viral Granules (抗病毒顆粒), Urofollitropin for Injection (麗申寶), Menotropins for Injection (樂寶得), Ilaprazole (壹麗安), Leuporelin Acetate Microspheres for Injection (貝依), Cefodizime Sodium for Injection (康麗能), Voriconazole for Injection (麗福康) and Mouse Nerve Growth Factor for Injection (麗康樂); bulk medicines and intermediates such as Mevastatin (美伐他汀), Colistin (硫酸粘菌素), Phenylalanine (苯丙氨酸), Ceftriaxone Sodium (頭孢曲松鈉), Cefuroxime Sodium (頭孢呋辛鈉) and Cefodizime Sodium (頭孢地嗪鈉); and diagnostic reagent products, such as ELISA HIV Testing Reagent (HIV抗體診斷試劑), MYCOII Testing Reagent (肺炎支原體抗體診斷試劑(被動凝集法)) and TPPA Testing Reagent (梅毒螺旋體抗體診斷試劑(凝集法)).

2. BUSINESS REVIEW

During the Reporting Period, the Group reported an operating income of RMB4,618.68 million, representing an increase of 17.12% when compared with RMB3,943.53 million of the previous year. Net profit was RMB523.99 million, representing an increase of 10.26% over RMB475.22 million of the previous year. Net profit attributable to shareholders of the Company was RMB487.50 million, up by 10.38% as compared with RMB441.67 million for the previous year. Excluding extraordinary items, net profit attributable to shareholders of the Company generated from core operations in 2013 was RMB462.16 million, representing an increase of 16.65% when compared with RMB396.19 million for the previous year.

3. SEGMENTAL INFORMATION

The Group has been operating in one single operating segment in the People's Republic of China ("China" or "PRC"), which is pharmaceutical manufacturing. Hence, the Group did not state the information of operating and geographical segments.



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4. ANALYSIS OF PRINCIPAL ACTIVITIES

4.1. Operating Income and Costs of Principal Activities

Product categories and names	Operating income from principal activities (RMB'000)	Year-on-year change in operating income from principal activities (%)	Operating costs from principal activities (RMB'000)	Year-on-year change in operating costs from principal activities (%)	Gross profit margin of principal activities (%)	Year-on-year change in gross profit margin of principal activities (percentage point)
1. Drug preparation products						
(1). Western drug preparation products	1,702,525.71	24.78%	428,006.19	11.80%	74.86%	Up by 2.92 percentage points
Including: Gastrointestinal	358,678.03	19.30%	41,087.64	2.78%	88.54%	Up by 1.84 percentage points
Cardio-cerebral vascular	148,085.91	3.72%	35,331.40	6.43%	76.14%	Down by 0.61 percentage points
Antibiotics	279,197.29	1.05%	71,937.10	-18.39%	74.23%	Up by 6.14 percentage points
Gonadotropic hormones	605,501.36	32.17%	204,285.86	28.52%	66.26%	Up by 0.96 percentage points
Blood and hemopoietic system drugs	30,596.43	23.66%	31,084.15	28.96%	-1.59%	Down by 4.17 percentage points
Others	280,466.70	73.29%	44,280.04	15.16%	84.21%	Up by 7.97 percentage points
(2). Chinese drug preparation products	1,658,923.22	19.93%	331,573.64	11.73%	80.01%	Up by 1.47 percentage points
Including: Shengqi Fuzheng Injection	1,277,704.06	26.00%	192,959.59	31.39%	84.90%	Down by 0.62 percentage points
Others	381,219.16	3.25%	138,614.05	-7.52%	63.64%	Up by 4.24 percentage points
Drug preparation products sub-total	3,361,448.93	22.34%	759,579.84	11.77%	77.40%	Up by 2.14 percentage points
2. Bulk medicines and intermediates	798,576.22	-4.32%	713,205.20	0.19%	10.69%	Down by 4.02 percentage points
3. Diagnostic reagents and equipment	368,732.85	8.08%	162,882.18	2.80%	55.83%	Up by 2.27 percentage points
4. Others	40,629.98	—	17,676.90	—	56.49%	—
Total	4,569,387.99	16.46%	1,653,344.11	6.67%	63.82%	Up by 3.32 percentage points

During the Reporting Period, the Group's principal activities generated an operating income of RMB4,569.39 million, representing an increase of RMB645.89 million or 16.46% compared with RMB3,923.50 million of the previous year. Among which, the growth of Chinese drug preparation products and Gonadotropic Hormone products was significant, representing a year-on-year increase of 19.93% and 32.17% respectively. The growth in the sales of Chinese drug preparation products was mainly attributable to the increased sales of Shengqi Fuzheng Injection (參芪扶正注射液) whereas the growth in the sales of Gonadotropic Hormone products was mainly attributable to the increased sales of Leuporelin Acetate Microspheres for Injection (貝依) and Urofollitropin for Injection (麗申寶). The growth in the sales of those products has primarily reflected the continuous increase in the demand for such products and the Group's further reinforcement of marketing management.

4. ANALYSIS OF PRINCIPAL ACTIVITIES

4.1. Operating Income and Costs of Principal Activities *(continued)*

During the Reporting Period, the Group's operating costs from principal activities amounted to RMB1,653.35 million, representing an increase of RMB103.45 million or 6.67% compared with RMB1,549.90 million for the previous year. The increase in operating costs was well below the growth in operating income, as a result of which the Group's gross profit margin of principal activities rose by 3.32 percentage points year-on-year. This was mainly due to the improvement in gross profit margins across major drug preparation products given the gradual increasing proportion of drug preparation product sales in the Group's total sales and the tightened cost control management of the Company.

4.2. Operating Income of Principal Activities by Regions

Regions	2013 (RMB'000)	2012 (RMB'000)	Year-on-year change (%)
Domestic	4,227,365.21	3,576,612.42	18.19%
Overseas	342,022.78	346,884.40	-1.40%
Total	4,569,387.99	3,923,496.83	16.46%

4.3. Major Customers and Suppliers

During the Reporting Period, the sales to the five largest customers contributed 7.56% of the total operating income of the Group while the purchase from the five largest suppliers of the Group contributed 27.39% of the Group's total purchase of raw materials.

4.4. Expenses

- During the Reporting Period, the Group's total amount of three major expenses, including selling expenses, administrative expenses and financial expenses, incurred was RMB2,232.96 million, up by RMB457.40 million or 25.76%. Details are as follows:

Items	2013 (RMB)	2012 (RMB)	Year-on-year change (%)
Selling expenses	1,810,747,376.60	1,441,654,242.80	25.60%
Administrative expenses	437,293,065.57	351,031,228.58	24.57%
Financial expenses	-15,076,696.90	-17,122,110.76	11.95%

- "Selling expenses" rose by 25.60% year-on-year, which was mainly attributable to a corresponding increase in sales of the Group's drug preparation products during the Reporting Period.

4. ANALYSIS OF PRINCIPAL ACTIVITIES *(continued)*

4.4. Expenses *(continued)*

- (2) "Administrative expenses" rose by 24.57% year-on-year, which was mainly attributable to the year-on-year increase in research and development expenses and the additional expenditures arising from the B-to-H Share Conversion during the Reporting Period.
 - (3) "Financial expenses" rose by 11.95%, which was mainly attributable to the year-on-year decrease in interest income during the Reporting Period.
2. During the Reporting Period, the total income tax expenses were RMB104.95 million and the year-on-year growth was RMB19.86 million or 23.34%, which was mainly attributable to the year-on-year growth in taxable income as a result of the growth in operating profit given the Group's good performance during the Reporting Period.

4.5. Research and development expenditure

During the Reporting Period, the Group's expenditures related to research and development amounted to RMB233.06 million, accounted for 6.97% of net assets attributable to shareholders of the Company and 5.05% of the Group's total operating income for the Reporting Period.

During the Reporting Period, the Group's ongoing research projects were well on track. The progress of major research and development projects is set out below: for the Ilaprazole Injection (艾普拉唑針劑) project, clinical approval was obtained during the year and Phase I clinical research and preparations for Phase II clinical trial were basically completed; clinical approval on Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody for Injection (注射用重組人源化抗腫瘤壞死因子 α 單克隆抗體) was obtained with its clinical research program and executing hospital confirmed and Phase I clinical drug production completed during the year; for the project on capsules for toxin degradation and kidney protection (清毒安腎膠囊), Phase IIa clinical trial and summary analysis were completed and Phase IIb clinical research was commenced; for the Sanhuafen Injection (三花粉針) project, the supplementary pharmaceutical research, efficacy validation, animal pharmacokinetic testing and human pharmacokinetic clinical research were completed during the year. Apart from the existing research and development projects, the Company introduced and self-developed two projects on monoclonal antibody drugs and two projects on Chinese drug preparations, further enriching the Group's products under research.

During the Reporting Period, the Group applied for a total of 25 domestic invention patents and 11 foreign invention patents, and obtained 17 domestic and foreign invention patent authorisations. The Group was granted subsidies of RMB1.08 million for 7 domestic and foreign patents and received 2 trademark registration certificates. It completed the renewal of 24 domestic and foreign registered trademarks and filed 22 trademark licences for record. It also completed new application for 7 design patents and obtained 8 design patent authorisations.

5. ANALYSIS OF FINANCIAL CONDITIONS

5.1. Material Change in Assets

	As at the year end of 2013		As at the year end of 2012		Year-on-year change (%)
	Amount (RMB)	Proportion of total assets (%)	Amount (RMB)	Proportion of total assets (%)	
Cash at bank and on hand	761,044,135.54	11.59%	1,221,332,802.40	21.68%	-37.69%
Financial assets held for trading	11,335,125.54	0.17%	59,319,616.94	1.05%	-80.89%
Bills receivables	271,431,749.11	4.13%	112,482,782.18	2.00%	141.31%
Accounts receivables	1,053,350,426.59	16.04%	774,021,470.88	13.74%	36.09%
Inventories	641,649,965.85	9.77%	546,497,999.53	9.70%	17.41%
Long-term equity investments	123,764,866.29	1.88%	120,961,203.38	2.15%	2.32%
Fixed assets	1,976,910,773.96	30.11%	1,127,285,485.37	20.01%	75.37%
Construction in progress	1,082,419,104.88	16.49%	1,028,769,050.48	18.26%	5.21%

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

1. "Cash at bank and on hand" decreased by 37.69% year-on-year, which was mainly attributable to the increase in funds used in construction and the purchase of equipment during the Reporting Period;
2. "Financial assets held for trading" decreased by 80.89% year-on-year, which was mainly attributable to the disposal of part of the Group's financial assets held for trading during the Reporting Period;
3. "Bills receivables" increased by 141.31%, which was mainly attributable to the increase in sales settlement by the way of bank acceptance bills during the Reporting Period;
4. "Accounts receivables" increased by 36.09% year-on-year, which was mainly attributable to the corresponding increase in accounts receivables as a result of an increase in sales, the sales channel consolidation which enhanced the cooperation with distributors and the increase in the proportion of credit sales to the total sales of the Group during the Reporting Period;
5. "Fixed assets" increased by 75.37%, which was mainly attributable to the transfer of construction projects in operation to fixed assets during the Reporting Period.

5.2. Material Changes in Liabilities

	2013		2012		Year-on-year change (%)
	Amount (RMB)	Proportion of total assets (%)	Amount (RMB)	Proportion of total assets (%)	
Bills payables	375,775,891.08	5.72%	283,581,118.89	5.03%	32.51%
Amounts payables	435,966,092.72	6.64%	311,814,060.41	5.53%	39.82%
Receipts in advance	61,780,193.14	3.08%	37,950,040.42	3.68%	62.79%
Short-term loans	491,084,453.79	7.48%	536,169,502.91	9.52%	-8.41%
Long-term loans	149,900,000.00	2.28%	700,000.00	0.01%	21,314.29%

5. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

5.2. Material Changes in Liabilities *(continued)*

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

1. "Bills payables" increased by 32.51% year-on-year, which was mainly attributable to the settlement of purchase amount by way of bills during the Reporting Period;
2. "Account payables" increased by 39.82% year-on-year, which was mainly attributable to the increase in purchase volume during the Reporting Period as a result of the increase in sales volume, which in turn increased the unpaid amount in credit periods;
3. "Receipts in advance" increased by 62.79%, which was mainly attributable to the increase in customers' advanced orders for diagnostic reagents products during the Reporting Period.
4. "Long-term loans" increased by 21,314.29% year-on-year, which was mainly attributable to the increase in long-term financing for funds used in construction projects and technology advancement projects during the Reporting Period.

5.3. Cash Flow Analysis

	2013 (RMB)	2012 (RMB)	Year-on-year change (%)
Cash inflows from operating activities	4,614,134,060.40	4,026,632,573.45	14.59%
Cash outflows from operating activities	4,174,147,534.71	3,432,667,909.15	21.60%
Net cash flows from operating activities	439,986,525.69	593,964,664.30	-25.92%
Cash inflows from investing activities	54,459,643.16	18,344,935.55	196.86%
Cash outflows from investing activities	929,024,825.48	913,835,037.35	1.66%
Net cash flows from investing activities	-874,565,182.32	-895,490,101.80	2.34%
Cash inflows from financing activities	1,439,183,907.51	915,507,886.64	57.20%
Cash outflows from financing activities	1,431,417,510.04	868,302,811.09	64.85%
Net cash flows from financing activities	7,766,397.47	47,205,075.55	-83.55%
Net increase in cash and cash equivalents	-427,707,567.21	-253,539,494.26	-68.69%

5. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

5.3. Cash Flow Analysis *(continued)*

The reasons for a year-on-year change of more than 30% in the related items:

1. "Cash inflows from investing activities" increased by 196.86% year-on-year, which was mainly attributable to the cash received from the disposal of part of the securities investments by the Company during the Reporting Period;
2. "Cash inflows from financing activities" increased by 57.20% year-on-year, which was mainly attributable to the increase in cash received by subsidiaries in the form of investment from their non-controlling shareholders during the Reporting Period and the increase in new bank loans;
3. "Cash outflows from financing activities" increased by 64.85% year-on-year, which was mainly attributable to the repayment of bank loans matured during the Reporting Period;
4. "Net cash inflows from financing activities" decreased by 83.55% year-on-year, which was mainly attributable to the relatively larger year-on-year increase in the cash outflows from financing activities (please see the above for the reasons) during the Reporting Period;
5. "Net increase in cash and cash equivalents" decreased by 68.69% year-on-year, which was mainly attributable to the expansion of sales scale which resulted in the increase in expenses paid in cash and tax expenses during the Reporting Period.

5.4. Liquidity and Financial Resources

The capital of the Group was mainly generated from the capital of business operations and capital from external financing. Meanwhile, the Group will take a prudent approach to increase its future operating cash flows. The liquidity and the financial position of the Group remained stable and healthy during the Reporting Period and the Group has sufficient working capital for future demands. As at 31 December 2013, the current ratio was 1.28 (31 December 2012: 1.25) and the quick ratio was 1.00 (31 December 2012: 1.02).

As at 31 December 2013, the Group's cash at bank and on hand amounted to RMB761.04 million (31 December 2012: RMB1,221.33 million). The borrowings from banks amounted to RMB640.98 million (31 December 2012: RMB536.87 million), of which short-term borrowings to be mature within one year amounted to RMB491.08 million (31 December 2012: RMB536.17 million) and long-term borrowings to be mature after one year amounted to RMB149.90 million (31 December 2012: RMB0.7 million).

5.5. Capital Structure

As at 31 December 2013, the current liabilities of the Group amounted to RMB2,329.68 million (31 December 2012: RMB2,376.19 million), which decreased by 1.96% year-on-year; the long-term liabilities amounted to RMB631.81 million (31 December 2012: RMB77.45 million), which increased by 715.77% year-on-year; equity attributable to the shareholders of the Company amounted to RMB3,344.65 million (31 December 2012: RMB3,008.02 million), which increased by 11.19% year-on-year.

5. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

5.6. Capital Commitments

As at 31 December 2013, the Group's capital commitments contracted in relation to the purchase of long-term assets amounted to RMB276.17 million (31 December 2012: RMB362.45 million).

5.7. Bank Borrowings and Other Borrowings

Details of the bank borrowings and other borrowings of the Company and the Group as at 31 December 2013 are set out in Notes VII. 21, 22, 30, 31, 32 and 33 to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises.

5.8. Issue of Medium-term Financing Bills

During the Reporting Period, for the purposes of satisfying capital requirement and optimising financing structure, the Company issued the "2013 First Tranche of Medium-term Financing Bills for Livzon Pharmaceutical Group Inc.*" on 29 May 2013 at an issue amount of RMB400 million with a term of three years and an interest rate of 5.03%.

5.9. Gearing Ratio

As at 31 December 2012 and 31 December 2013, the gearing ratios were calculated by dividing the Group's total liabilities as at each respective date by shareholders' equity. The gearing ratio was 38.39% as at 31 December 2012 and increased slightly to 39.31% as at 31 December 2013 with no significant change recorded.

5.10. Interest Expenses and Capitalisation

	2013 (RMB)	2012 (RMB)
Interest expenses	9,063,185.39	17,182,224.10
Interest capitalisation	41,723,173.32	13,799,972.48
Total interest expenses	50,786,358.71	30,982,196.58

5.11. Foreign Exchange Risks

Details of foreign exchange risks of the Group are set out in Note XII – Other significant matters to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises.

* For identification purpose only

5. ANALYSIS OF FINANCIAL CONDITIONS *(continued)*

5.12. Contingent Liabilities

As at 31 December 2013, the Group had no significant contingent liabilities.

5.13. Pledge of Assets

As at 31 December 2013, the Group's pledged assets under restrictions were as follows:

	Year end balance (RMB)	Reasons for restriction
Assets pledged:		
Other cash fund	1,019,151.39	Deposits under guarantees for letters of credit
Other cash fund	9,096,250.84	Deposits for bank acceptance bills
Total	10,115,402.23	

5.14. Staff, Remuneration and Pension Scheme

The remuneration of our staff was determined by the Group mainly based on the State policies, the Company's economic performance and the compensation levels across the society. As at 31 December 2013, the Group had 5,058 staff (31 December 2012: 5,587 staff). During the Reporting Period, the total wages, bonuses, allowances, compensation, welfare and social insurance paid to our staff by the Group amounted to RMB374.31 million (31 December 2012: RMB313.39 million). Details of the remuneration policies for staff and training plans are set out in the section of "Directors, Supervisors, Senior Management and Employees" in this report.

The employees of the Group are members of the state-managed retirement benefits scheme operated by the PRC Government. The Group is required to contribute to the retirement benefits scheme at a specified rate of the employees' salaries to fund the benefits. The sole obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

Details of the pension welfare are set out in the Note IV.28 – Employee Benefits to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises.

6. CORE COMPETITIVENESS ANALYSIS

With years of accumulated experience and continuous innovation, in response to the fierce market competition, the Group has gradually formed its own core competitiveness which is primarily reflected in the following aspects:

1. A diversified product mix and core products with leading market share. The Group's products are related to a number of pharmaceutical sectors such as drug preparation products, bulk medicines and intermediates as well as diagnostic reagents and equipment. Its core business segment, namely drug preparation products, has an even stronger competitive edge. The diversified product structure allows the Group to diversify risks and maintains a stable growth of operating income by adjusting sales structure at times of declining demand in a particular market segment.
2. A matured marketing network and relatively strong promotional capability. The Group has a marketing network with nationwide coverage and a sales force of more than 4,000 sales representatives. Through the accumulation of experience, the Group has also formulated effective marketing and promotional measures and has built a sound marketing structure.
3. Strong research and development capability. The Group has always attached great importance to the research and development of new products and technologies. Currently, there are three major research and development teams consisting of a total of 255 staff, including 10 staff with doctorate degrees and 88 staff with master degrees, to undertake research and development of chemical drug preparation products, biological drug preparation products and traditional Chinese medicine products respectively.

7. INVESTMENT ANALYSIS

7.1. Shareholdings in Financial Institutions

Company names	Company categories	Initial investment cost (RMB)	Number of shares held at the beginning of period (Shares)	Percentage of shares held at the beginning of period (%)	Number of shares held at the end of period (Shares)	Percentage of shares held at the end of period (%)	Carrying amount at the end of period (RMB)	Profit or loss for the Reporting Period (RMB)	Accounting items	Sources of shares
Zhuhai China Resources Bank Co., Ltd.	Commercial bank	95,325,760.00	84,936,000	1.5065%	84,936,000	1.5065%	75,325,760.00	-	Long-term equity investment	Investee company
Guangdong Development Bank Co., Ltd.	Commercial bank	177,348.84	68,854	0.0004%	68,854	0.0004%	177,348.84	-	Long-term equity investment	Investee company
Total		95,503,108.84	85,004,854	-	85,004,854	-	75,503,108.84	-	-	-

7.2. Investment in Securities

Types of securities	Securities codes	Securities abbreviations	Initial investment cost (RMB)	Number of shares/units held at the beginning of period (Shares/Units)	Number of shares/units held at the end of period (Shares/Units)	Carrying amount at the end of period (RMB)	Profit or loss for the Reporting Period (RMB)	Accounting items	Sources of shares
Shares	00135	Kunlun Energy	6,516,232.42	1,500,000	1,000,000	10,739,901.80	-1,292,110.24	Financial assets for trading	Purchased in market
Funds	206001	Penghua Fund	150,000.00	619,573	619,573	595,223.74	55,699.61	Financial assets for trading	Purchased in market
Total			6,666,232.42	2,119,573	1,619,573	11,335,125.54	-1,236,410.63	-	-

Note: Securities investment mentioned above consists of investment made in overseas markets and is converted to Renminbi based on the exchange rates as at the end of the Reporting Period.

7. INVESTMENT ANALYSIS *(continued)*

7.3. Analysis of Major Subsidiaries and Investee Companies

The following represents the major subsidiaries and investee companies which have significant impact towards the financial results and net value of assets of the Group as considered by the Board. The information of all subsidiaries and investee companies will be briefly described as the Board considers that the detailed information will be too lengthy.

Company names	Company categories	Industry	Major products or services	Registered capital (RMB'0,000)	Shareholding of the Company (%)	Total assets (RMB'0,000)	Net assets (RMB'0,000)	Net profits (RMB'0,000)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Company with limited liabilities (Joint venture by Taiwan, Hong Kong, Macau and PRC)	Pharmaceutical	Production and sale of chemical drugs, biochemical drugs, microbiological preparations and antibiotics	44,210.93	100%	195,221.15	116,003.92	17,319.55
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Company with limited liabilities (Sino-foreign joint venture)	Pharmaceutical	Production and sale of traditional Chinese reagents	14,900.00	100%	55,464.07	47,726.17	7,224.84
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Company with limited liabilities (Joint venture by Taiwan, Hong Kong, Macau and PRC)	Pharmaceutical	Production and sales of traditional Chinese reagents	6,156.10	100%	74,977.81	36,430.11	13,245.08
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Company with limited liabilities (Joint venture by foreign-invested corporates and PRC)	Pharmaceutical	Production and sales of biochem and polypeptide bulk medicine and reagents	8,732.89	75.99%	21,311.12	12,948.72	1,634.60
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Company with limited liabilities (Joint venture by Taiwan, Hong Kong, Macau and PRC)	Pharmaceutical	Production and sale of chemical bulk medicines	12,828.00	100%	47,361.08	19,644.91	391.52
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Limited shares company	Pharmaceutical	Principally engaged in sale of bulk medicines, intermediate products and export of related technologies.	13,492.52	92.14%	32,293.92	22,439.77	2,127.74
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興製藥有限公司)	Company with limited liabilities (Joint venture by Taiwan, Hong Kong, Macau and PRC)	Pharmaceutical	Production and sales of the antibiotics bulk medicines, intermediate and drug preparations and chemical raw materials for pharmaceutical production	USD4,170	100%	58,978.07	39,382.80	-497.13
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Limited shares company (Foreign-invested corporation)	Pharmaceutical	Production and sale of diagnostic reagents	4,645.08	51%	38,784.61	24,168.04	6,940.47

7. INVESTMENT ANALYSIS *(continued)*

7.3. Analysis of Major Subsidiaries and Investee Companies *(continued)*

Conditions of major subsidiaries and investee companies

1. The net profit of Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司) amounted to RMB3,915,200 during the Reporting Period, representing an increase of RMB7,129,200 as compared with the loss of RMB3,214,000 in the previous year. The reversal was mainly attributable to a gradual profit increase in sale of non-antibiotics bulk medicines after the merger with Zhuhai FTZ Lida Pharmaceutical Co., Ltd. (珠海保稅區麗達藥業有限公司).
2. During the Reporting Period, Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司) recorded a loss of RMB4,971,300, representing a decrease of RMB31,524,600 as compared with the profit of RMB26,553,300 in the previous year. The loss was mainly attributable to the decrease in the prices of bulk medicines and intermediates such as Colistin (硫酸粘桿菌素) and Phenylalanine (苯丙氨酸) resulting from the effects of change in supply and demand and fierce market competition.

FUTURE DEVELOPMENT AND PROSPECTS

8.1. The Development Trend and Prospects of National Pharmaceutical Industry in 2014

A series of plans such as "Development Plan on Pharmaceutical Industry under the 12th Five-year Plan" and "Plan on National Drug Security under the 12th Five-year Plan", were established by the State, which provide a great opportunity for development to the entire pharmaceutical industry. Meanwhile, with the effect of growth in rigid demand caused by the social ageing problem, the pharmaceutical industry continued to develop. In spite of the volatile growth of macro-economy and various consolidated effects of industry management policies such as medical insurance cost control and price decrease of drugs, the pharmaceutical industry in 2014 is expected to achieve a sustainable growth. However, the efficiency will decrease as compared with the corresponding period and the competition within the industry will become more intense.

8.2. Major Impact and Relevant Solutions in 2014

In 2014, intense competition is seen to continue in the pharmaceutical market. The continuous deepening of healthcare structural reforms and the implementation of a new round of drug tenders, cuts in drug prices and medical insurance cost control as well as the new GMP implementation are expected to bring new opportunities and challenges to the pharmaceutical industry. The Group will actively respond to challenges, firmly seizing market opportunities, adhering to the approach of expanding the size of sales as its essence to ensure the fulfillment of annual business targets. The Group remains committed to quality and cost control to continuously improve the competitiveness of its products. The Group will steadily promote scientific and technological research and development to lay solid foundation for the realisation of its strategic objectives. The Group will explore efficient management mechanisms to enhance efficiency of internal management.

FUTURE DEVELOPMENT AND PROSPECTS *(continued)***8.3. Future Strategic Prospects of the Company**

The long-term strategic development objective of the Company is to become a domestic leader in the pharmaceutical industry with self-owned innovation and international competitiveness in production, technology and management. For the next few years, the Company will strive to maintain strategic plans with a quality base, a leading sales, a core in research and development and a well-operating management, to continue in maintaining the advantage of high-quality products, to expand its sales operation, to promote profit growth and to accelerate the research and development of single antibiotics through sale reform. We will actively introduce new products and improve the management standard through management upgrading reform to ensure the fulfillment of our long-term strategic development plans.

In order to fulfill the business objective and long-term strategic planning of the Company, the Company's major work arrangements in 2014 are set out below:

(1) *Expanding the size of sales as the essence to ensure the fulfillment of annual business objectives in 2014*

The year 2014 will be a year of drug tenders. More than 20 provinces are expected to conduct essential and non-essential drug tenders during the year. 2014 will also be a year in which the State deepens healthcare structural reforms. The Group needs to gain market advantage and seize opportunities through continuous work on market access as well as step up efforts in fundamental marketing management and other measures by further innovating the marketing model in order to ensure the fulfillment of annual business targets. Specific programs are as follows: (a) enhance the marketing model to strengthen the motivation of marketing staff. The Group will continue to summarise and optimise the allocation of resources in its marketing model in areas such as workforce, variety, end customer and policy to enlarge the scope of promotion and, on such basis, implement the "contract-based" appraisal system by highlighting the combination and unification of "responsibility" and "benefit" to give incentive for the motivation of each marketing staff; (b) conduct solid work on market access to lay a firm foundation for marketing. The Group will require the sales administration department to conduct conscientious drug tender research in all provinces and formulate appropriate tender programs taking into account the situation of the Group's products in order to ensure a reasonable success tender rate of its major products; (c) expand sales teams to strengthen the building of workforce. The Group will require the sales personnel department to make reasonable estimates of the number of staff needed based on product sales and market expansion plans in the new year and further expand recruitment channels to ensure that the annual demand for marketing personnel is met; (d) make appropriate adjustment to its sales structure according to market demand and, on the basis of ensuring the growth of existing major products, strengthen marketing efforts for products with potential such as Ilaprazole (壹麗安), Mouse Nerve Growth Factor for Injection (麗康樂) and Leuporelin Acetate Microspheres for Injection (貝依) by increasing marketing resources support to a suitable level in order to accelerate the phase of market cultivation for the gradual increase of its market share.

FUTURE DEVELOPMENT AND PROSPECTS *(continued)***8.3. Future Strategic Prospects of the Company** *(continued)***(2) Adhering to quality and cost control to continuously improve products**

In 2014, the Group remains committed to improve quality and strengthen cost control. It looks to gain the recognition of the majority of patients and customers on quality and effective products and to alleviate cost pressure through cost saving to improve the competitiveness of its products. Specifically, the following work needs to be done properly: (a) the Group will require the quality management and control headquarters to reinforce audit quality and environment, health and safety audit at all producers and check the rectification progress in a timely manner to prevent risks and eliminate hidden danger through quality, environment, health and safety guidance and supervision at all companies; (b) the Group will conscientiously make arrangements for international certification and China's new GMP certification according to relevant requirements to improve quality management and control standards; (c) the Group will establish a special quality management and control database for the overall planning of resources in order to foster a higher level of quality management and control and environment, health and safety management among enterprises of the Group; (d) the Group will refine the cost assessment programs of all manufacturing entities for tighter supervision over their implementation; (e) the Group will strengthen its focus on purchasing and supply management to ensure the quality of purchases and reduce procurement costs.

(3) Promoting scientific and technological research and development steadily to lay the cornerstone for the long-term development of the Group

In 2014, the Group will further optimise scientific and technological resources and increase investments in research and development to ensure smooth implementation of ongoing projects, especially major scientific and technological projects such as the smooth implementation of clinical trial of Fully Human Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody and Ilaprazole Injection. To ensure that the above objectives are achieved, the following work has to be undertaken well: (a) ensure project management and audit work is properly done, project assessment systems are in place and set up a special management department responsible for such work; (b) set up systems on internal job titles of technical positions to provide technicians with promotion channels to improve their stability; (c) reinforce the building of technical and management workforce with focus on the introduction of core talents overseas and establish various echelons to improve core competitiveness; (d) continuous strengthening of cooperation with domestic and foreign universities and scientific and technological institutions to further improve its research and development innovation model combining independent and cooperative innovation.

FUTURE DEVELOPMENT AND PROSPECTS *(continued)***8.3. Future Strategic Prospects of the Company** *(continued)***(4) Exploring efficient management mechanisms vigorously to continuously enhance internal management efficiency**

In 2014, the Group will actively explore ways to build more efficient management mechanisms relevant to the Group's actual circumstances. It will strengthen internal efficiency, enhancing work in areas such as administrative personnel and financial information by optimising processes and reinforcing internal control, adopting measures such as streamlining managers and management team and flattening management structure to raise the Group's internal management standards and reduce operational costs. Meanwhile, the Group will integrate its scope of business and facilitate the centralised management of its businesses with authority and responsibility clearly defined, assessment well in place, a simplified administration and delegation mechanism and various reinforced supervisory measures so as to increase the initiative and responsibility of its staff at all levels in promoting higher efficiency.

OTHER EVENTS**9.1. Reserves**

Details of the amount and movements in the reserves during the year are set out in the Consolidated Statement of Changes in Shareholders' Equity and Note VII.36 – Surplus reserve to the financial statements of this report.

9.2. Distributable Reserves

As at 31 December 2013, the distributable reserves of the Group calculated in accordance with China Accounting Standards for Business Enterprises amounted to RMB515 million (31 December 2012: RMB565 million).

9.3. Fixed Assets

Details of the movements in fixed assets during the Reporting Period are set out in Note VII.10 – Fixed assets to the financial statements in this report.

9.4. Connected/Related Party Transactions

Details of the connected/related party transactions are set out in the section headed "Major Events" in this report.

9.5. Management Contracts

No contract concerning the management or administration of the whole or any substantial part of the business of the Company was entered into or existed during the Reporting Period.

10. AUDITORS

10.1. During the Reporting Period, the financial statements of the Company was audited by Ruihua Certified Public Accountants (LLP), and it issued an unqualified opinion.

10.2. Changes in Accounting Policies, Accounting Estimates and Correction to Accounting Errors as Compared with the Previous Year

The accounting policies of the Company were determined according to China Accounting Standards for Business Enterprises. During the Reporting Period, according to the provisions of the Notice on the Issuance of "Accounting Standards for Business Enterprises No.39 – Fair Value Measurement"(CaiKuai [2014] No.6), the Notice on the Issuance of "Accounting Standards for Business Enterprises No.30 – The Presentation of Financial Statements"(revised), (CaiKuai [2014] No.7), the Notice on the Issuance of "Accounting Standards for Business Enterprises No.9 – Employee Compensation"(revised), (CaiKuai [2014] No.8), the Notice on the Issuance of "Accounting Standards for Business Enterprises No.33 – Consolidated Financial Statements"(revised), (CaiKuai [2014] No.10) and the Notice on the Issuance of "Accounting Standards for Business Enterprises No.40 – The Joint Venture Arrangements" (CaiKuai [2014] No.11) which were published by the Finance Ministry in January to February 2014, China enterprises listed overseas were encouraged to implement early the above 5 accounting standards. It was resolved in the 28th Meeting for the 7th Board of the Company that the Company was allowed to implement the above 5 accounting standards early, with effective from 1 January 2013.

The changes in accounting policies due to the implementation of the above accounting standards by the Company has not caused any impact on the financial statements for the Reporting Period.

During the year, there is no change in accounting estimates and significant correction to accounting errors of the Company.

11. DIVIDEND DISTRIBUTION

Profit distribution plan as proposed by the Company in 2013: To distribute cash dividend of RMB5.00 (including taxes) to all shareholders of the Company for every 10 shares held with the Company's total equity of 295,721,852 shares as at the end of 2013 as the base. The remaining undistributed profit is to be carried forward to the next year. No distribution of bonus shares and no transfer of capital reserve into share capital will be undertaken and the Company is expected to distribute cash dividend of RMB147,860,926.00 in total, representing 30.33% of net profit attributable to shareholders of the Company in 2013.

The above profit distribution plan shall be submitted to the 2013 Annual General Meeting for approval.

11. DIVIDEND DISTRIBUTION *(continued)*

Cash Dividend Distribution of the Company in Recent Three Years

Distribution years	Cash dividend amount (taxes included) (RMB)	Net profit attributable to shareholders of the Company in the consolidated financial statements for the year (RMB)	Proportion of net profit attributable to shareholders of the Company in the consolidated financial statements (%)
2013	147,860,926.00	487,502,351.80	30.33%
2012	147,860,926.00	441,671,519.69	33.48%
2011	147,860,926.00	359,369,880.94	41.14%

12. TAXATION AND TAX RELIEF

Shareholders are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. The following cited laws, regulations and stipulations are all relevant provisions issued during the year ended 31 December 2013. Shareholders, if necessary, shall seek professional advice from their tax and legal advisors for advices relating to tax payment or its impact:

(1) A-Shares Holders

In accordance with the Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (Caishui [2012] No. 85) (《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012]85號)), for shares of listed companies obtained by individuals from public offerings or the market, where the holding period is less than one month (inclusive), the full amount of dividends shall be counted as taxable income where the holding period is more than one month and less than one year (inclusive), 50% of the dividends shall be counted as taxable income on a provisional basis; and where the holding period exceeds one year, 25% of the dividends shall be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above.

Listed companies are required to withhold and pay enterprise income tax at a rate of 10% pursuant to the requirements of the Notice Concerning the Relevant Questions on the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonus and Interest by PRC Resident Enterprises to QFII (Guo Shui Han [2009] No. 47) (《國家稅務總局關於中國居民企業向QFII支付股息、紅利、利息代扣代繳企業所得稅有關問題的通知》(國稅函[2009]47號)) issued by the State Administration of Taxation for the shareholders who are Qualified Foreign Institutional Investor. Shareholders who are Qualified Foreign Institutional Investor and who wish to enjoy tax concessions shall apply to the competent taxation authority for tax rebates (arrangements) according to the relevant rules and regulations after they receive the dividends.

12. TAXATION AND TAX RELIEF *(continued)*

(2) H-shares Holders

Pursuant to the Law of the People's Republic of China on Enterprise Income Tax and its Implementation Rules implemented in 2008, starting from 1 January 2008, any PRC domestic enterprise which pays dividend to a non-resident enterprise shareholder in respect of the accounting periods beginning from 1 January 2008 shall withhold and pay enterprise income tax at a rate of 10%. The withholding and payment obligations will lie with the payer. According to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) issued by the State Administration of Taxation on 28 June 2011 and the Letter on the Tax Arrangements on Dividends Paid to Hong Kong Residents by Mainland Companies issued by The Stock Exchange of Hong Kong Limited on 4 July 2011, when domestic companies other than foreign invested enterprises which issue shares in Hong Kong distribute dividends to their shareholders, the individual shareholders in general will be subject to a withholding tax at a rate of 10%, excluding the taxation rules and other regulations stated in relevant taxation agreements.

Under current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid.

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

Each of the Directors and Supervisors has entered into a respective Director and Supervisor service contract with the Company. Contents of such contracts are the same in all material respects. The service contracts of the Directors and Supervisors will expire upon the expiry of the term of the current Board in place (i.e. 30 June 2014). Save as the aforesaid, no service contract that cannot be terminated within one year without payment of compensation (other than statutory compensation) has been or proposed to be entered into between the Company and the Directors or the Supervisors.

Save for the services contracts, none of the Directors or Supervisors of the Company had a material interest, whether direct or indirect, in any other contracts of significance which had been entered into by the Company, any of its subsidiaries, or its holding company or the holding company's subsidiaries during the year.

14. DIRECTORS', SUPERVISORS' AND SENIOR MANAGERMENTS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, to the best knowledge of the Board, except for Mr. Zhu Baoguo (朱保國先生) (the ultimate beneficial owner of the Company) and Ms. Liu Guangxia (劉廣霞女士) (see the section headed "Changes in Equity and Shareholders"), none of the other Directors, Supervisors and chief executives of the Company or their associate(s) had any individual, family, company or other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong) (the "SFO") (including those interests or short positions which they are taken or deemed to have under such requirements of the SFO), which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or were required to be recorded in the register required to be kept pursuant to section 352 of the SFO; or were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, if the Company was listed on or before 31 December 2013.

15. ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES BY DIRECTORS

The Company or its subsidiaries or the holding company of the Company or its subsidiaries did not enter into any arrangement at anytime of the year that enabled the Directors, Supervisors and senior management of the Company or their respective associates to acquire benefits by means of purchasing shares or debentures of the Company or any other body corporate or by means of exercising rights to acquire the relevant shares or debentures.

16. PRE-EMPTIVE RIGHTS

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

17. CHARITABLE DONATION

During the Reporting Period, the expenditure of charitable donation of the Group amounted to RMB2,126,090 (for the year of 2012: RMB186,560).

18. LIST OF DIRECTORS OF THE COMPANY DURING THE YEAR AND UP TO THE DATE OF THIS REPORT ARE AS FOLLOWS

Executive Directors

Mr. An Ning (安寧先生) (resigned on 5 March 2014)

Mr. Tao Desheng (陶德勝先生)

Non-Executive Directors

Mr. Zhu Baoguo (朱保國先生)

Ms. Liu Guangxia (劉廣霞女士)

Mr. Qiu Qingfeng (邱慶豐先生)

Mr. Zhong Shan (鍾山先生)

Independent Non-Executive Directors

Mr. Luo Xiaosong (羅曉松先生)

Mr. Yang Bin (楊斌先生)

Mr. Guo Guoqing (郭國慶先生) (appointed on 7 June 2013)

Mr. Wang Xiaojun (王小軍先生) (appointed on 16 September 2013)

Mr. Yu Xiong (俞雄先生) (appointed on 16 September 2013)

By order of the Board

Chairman

Zhu Baoguo

24 March 2014

1. BASIC CORPORATE GOVERNANCE

During the year ended 31 December 2013 (the "Reporting Period"), in strict accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Guidelines for Corporate Governance of Listed Companies, the Guidelines of the Shenzhen Stock Exchange for Standardised Operation of Companies Listed on the Main Board, other requirements of normative documents relating to the governance of listed companies announced by the China Securities Regulatory Commission ("CSRC") and the Shenzhen Stock Exchange (the "Shenzhen Stock Exchange"), Livzon Pharmaceutical Group Inc.* (the "Company") and its subsidiaries (collectively the "Group") constantly enhanced its corporate governance structure and strengthened its internal control systems to achieve higher corporate governance standards. The board of the Company (the "Board") believed that the actual conditions of corporate governance are compliant with the rules and requirements of normative documents including the Guidelines for Corporate Governance of Listed Companies without deviation.

1.1. Annual General Meeting and Extraordinary General Meetings Convened during the Reporting Period

1.1.1. Annual general meeting held during the Reporting Period

Session of meeting	Date of meeting	Resolution(s)
2012 Annual General Meeting	21 June 2013	"Directors' Work Report for the year 2012", "Supervisory Committee's Work Report for the year 2012", "Financial account report for the year 2012", "Annual profit distribution plan for the year 2012", "Resolution regarding the appointment of the auditors of the Company for financial statements and internal control for the year 2013", "Resolution regarding granting of facility and provision of financing guarantee by the Company to subsidiaries under the Company" and "Annual Report of Livzon Pharmaceutical Group Inc. for the year 2012 (including full text and summary)"

* For identification purpose only

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.1. Annual General Meeting and Extraordinary General Meetings Convened during the Reporting Period *(continued)*

1.1.2. Extraordinary general meeting held during the Reporting Period

Session of meeting	Date of meeting	Resolution(s)
First Session of the Extraordinary General Meeting for the year 2013	20 February 2013	"Resolution regarding listing and trading on the Main Board of The Stock Exchange of Hong Kong Limited by way of introduction of domestically listed foreign shares", "Resolution proposed on the Company's general meeting for granting authorisation to the Board of Directors of the Company and its authorised person(s) with full discretion on the listing and trading on the Main Board of The Stock Exchange of Hong Kong Limited by way of introduction of domestically listed foreign shares and related matters", "Resolution on the change of Livzon Pharmaceutical Group to foreign listed company", "Resolution in relation to the consideration of the 'Articles of Association of Livzon Pharmaceutical Group Inc. (A+H)' (Draft)", "Resolution regarding relevant decision on the expiry term of listing and trading on the Main Board of The Stock Exchange of Hong Kong Limited by way of introduction of domestically listed foreign shares"
Second Session of the Extraordinary General Meeting for the year 2013	07 June 2013	"Resolution in relation to proposition for Guo Guoqing to be elected as Independent Director in the Seventh Session of Board election of the Company", "Resolution in relation to proposition for Yuan Huasheng to be elected as supervisor in the Seventh Session of Supervisory Committee of the Company", "Resolution in relation to proposition for Huang Huamin to be elected as supervisor in the Seventh Session of Supervisory Committee of the Company", "Resolution on the increase in joint capital contribution by the Company and the Joincare Group to Zhuhai Livzon MAB Biological Technology Co., Ltd.", "Resolution in relation to the consideration of estimates for normal related party transactions of the Company for the year 2013", "Resolution on the increase of investment amount, in projects for the Livzon (Ningxia) Pharmaceutical Group Industrial Park"

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.1. Annual General Meeting and Extraordinary General Meetings Convened during the Reporting Period *(continued)*

1.1.2. Extraordinary general meeting held during the Reporting Period *(continued)*

Session of meeting	Date of meeting	Resolution(s)
Third Session of the Extraordinary General Meeting for the year 2013	08 August 2013	"Resolution in relation to the entering of framework agreement for normal related party transactions between the Company and Joincare for a term of three years (2013-2015)", "Resolution proposed at the Company's general meeting for granting authorisation to the Board of Directors of the Company and its authorised person(s) with full discretion to deal with matters related to the framework agreement for normal related party transactions between the Company and Joincare for a term of three years (2013-2015)"
Fourth Session of the Extraordinary General Meeting for the year 2013	16 September 2013	"Resolution on amendment of the 'Articles of Association of Livzon Pharmaceutical Group Inc.' ", "Resolution on amendment of the 'Articles of Association of Livzon Pharmaceutical Group Inc. (A+H)' (Draft)", "Resolution in relation to proposition for Wang Xiaojun to be elected as Independent Director in the Seventh Session of Board election of the Company", "Resolution in relation to proposition for Yu Xiong to be elected as Independent Director in the Seventh Session of Board election of the Company"
Fifth Session of the Extraordinary General Meeting for the year 2013	06 November 2013	"Resolution regarding the change in registered address of the Company", "Resolution on amendment of the 'Articles of Association of Livzon Pharmaceutical Group Inc.' ", "Resolution on amendment of the 'Articles of Association of Livzon Pharmaceutical Group Inc. (A+H)' (Draft)"

During the Reporting Period, all resolutions considered at the six general meetings convened by the Company were approved and were effectively implemented.

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.2. Performance of Duties by Independent Directors

1.2.1. Attendance of Board meetings and general meetings by Independent Directors

Name of Independent Director	Attendance of Board meetings during their term of office					Attendance of general meeting(s) during their term of office
	Required attendance at Board meetings during the Reporting Period	Attendance in person	Attendance by proxy	Absence	Unable to attend in person for two consecutive meetings	Attendance of general meeting(s)/ Number of general meetings convened
Luo Xiaosong (羅曉松)	14	13	1	0	No	4/6
Yang Bin (楊斌)	14	14	0	0	No	2/6
Guo Guoqing (郭國慶)	9	9	0	0	No	4/4
Wang Xiaojun (王小軍)	6	6	0	0	No	0/1
Yu Xiong (俞雄)	6	6	0	0	No	0/1
Wang Junyan (王俊彥)	5	5	0	0	No	0/2

Note: 1. The above table is compiled according to the relevant requirements under CSRC and the Shenzhen Stock Exchange.

2. Mr. Wang Junyan (王俊彥先生) resigned on 7 June 2013. Mr. Guo Guoqing (郭國慶先生) was appointed as Independent Director of the Company on 7 June 2013. Mr. Wang Xiaojun (王小軍先生) and Mr. Yu Xiong (俞雄先生) were appointed as Independent Directors of the Company on 16 September 2013.

1.2.2. Independent Directors have no objection to any matters related to the Company during the Reporting Period

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.2. Performance of Duties by Independent Directors *(continued)*

1.2.3. Other explanations about performance of duties by Independent Directors

During the Reporting Period, Independent Directors of the Company expressed the following independent opinions:

- (1) Independent opinions given on the Company's B-to-H Share Conversion are as follows:

- "1 In line with the development strategy of the Company, the proposal was in the interests of the Company and shareholders as a whole, favorable for the long term interests of the Company.
- 2 The related arrangements under the proposal sufficiently protect the interests of shareholders of the Company.
- 3 Proceeding procedure at Board meetings of the Company is in accordance with laws, rules and regulations, normative documents, relevant provisions as set out in the Articles of Association of Livzon Pharmaceutical Group Inc.*.
- 4 I, being Independent Director, consented with the Company's overall arrangements of this listing and trading on the Main Board of The Stock Exchange of Hong Kong Limited by way of introduction of B shares."

- (2) Independent opinions given concerning fixing the remuneration of senior management by the Company are as follows:

- "1 Consideration of and voting on the above resolutions by the Board are legal and valid, which are in compliance with the relevant requirements as set out in the Company Law of the People's Republic of China, the Guidelines of the Shenzhen Stock Exchange for Standardised Operation of Companies Listed on the Main Board, and the Articles of Association of Livzon Pharmaceutical Group Inc*.
- 2 Remuneration and incentive measures for senior management of the Company formulated by the Company have been determined according to the actual condition of operation, and level of development in the sector and regions, favorable for promoting work morale, dedication, diligence, sense of responsibility among members of senior management, which are in turn beneficial for long term development of the Company.
- 3 We consented with the remuneration determined by the Company for senior management and the implementation of incentive measures."

* For identification purpose only

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.2. Performance of Duties by Independent Directors *(continued)*

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

- (3) Independent opinions given in respect of provision of financing guarantee by the Company to subsidiaries under the Company are as follows:

"This guarantee provided by the Company would not affect the sustainability of the Company; Decision-making process of guarantee execution is in accordance with laws, rules and regulations as well as relevant requirements of the Company, without prejudice to the interests of other minority shareholders of the Company, which can effectively safeguard the legal interests of the Company's shareholders. We consented with such guarantee made by the Company."

- (4) Independent opinions given in respect of the consideration of estimates for normal related party transactions of the Company for the year 2013 are as follows:

"Estimation on normal related party transactions of the Company for the year 2013 was conducted based on the Company's actual business need, without contrary to relevant laws, rules and regulations and the Company's requirements regarding related party transaction system. We consented with submission of the above matters to Board meetings or general meetings for consideration, and consented with execution of the normal related party transactions for the year 2013, after consideration and approval at Board meetings or general meetings, by the Company as appropriate."

- (5) Independent opinions given concerning the Self-assessment Report on Internal Control of the Company for the year 2012 are as follows:

"The Self-assessment Report on Internal Control issued by the Company is in line with the actual situation of internal control within the Company."

- (6) Particular descriptions and independent opinions given on the funds utilisation and external guarantees made by controlling shareholders and other related parties of the Company for the year 2012 are as follows:

"Decision-making process concerning the provision of guarantee by the Company to its subsidiaries is legal and valid, which is in compliance with relevant provisions of the Securities and Futures Commission and the Shenzhen Stock Exchange; Guarantee provided by the Company to its subsidiaries serves the overall interests of the Company, without prejudice to the interests of minority shareholders."

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.2. Performance of Duties by Independent Directors *(continued)*

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

- (7) Independent opinions given concerning the increase in share capital jointly held by the Company and Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (“Joincare”) in Zhuhai Livzon MAB Biological Technology Co., Ltd. (珠海市麗珠單抗生物技術有限公司) (“MAB Company”) are as follows:

“We believed that the execution of decision-making process concerning the increase in share capital jointly held by the Company and Joincare in MAB Company is in accordance with laws, rules and regulations, and relevant requirements of the Company, without prejudicing to the interests of other shareholders of the Company. We consented with the execution of the above transactions.”

- (8) Independent opinions given on the nomination of Guo Guoqing proposed by the Board as candidate for election of Independent Director of the Company are as follows:

- “1 The above nomination of the candidate proposed by the Board for election of Independent Director of the Company has been made based on sufficient understanding to the general case including educational background, career experience as well as professional qualifications of the nominee, with the consent of the nominee. Nomination procedure is legal and valid, which is in compliance with relevant laws, rules and regulations including the Company Law of the People’s Republic of China, Guiding Opinions on the Establishment of Independent Director System for Listed Companies and relevant requirements of the Articles of Association.
- 2 The nominee is free of the conditions that prohibited one from serving as an Independent Director stipulated by the Company Law of the People’s Republic of China, the Articles of Association and Guiding Opinions on the Establishment of Independent Director System for Listed Companies, and free of the conditions identified by CSRC as being prohibited one from access to the securities market without cancellation, nor is subject to punishment and penalty by CSRC and the Shenzhen Stock Exchange, being qualified to serve as Independent Director of the Company.
- 3 We consented with the nomination of Mr. Guo Guoqing as candidate for Independent Director of the Seventh Session of the Board, and consented with submission to the general meetings of the Company for consideration after filing with the Shenzhen Stock Exchange and receiving no objection.”

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.2. Performance of Duties by Independent Directors *(continued)*

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

- (9) Prior approval and independent opinions given on the entering of framework agreement for normal related party transactions between the Company and Jincare for a term of three years (2013-2015) are as follows:

"We consented with entering into framework agreement for normal related party transactions between the Company and Jincare for the coming three years (2013-2015)."

- (10) Particular descriptions and independent opinions given on the funds utilisation and external guarantees made by controlling shareholders and other related parties of the Company from January to June 2013 are as follows:

"Guarantee provided by the Company is fully in accordance with the relevant laws, rules and regulations, without affecting the sustainability of the Company and without prejudice to the interests of minority shareholders of the Company. Such guarantee serves the business needs of the Company."

- (11) Independent opinions given on the nomination of Wang Xiaojun and Yu Xiong proposed by the Board as candidates for election of Independent Directors of the Company are as follows:

"1 The above nomination of the candidates proposed by the Board for election of Independent Directors of the Company has been made based on sufficient understanding to the general case including educational background, career experience as well as professional qualifications of the nominees, with the consent of the nominees. Nomination procedure is legal and valid, which is in compliance with relevant laws, rules and regulations including the Company Law of the People's Republic of China, Guiding Opinions on the Establishment of Independent Director System for Listed Companies, and relevant requirements of the Articles of Association.

2 The nominees are free of the conditions that prohibited them from serving as Independent Directors stipulated by the Company Law of the People's Republic of China, the Articles of Association and Guiding Opinions on the Establishment of Independent Director System for Listed Companies, and free of the conditions identified by CSRC as being prohibited them from access to the securities market without cancellation, nor are subject to punishment and penalty by CSRC and the Shenzhen Stock Exchange, being qualified to serve as Independent Directors of the Company.

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.2. Performance of Duties by Independent Directors *(continued)*

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

(11) *(continued)*

3 We consented with the nomination of Mr. Wang Xiaojun and Mr. Yu Xiong as candidates for Independent Director of the Seventh Session of the Board, and consented with submission to the general meetings of the Company for consideration after filing with the Shenzhen Stock Exchange and receiving no objection."

(12) Independent opinions given on the appointment of the President of the Company are as follows:

"We consented with the appointment of Mr. An Ning as the President of the Company by the Board."

(13) Independent opinions given on granting transfer of credit facility and providing guarantee to Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), a wholly-owned subsidiary, are as follows:

"We believed that this guarantee provided by the Company would not affect the sustainability of the Company, without prejudice to the interests of other minority shareholders of the Company, which can serve the overall interests of the Company. Decision-making process of guarantee execution is in accordance with relevant laws, rules and regulations as well as relevant requirements of the Articles of Association. We consented with such financing guarantee provided by the Company to Livzon Group Livzon Pharmaceutical Factory."

1.3. Competing Business

On 10 January 2014, for the purposes of advancing the implementation of the Company's B-to-H Share Conversion, Mr. Zhu Baoguo (the ultimate beneficial owner of the Company), Ms. Liu Guangxia and Joicare (the controlling shareholder of the Company) and its controlling shareholder, namely Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) (collectively the "Covenantors") entered into the non-competition undertakings (for specific details, please refer to relevant content as set out in the section headed "Performance of Undertakings" of this report). The Covenantors have provided confirmations concerning their compliance with the terms of the "non-competition undertaking", whose details are as follows:

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.3. Competing Business *(continued)*

Each of the Covenantors hereby confirmed that from the date of the “non-competition undertaking” (i.e. 10 January 2014) up to the date of signing the confirmation (i.e. 24 March 2014), the Covenantor and the companies under his/her/its control (other than the Company and its subsidiaries) have strictly complied with and enforced the terms of the “non-competition undertaking” without breaching any terms of the “non-competition undertaking” under any circumstances.

Independent Directors of the Company conducted review on the compliance and enforcement of the non-competition undertaking by the Covenantors, and believed that the Covenantors complied with the “non-competition undertaking”.

1.4. Internal Control

1.4.1. *Structure of internal control*

The Company is committed to strengthening the construction and execution of internal control system. Pursuant to the requirements under Basic Norms of Corporate Internal Control and Application Guide of Corporate Internal Control, the Company has established a series of management systems in combination with the characteristics of business operation and management requirements of the Company, covering various areas of day-to-day business management such as funds, procurement, sales, production, research and development, assets, quality, financing, investment, human resources, financial management, external guarantee and information disclosure, under the principles of optimising business procedures and ensuring no substantial risk arises. The systems can ensure that each operational and management task is based on rules and thus a standardised internal control mechanism was formed.

During the Reporting Period, pursuant to relevant requirements under CSRC, the Guangdong Securities Regulatory Bureau and the Shenzhen Stock Exchange, the Company streamlined and conducted its own comprehensive examination on construction and execution of the internal control system in conjunction with the implementation of the Company’s B-to-H Share Conversion. Concurrently, through appointing an external qualified audit firm, they conducted investigation and audits on the effectiveness of the Company’s internal control. The Company further optimised the relevant business procedures and revised related systems based on opinions given by the audit firm during the process. As a result, the internal control system of the Company was improved further and the execution power concerning internal control management was enhanced.

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.4. Internal Control *(continued)*

1.4.2. *Statement of the Board on the responsibility of internal control*

The Board is responsible for establishing a sound and effectively implemented internal control system; the Supervisory Committee monitors the Board in respect of the establishment and implementation of internal control; the management is in charge of arranging and leading the day-to-day operation of the Company's internal control.

The objectives of the Company's internal control are: to reasonably ensure legal compliance of the Company's business management, safety of assets, accuracy and completeness of financial reporting and relevant information, to increase operational efficiency and performance, and to facilitate accomplishment of development strategies of the Company.

As inherent limitations in internal control exist, only reasonable assurance of fulfillment of the aforesaid objectives can be provided.

1.4.3. *Basis for establishment of internal control on financial reporting*

In accordance with laws, rules and regulations including the Company Law of the People's Republic of China, Accounting Law of the People's Republic of China and the China Accounting Standards for Business Enterprises and supplementary provisions, the Company formulated the Financial Reporting System of Livzon Group, standardised accounting policies and accounting method, specified the preparation of financial reports, as well as provided related procedure to external parties and carried out analysis. For the purposes of strengthening internal control on financial reporting, enhancing the quality of financial reporting information, the Company made revisions on the Financial Reporting System of Livzon Group in 2013 for a series of 26 systems in total, and also prepared the List of Financial Reporting Disclosure, in order to ensure completeness and accuracy of information disclosure of financial reporting.

1.4.4. *Details of major defects found in self-evaluation report on internal control during the Reporting Period*

In accordance with requirements under Basic Norms of Corporate Internal Control and Supporting Guidelines on Corporate Internal Control, in conjunction with day-to-day supervision and special surveillance, the Company identified standardised practices based on defects identified throughout the process of self-evaluation on internal control, in which no major defect or substantial defect has been found after self-examination during the Reporting Period. Only certain defects still exist in particular business procedure, which include incomplete employee training record, imperfect inventory policy and procedure, lack of a reconciliation mechanism with suppliers, insufficient supervision and investigation on investment projects, and unclear internal authorisation policy of affiliated companies. Focused on the general defects on control during this Reporting Period, the Company has formulated stringent rectification plan while confirmation of relevant respective rectification measures is in progress. During the Reporting Period, the Company formed and improved related systems based on requirements and certain individual projects were carried out based on new rules.

1. BASIC CORPORATE GOVERNANCE *(continued)*

1.4. Internal Control *(continued)*

1.4.5. *Opinions on the Internal Control Audit Report*

Ruihua Certified Public Accountants (LLP) issued the Internal Control Audit Report for the year 2013 for the Company, and the following audit opinions were given: "Livzon Pharmaceutical Group Inc.* maintained effective internal control on financial reporting in all material aspects in accordance with Basic Norms of Corporate Internal Control and relevant requirements as at 31 December 2013."

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

2.1. Compliance with the Corporate Governance Code

As the Company's H Shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 16 January 2014 (the "H Shares Listing Date"), the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Listing Rules") was not applicable to the Group throughout 2013. The Company has strictly complied with the code provisions set out in the Corporate Governance Code since the H Shares Listing Date.

On 31 December 2013, the Company convened the 26th Meeting for the Seventh Session of the Board during which the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules were approved, confirmed and adopted as the corporate governance code of the Company.

2.2. Securities Transactions of Directors and Supervisors

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules as its own code of conduct regarding the securities transactions in the H Shares of the Company by the Company's Directors, Supervisors and the "Relevant Employees" as defined in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. After making sufficient and specific enquiries to all of the Directors and Supervisors of the Company, the Company was not informed of any information which reasonably revealed that each of the Directors and Supervisors had not complied with the standard required by the above codes since the H Shares Listing Date. All Directors and Supervisors have confirmed that they had complied with the standards as set out in the above codes since the H Shares Listing Date.

* For identification purpose only

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(continued)*

2.3. Board of Directors

Board members of the Company are elected at and accountable to the shareholders' general meetings and mainly exercise the following authority and powers: 1. to convene the shareholders' general meetings and report duties to the meetings; 2. implement resolutions passed at the shareholders' general meetings; 3. determine business plans and investment proposals of the Company; 4. prepare annual financial budget and final accounts of the Company; 5. formulate the profit distribution plan and loss offset plan of the Company; 6. formulate plans in respect of increase in or reduction on registered capital, issuance of bonds or other securities and listing of the Company; 7. draft proposals in relation to major acquisition of the Company, purchase of the Company's shares, or merger, sub-division, dissolution and change in the Company's form of business; 8. determine such matters as the Company's external investment, acquisition or disposal of major assets, pledge of asset, external guarantee and entrusted wealth management, related party transactions and so on within the scope authorised by the shareholders' general meetings, save as those otherwise required by the securities regulatory authorities and stock exchange where the Company's shares are listed; 9. decide on the set up of internal management departments; 10. appoint or dismiss the President of the Company and Secretary to the Board; based on the nomination of the President, appoint or dismiss senior management such as the Vice President of the Company and chief financial officer, and determine their remuneration, rewards and sanctions; 11. formulate the fundamental administration system; 12. formulate proposed amendments to the Articles of Association; 13. administer the information disclosure of the Company; 14. propose the appointment or replacement of the accounting firm that performs audits for the Company at the shareholders' general meetings; 15. receive work reporting from the President of the Company and review the work of the President; 16. other authority and powers required by laws, rules and regulations or the Articles of Association, and authorised by the shareholders' general meetings.

As of the date of disclosure of this report, the Board of the Company has a total of ten members, of which one Executive Director is Tao Desheng (President); four Non-executive Directors are Zhu Baoguo (Chairman), Liu Guangxia (Vice Chairman), Qiu Qingfeng and Zhong Shan; and five Independent Non-executive Directors are Luo Xiaosong, Yang Bin, Guo Guoqing, Wang Xiaojun and Yu Xiong. For details of the biographies of the above Directors, please refer to the section headed "Directors, Supervisors, Senior Management and Employees" as set out in this report.

The Board of the Company is responsible for directing and monitoring the Company, governing and supervising affairs of the Company with collective responsibility to drive the Company for success. The Company authorises Executive Directors and senior management and management members in charge of each segment and function to deal with routine management. The Directors of the Company act in an objective manner and made decisions in the interests of the Company. The management and senior management of the Company convene meetings with the Board on periodic basis to discuss day-to-day operation and performance of the Company, as well as specific implementation of relevant Board decisions. If the Board or any committee under the Board considers itself necessary to seek for independent and professional advice, the Company will arrange for independent legal advice according to the requirements of the Board or such committee under the Board.

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (continued)

2.3. Board of Directors (continued)

During the Reporting Period, the Company convened a total of fourteen Board meetings and six shareholders' general meetings. Attendance of the Directors of the Company is as follows:

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office		Shareholders' general meetings (including class meetings)
		Board meetings		
I.	Executive Directors			
	Tao Desheng (陶德勝)	Director	14/14	6/6
	An Ning (安寧) (Note 1)	Director	14/14	5/6
II.	Non-Executive Directors			
	Zhu Baoguo (朱保國)	Chairman	14/14	0/6
	Liu Guangxia (劉廣霞)	Vice Chairman	14/14	0/6
	Qiu Qingfeng (邱慶豐)	Director	14/14	1/6
	Zhong Shan (鍾山)	Director	14/14	0/6
III.	Independent Non-executive Directors			
	Luo Xiaosong (羅曉松) (Note 2)	Independent Director	13/14	4/6
	Yang Bin (楊斌)	Independent Director	14/14	2/6
	Guo Guoqing (郭國慶) (Note 1)	Independent Director	9/9	4/4
	Wang Xiaojun (王小軍) (Note 1)	Independent Director	6/6	0/1
	Yu Xiong (俞雄) (Note 1)	Independent Director	6/6	0/1
	Wang Junyan (王俊彥) (Note 1)	Independent Director	5/5	0/2

Notes:

- Mr. An Ning (安寧先生) and Mr. Wang Junyan (王俊彥先生) resigned on 5 March 2014 and 7 June 2013 respectively. Mr. Guo Guoqing (郭國慶先生) was appointed as Independent Non-executive Director of the Company on 7 June 2013. Mr. Wang Xiaojun (王小軍先生) and Mr. Yu Xiong (俞雄先生) were appointed as Independent Non-executive Directors of the Company on 16 September 2013.
- Mr. Luo Xiaosong (羅曉松先生), being Independent Non-executive Director, cannot attend the 15th Meeting of the Seventh Session of the Board of the Company in person due to work engagement, and authorised Mr. Yang Bin (楊斌先生), being Independent Non-executive Director, to attend the meeting on his behalf and exercise voting rights.

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

Prior notice are given for meetings convened during the year in accordance with requirements, as to ensure all Directors have the opportunity to attend meetings, and propose matters for discussion to be incorporated into agenda.

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(continued)*

2.3. Board of Directors *(continued)*

All of the Directors may obtain opinions and services provided by the Secretary to the Board, as to ensure compliance with Board procedures and all applicable rules and regulations.

The Company purchased liability insurance for Directors, Supervisors and senior management.

Directors' trainings and professional development: During the Reporting Period, all of the Directors of the Company (including new Directors) received necessary training on listing of shares provided by the Hong Kong legal advisor for B-to-H Share Conversion appointed by the Company, as to ensure their understanding to the Company's operation and business as well as their responsibility under relevant laws, rules and the Hong Kong Listing Rules to a certain extent. The Company arranged professional trainings organised by CSRC and the Shenzhen Stock Exchange for its Directors on irregular basis, for obtaining training certificates or qualification certificates recognised by relevant authority.

2.4. Chairman and President

As required by the Company, the positions of Chairman and President are held by different persons and there is a clear division of work between the two roles. The Chairman mainly exercises the following duties and powers: 1. to preside over shareholders' general meetings and to convene and preside over Board meetings; 2. supervise and monitor the implementation of resolutions of board meetings; 3. sign share certificates, debentures and other quoted securities of the Company; 4. sign important documents of the Board and other documents which should be signed by the Company's legal representative; 5. exercise the authority and powers of a legal representative; 6. exercise special discretionary power on corporate affairs in accordance with laws and in the Company's interests in case of emergency situations such as the occurrence of natural disasters of an exceptional scale and other force majeure events, and provide aftermath reports to the Board and shareholders' general meeting; 7. perform other duties and powers authorised by the Board. The President is accountable to the Board and exercises the following duties and powers: 1. direct the production, operation and management of the Company, arrange for the implementation of Board resolutions and report to the Board; 2. organise and implement the annual business plans and investment proposals of the Company; 3. draft proposals in connection with the set up of internal management departments of the Company; 4. formulate the fundamental administration system of the Company; 5. formulate the Company's detailed rules; 6. recommend the appointment and dismissal of the Vice President and chief financial officer to the Board; 7. decide on appointment or dismissal of other administration officers (other than those required to be appointed or dismissed upon decision of the Board); 8. perform other duties and powers authorised by the Articles of Association or the Board.

As of the date of disclosure of this report, the Chairman of the Company is Mr. Zhu Baoguo and the President of the Company is Mr. Tao Desheng.

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(continued)*

2.5. Independent Non-Executive Directors

The Board comprises of five Independent Non-executive Directors, in compliance with the minimum requirement under the Hong Kong Listing Rules in relation to the number of Independent Non-executive Directors. Mr. Luo Xiaosong, being an Independent Non-executive Director of the Company, possesses appropriate accounting and financial management expertise, in compliance with the requirements under Rule 3.10 of the Hong Kong Listing Rules, the biography of whom is set out in the section headed “Directors, Supervisors, Senior Management and Employees” of this report.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to independence guidelines set out in Rule 3.13 of the Hong Kong Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

2.6. Directors’ Term of Office

Pursuant to the requirements under the Articles of Association, all of the Directors (including Independent Non-executive Directors) are elected in shareholders’ general meetings, with a three-year term of office commencing from June 2011 to June 2014. Directors can be re-elected upon expiry of their term. Each of the Directors proposed for re-election as a member of the Board at the forthcoming annual general meeting of the Company will not enter into service contracts with the Company which may not be terminated by the Group within one year without the payment of compensation (other than statutory compensation). A circular, containing personal particulars of Directors proposed for election in the shareholders’ general meetings, will be despatched to H shareholders to enable them to make informed decision when electing Directors.

2.7. Directors’ Responsibility for the Financial Statements

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

2.8. Special Committees of the Board

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

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(continued)*

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

2.8.1. Audit Committee

The Audit Committee of the Company consists of three Independent Non-executive Directors of the Company. The key responsibilities of the Audit Committee are to review the Company's financial reports; oversee the Company's financial reporting and internal control system; study the Company's relationships with the external auditors and consider the annual audit plans submitted by external auditors; and review arrangements that the Company's employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other aspects. The Chairman of committee is Mr. Luo Xiaosong (Independent Non-executive Director), and committee members include Mr. Yang Bin and Mr. Guo Guoqing. Mr. Luo Xiaosong possesses appropriate professional qualifications as required under Rule 3.10 of the Hong Kong Listing Rules, or with appropriate accounting or relevant financial management expertise.

During the Reporting Period, meetings convened by the Audit Committee and actions taken were as follows:

- (1) *On 7 February 2013 the Sixth Meeting of the Audit Committee of the Seventh Session of the Board of the Company was convened at the conference room on the 9th floor of the office building, during which resolution on consideration of the draft financial auditors' report for the year 2012 was considered and approved.*

Committee members attending the meeting believed that the financial statements as set out in the Company's draft auditors' report for the year 2012 prepared by Crowe Horwath China Certified Public Accountants (LLP) reflected the financial position as well as production and operation of the Company in 2012 in a true and objective manner, and consented with preparing the final financial auditors' report for the year 2012 on the basis thereof.

- (2) *On 26 February 2013 the Seventh Meeting of the Audit Committee of the Seventh Session of the Board of the Company was convened at the conference room on the 9th floor of the office building, during which the following resolutions were considered and approved:*

- (a) Resolution on consideration of the financial auditors' report of the Company for the year 2012

Committee members attending the meeting believed that the Company's auditors' report for the year 2012 prepared by Crowe Horwath China Certified Public Accountants (LLP) reflected the financial position as well as production and operation of the Company in 2012 in a true and objective manner, and consented with the submission of this auditors' report to the Board for consideration.

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(continued)*

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

2.8.1. Audit Committee *(continued)*

(2) *(continued)*

- (b) Report on conclusion of the audit work carried out by Crowe Horwath China Certified Public Accountants (LLP) for the year 2012
- (c) Resolution in relation to the re-appointment of Crowe Horwath China Certified Public Accountants (LLP) as the audit firm of the Company for the year 2013

Based on the professional performance of the audit work carried out for the year 2012 for the Company, the Audit Committee recommended the re-appointment of Crowe Horwath China Certified Public Accountants (LLP) as the audit firm of the Company for the year 2013.

- (3) *On 10 December 2013 the Eighth Meeting of the Audit Committee of the Seventh Session of the Board of the Company was convened at the conference room on the 9th floor of the office building, during which the Financial Audit Plan of Livzon Group for the year 2013 was considered and approved.*

Committee members attending the meeting believed that the Financial Audit Plan of Livzon Group for the year 2013 provided by such audit firm is reasonable and sufficient, and consented with the implementation of the financial audit work of the Company for the year 2013 according to such plan and from time to time, liaised with related audit personnel during the audit process to ensure smooth progress of audit work.

2.8.2. Remuneration and Assessment Committee

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

During the Reporting Period, the Remuneration and Assessment Committee has not convened any meeting.

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(continued)*

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

2.8.3. ***Nomination Committee***

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

During the Reporting Period, meetings convened by the Nomination Committee were as follows:

- (1) On 21 May 2013 the First Meeting of the Nomination Committee of the Seventh Session of the Board of the Company for the year 2013 was convened by way of written resolutions, during which "Resolution in relation to the consideration of Mr. Guo Guoqing as candidate to be elected as Independent Director of the Seventh Session of the Board" was considered and approved.
- (2) On 20 August 2013 the Second Meeting of the Nomination Committee of the Seventh Session of the Board of the Company for the year 2013 was convened by way of written resolutions, during which "Resolution in relation to the consideration of Mr. Wang Xiaojun as candidate to be elected as Independent Director of the Seventh Session of the Board", "Resolution in relation to the consideration of Mr. Yu Xiong as candidate to be elected as Independent Director of the Seventh Session of the Board" and "Resolution in relation to the consideration of candidates to be elected as the President of the Company" were considered and approved.

2.8.4. ***Strategic Committee***

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

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (continued)

2.8. Special Committees of the Board (continued)

2.8.5. Attendance of Special Committees of the Board

During the Reporting Period, attendance of special committees of the Board is as follows:

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office			
		Meetings of Audit Committee	Meetings of Nomination Committee	Meetings of Remuneration and Assessment Committee	Meetings of Strategic Committee
An Ning (安寧)	Executive Director	2/3	2/2	0/0	0/0
Zhu Baoguo (朱保國)	Non-executive Director/ Chairman	Not applicable	Not applicable	Not applicable	0/0
Zhong Shan (鍾山)	Non-executive Director	Not applicable	Not applicable	Not applicable	0/0
Luo Xiaosong (羅曉松)	Independent Non-executive Director	3/3	Not applicable	0/0	Not applicable
Yang Bin (楊斌)	Independent Non-executive Director	3/3	2/2	Not applicable	Not applicable
Guo Guoqing (郭國慶) (Note)	Independent Non-executive Director	Not applicable	Not applicable	Not applicable	Not applicable
Wang Junyan (王俊彥) (Note)	Independent Non-executive Director	Not applicable	1/1	0/0	Not applicable

Note: Mr. Wang Junyan (王俊彥先生) resigned on 7 June 2013. Mr. Guo Guoqing (郭國慶先生) served as a committee member of the Audit Committee and Nomination Committee of the Company, and Chairman of the Remuneration and Assessment Committee commencing from 10 January 2014.

2.9. Auditors and Remuneration

On 21 June 2013, after consideration and approval at the Company's annual general meetings for the year 2012, the Company consented with the appointment of Crowe Horwath China Certified Public Accountants (LLP) ("Crowe Horwath") as the audit firm of the Company for the year 2013 (comprising audit work for financial statements and internal control), and determined that the remuneration for audit service of the Company's financial statements for the year 2013 was RMB900,000 and the remuneration for audit service of the Company's internal control was RMB360,000.

In July 2013, Crowe Horwath notified the Company of its merger with RSM China Certified Public Accountants (LLP). The merged CPAs used the legal entity of Crowe Horwath, and was renamed as "Ruihua Certified Public Accountants (LLP)", subsequent to which copies of all contracts entered into between Crowe Horwath and the Company shall remain valid, and respective responsibilities, duties and rights shall be inherited and discharged by Ruihua Certified Public Accountants (LLP).

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(continued)*

2.9. Auditor and Remuneration *(continued)*

Declaration of responsibility bore by Ruihua Certified Public Accountants (LLP) for financial reporting of the Company is published in the “Auditors’ Report” as set out in the section headed “Financial Report” in this report.

2.10. Supervisors and Supervisory Committee

The Supervisory Committee of the Company is accountable to all Shareholders, responsible for overseeing the legal compliance of financial matters of the Company as well as performance of responsibilities by Directors, the President and other senior management, and safeguarding the legal interests of the Company and Shareholders. The Supervisory Committee consists of two shareholders representatives and one employee representative of the Company. The positions of Supervisors held by shareholder representatives are subject to election and removal at shareholders’ general meetings, and the position of Supervisor held by an employee representative is subject to democratic election and removal by the employees of the Company.

2.11. Communication with Shareholders

The Company attaches high importance to its effective communication with shareholders through which the shareholders can conduct clear assessment on the results of the Group, and make inquiries to the Board. Major ways of communication between the Company and shareholders are as follows:

- (1) Information disclosure on the Company’s website. The Company will use the most comprehensive and timely manner for disclosure of all significant information related to the Group to those who are interested in receiving the Company’s information. The Company’s website (www.livzon.com.cn) may provide important information related to the Group’s activities and corporate issues (such as annual reports and half-yearly reports to Shareholders, announcements, business development and operation, corporate governance practice and other information etc.) available for inspection by shareholders and other stakeholders. In addition, announcements issued through the Hong Kong Stock Exchange are also available on the website of the Company.
- (2) Convening of shareholders’ general meetings

Shareholders’ general meetings serve as a useful platform for the Board’s direct communication with shareholders. The Company will submit separate resolutions at the shareholders’ general meeting on substantially different topics for discussion, reserve sufficient time for direct communication and exchange between senior management of the Company and shareholders attending the meeting, and answer various inquiries made by shareholders.

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(continued)*

2.12. Shareholders' Rights

2.12.1. *Procedure for convening Shareholders' general meetings by Shareholders*

Pursuant to Article 73 of the Articles of Association: "shareholders, individually or jointly, holding 10% or more of the Company's shares may request the Board to convene an extraordinary general meeting of shareholders or a class meeting, and such proposals shall be made to the Board in writing. For such proposal, the Board shall, in accordance with laws, administrative regulations and the Articles of Association, make a written response as to whether or not it agrees to convene an extraordinary general meeting of shareholders or a class meeting, within 10 days upon receipt of such proposal.

If the Board agrees to convene the extraordinary general meeting or class meeting of shareholders, a notice of such meeting shall be issued within 5 days after the resolution of the Board is passed. Changes made to the original proposal in the notice shall be approved by the relevant shareholder.

If the Board disagrees to convene the extraordinary general meeting or class meeting of shareholders, or fails to give a relevant notice within 10 days after the receipt of the request, shareholders, individually or jointly, holding 10% or more of the Company's shares may request the Supervisory Committee to convene an extraordinary general meeting of shareholders or a class meeting, and such proposals shall be made to the Supervisory Committee in writing.

If the Supervisory Committee agrees to convene the extraordinary general meeting or class meeting of shareholders, a notice of such meeting shall be issued within 5 days after the receipt of the request. Changes made to the original proposals in the notice shall be approved by the relevant shareholder.

If the Supervisory Committee fails to give a relevant notice of the general meeting within the designated period, it shall be deemed that the Supervisory Committee fails to convene and preside over the shareholders' general meeting. The shareholder(s) continuously holding for 90 days individually or collectively 10% or more of the shares of the Company may convene and preside over the meeting by himself/themselves.

All reasonable expenses incurred by the shareholders to convene a shareholder's general meeting where the Board and the Supervisory Committee fail to do so shall be assumed by the Company. Any sum so assumed shall be set off against any sums owed by the Company to the defaulting Directors."

Pursuant to Articles 74, 75 and 76 of the Articles of Association: "shareholder(s) decide(s) to convene the general meeting by itself/themselves, it/they shall issue a written notice to the Board and file with the local office of CSRC and the stock exchange."

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(continued)*

2.12. Shareholders' Rights *(continued)*

2.12.1. *Procedure for convening Shareholders' general meetings by Shareholders* *(continued)*

Shareholding proportion of the convening shareholders who intend to convene a shareholders' general meeting shall not be less than 10% prior to announcement of the resolution of the shareholders' general meeting.

The convening shareholders shall submit the corresponding supporting materials to the local office of CSRC and the stock exchange when issuing the notice of convening a shareholders' general meeting and declaring the resolution of shareholders' general meeting.

For shareholders' general meetings convened by the shareholders, the Board and the Secretary to the Board shall coordinate accordingly. The Board shall provide the register of members as at the registered date for entitlements of shares.

All necessary expenses incurred by the shareholders to convene a shareholder's general meeting shall be assumed by the Company."

2.12.2. *Procedure for delivering shareholders' inquiries to the Board*

Shareholders may, at any time through the Secretary to the Board (Company Secretary), forward their inquiries and matters of concern to the Board of the Company in writing. For contact details of the Secretary to the Board (Company Secretary), please refer to relevant content as set out in section I of this report. The Secretary to the Board (Company Secretary) will forward shareholders' inquiries and matters of concern to the Board of the Company and/or relevant committees under the Board (if appropriate), in order to respond to shareholders' queries.

2. CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(continued)*

2.12. Shareholders' Rights *(continued)*

2.12.3. *Procedure for submission of shareholders' proposals to shareholders' general meetings*

Pursuant to Article 78 of the Articles of Association: "shareholder(s) individually or jointly holding more than 3% of the Company's shares shall have the right to submit proposed resolutions to the Company for a shareholders' general meeting of the Company. If those proposals are within the functions and powers of the shareholders' general meeting, they are required to be added to the agenda of the general meeting.

The shareholder(s) individually or jointly holding more than 3% of the Company's shares may submit extra proposed resolutions in writing to the convener of a shareholders' general meeting in writing 10 days prior to the meeting. The convener shall issue a supplementary notice of the shareholders' general meeting and announce the contents of such extra proposed resolutions within 2 days after receipt thereof.

Except as provided by the preceding clause, the convener of a shareholders' general meeting shall not amend the proposed resolutions set out in the notice of the meeting or add any new proposed resolutions subsequent to the issue of the notice of the shareholders' general meeting.

Proposals which are not specified in the notice of the shareholders' general meeting or which do not comply with Article 77 of the Articles of Association shall not be voted and resolved at the shareholders' general meeting and become resolutions."

2.12.4. *Investors' relations*

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

2.13. Articles of Association

During the Reporting Period, for the sake of implementing the Company's B-to-H Share Conversion, the Company revised the Articles of Association to ensure compliance with relevant local and foreign laws, rules and regulations and requirements of normative documents. The Articles of Association came into effect from the listing date of the Company's H Shares (i.e. 16 January 2014). Details of the Articles of Association are available on the websites of the Company and the Hong Kong Stock Exchange.

1. IMPLEMENTATION OF B-TO-H SHARE CONVERSION

On 20 February 2013, the Company convened the First Extraordinary General Meeting, during which related resolutions such as “Resolution regarding listing and trading on the Main Board of The Stock Exchange of Hong Kong Limited by way of introduction of domestically listed foreign shares” were considered and approved, consenting the Company for the implementation of B-to-H Share Conversion:

On 29 September 2013, the Company received from CSRC the document of Approval for Listing on the Main Board of the Hong Kong Stock Exchange of Livzon Pharmaceutical Group Inc.* (Zheng Jian Xu Ke [2013] No. 1248) (《關於核准麗珠醫藥集團股份有限公司到香港交易所主板上市的批復》(證監許可[2013]1248號)) regarding the application made by the Company on B-to-H Share Conversion, including approval for listing on the Main Board of the Hong Kong Stock Exchange of the Company’s B-to-H Share Conversion:

On 13 December 2013, the Company received a letter from the Listing Committee of the Stock Exchange regarding its conditional approval in-principle for listing and trading on the Main Board of the Hong Kong Stock Exchange by way of introduction of domestically listed foreign shares.

On 16 January 2014, after implementation of the agreed cash options of the Company’s B-to-H Share Conversion, and receipt of the letter of formal approval for listing of the Company, the Company’s H shares were listed and traded on the Main Board of the Hong Kong Stock Exchange and as a result completed the implementation of B-to-H Share Conversion.

The listing of the Company’s H shares will help enhance the international corporate image of the Company and the reputation of its brand. Meanwhile, the Company will have a broader financing platform and value realisation platform, which enabled the Company to participate in the foreign capital arrangement, making efficient financing achievable. This also allowed the Company to expand both the domestic and foreign operation and consolidate its resources. It could therefore accelerate the internationalisation process of the Company and elevate the industrial structure to a high-end, thus strengthening the overall competitiveness of the Group.

2. CONNECTED/RELATED PARTY TRANSACTIONS

2.1. Connected Persons

Joincare Pharmaceutical Industry Group Co., Ltd. (“Joincare”) is the controlling shareholder of the Company, and thus Joincare together with its subsidiaries (other than the Group) are the connected persons of the Company, pursuant to the requirements under Rule 14A.11(4) and Rule 19A.04(b) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”).

* For identification purpose only

2. CONNECTED/RELATED PARTY TRANSACTIONS *(continued)*

2.2. Connected Transactions

In light of the Company's ordinary business need, during the Reporting Period, transactions occurred between the Company and Joicare as the controlling shareholder together with its subsidiaries constituted the "continuing connected transactions" as defined under Chapter 14A of the Hong Kong Listing Rules, the aggregate amount of which were RMB150.85 million. Details are as follows:

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'0,000)	Proportion to comparative transaction amount (%)
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Sales of commodities	Market price	1.18	0.00%
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sales of commodities	Market price	47.78	0.01%
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Provision of services	Market price	11.44	1.97%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Market price	1,707.55	1.03%
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Market price	8.55	0.01%
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Market price	13,188.84	7.98%
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Leasing of assets	Market price	43.66	12.45%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Leasing of assets	Market price	9.99	2.85%
Joicare	Controlling shareholder	Leased assets	Market price	65.89	40.05%
Total				<u>15,084.88</u>	

2. CONNECTED/RELATED PARTY TRANSACTIONS *(continued)*

2.2. Connected Transactions *(continued)*

2.2.1. **Confirmation from Independent Non-executive Directors in respect of the above connected transactions**

In respect of the continuing connected transactions conducted between the Group and Joincare together with its subsidiaries in 2013, the Independent Non-executive Directors of the Company have reviewed and confirmed:

- (i) such transactions fell within the Group's ordinary and usual course of business;
- (ii) such transactions were conducted on normal commercial terms; and
- (iii) such transactions were conducted in accordance with the terms of the relevant agreements governing them, and on terms that are fair and reasonable and in the interests of the Company and shareholders as a whole.

2.2.2. **Confirmation from the auditors in respect of the above connected transactions**

The auditors of the Company examined the above continuing connected transactions, and provided a letter to the Board stating the content below:

- (i) The auditors did not notice any matter which caused them to believe that the above continuing connected transactions had not been approved by the Board;
- (ii) In respect of transactions in relation to goods or services provided by the Group, the auditors did not notice any matter which caused them to believe that the above continuing connected transactions had not been conducted in accordance with the pricing policies of the Group in all material aspects;
- (iii) The auditors did not notice any matter which caused them to believe that the above continuing connected transactions had not been conducted in accordance with the relevant agreements governing such transactions in all material aspects.

2.3. Major Connected Transactions on Joint External Investment

On 7 June 2013, after consideration and approval by the Second Extraordinary General Meeting of the Company for the year 2013, a capital increase on a pro-rata basis in Zhuhai Livzon MAB Biological Technology Co., Ltd. (珠海市麗珠單抗生物技術有限公司) established by the Company and Joincare through joint investment was agreed. The total increase in capital amounted to RMB200 million. On 31 December 2013, the Company and Joincare contributed RMB51.00 million and RMB49.00 million respectively, with an aggregate agreed capital contribution of RMB100.00 million. Capital contributions by both parties in the ratio of 51% and 49% respectively remained unchanged.

2. CONNECTED/RELATED PARTY TRANSACTIONS *(continued)*

2.4. Related Party Transactions

Pursuant to the relevant requirements by CSRC and the Shenzhen Stock Exchange, transactions occurred between the Company and a related party, namely Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司), are as follows:

Name of related party	Relationship with related party	Type of related party transaction	Pricing principle of related party transaction	Amount of related party transaction (RMB'0,000)	Proportion to comparative transaction amount (%)
Guangdong Blue Treasure Pharmaceutical Co., Ltd. (廣東藍寶製藥有限公司)	Associated corporation (whom directorship was held by Directors of the Company)	Sales of commodities	Market price	2,726.70	0.60%
		Provision of services		565.35	97.63%
		Procurement of raw materials		220.77	0.13%
				<u>3,512.82</u>	
Total				<u>3,512.82</u>	

Note: Pursuant to the requirements under Rule 10.1.3 of the Listing Rules of the Shenzhen Stock Exchange (2012 revision) (《深圳證券交易所股票上市規則》(2012年修訂)), these transactions constituted related party transactions but did not constitute connected transactions under the Hong Kong Listing Rules.

3. GUARANTEES

During the Reporting Period, the Company had no guarantee provided for companies other than its subsidiaries. For details of guarantees provided for subsidiaries, please refer to related content as set out in Note VIII – Related parties and related party transactions to the financial statements in this report.

4. PERFORMANCE OF UNDERTAKINGS

4.1. Undertaking Made by Controlling Shareholders of the Company on the Company's B-to-H Share Conversion:

Covenantor: Topsino Industries Limited (天誠實業有限公司)

Time and term of undertaking: 25 January 2013, up to the date of completion of the Company's B-to-H Share Conversion.

Details of undertaking: "Under the cash options provided by the third party arranged by Livzon Group in connection with such B-to-H Share Conversion of Livzon Group, in relation to the existing 50,660,052 B shares held by the Company, the Company consented with waiving the exercise of such cash options, and agreed with holding and retaining such shares until they were converted into H shares to be listed and traded on the Main Board of the Hong Kong Stock Exchange based on this sub-plan, and from the date of signing of this letter of undertaking, up to the date of completing the implementation of this sub-plan, the Company would not purchase or dispose of the shares of Livzon Group (including A share and B shares)."

Performance of undertaking: Completed in accordance with the undertaking.

Covenantors: Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司), Joicare, Zhu Baoguo, Liu Guangxia.

Time and term of undertaking: 10 January 2014, on which this undertaking is effective for a long term.

Details of undertaking:

- "1. Subject to Articles 2 and 3 below, the Covenantors together with companies and individuals controlled thereof may not, at present or in the future, engage in businesses which may in any form, directly or indirectly, result in competition or potential competition with the pharmaceutical research, development, production and sale businesses by our Group from time to time (the "Restricted Activities").
2. The Covenantors together with companies and individuals controlled thereof shall immediately notify Livzon in writing and prioritise such business opportunity to Livzon Group on reasonable and fair terms and conditions, upon discovering any new business opportunities which constituted competition with the Restricted Activities. If Livzon Group waives such business opportunity, the Covenantors together with companies and individuals controlled thereof may accept such business opportunity on terms and conditions no more favourable than those made available to Livzon Group.

4. PERFORMANCE OF UNDERTAKINGS *(continued)*

4.1. Undertaking Made by Controlling Shareholders of the Company on the Company's B-to-H Share Conversion: *(continued)*

3. As long as the Covenantors together with companies and individuals controlled thereof intend to transfer, dispose of, lease, allow to use, or otherwise transfer or allow to use such assets and businesses which may, directly or indirectly or potentially constitute competition with the Restricted Activities (the "Disposal and Transfer"), the Covenantors together with companies and individuals controlled thereof shall provide pre-emptive rights to Livzon Group on equivalent terms. If Livzon Group waives such pre-emptive rights, major terms of the Disposal and Transfer between the Covenantors together with companies and individuals controlled thereof and other third parties may not be more favourable than the terms provided to Livzon Group.
4. The Covenantors together with companies and individuals controlled thereof shall not engage in or carry on any business which may harm the interests of Livzon Group or other shareholders by using their relationship with shareholders of Livzon Group or their identity as shareholders of Livzon Group.
5. The Covenantors together with companies and individuals controlled thereof shall not directly or indirectly:
 - a) at any time induce or attempt to induce the Directors, senior management or consultants belonged to any members of Livzon Group to terminate their employment with Livzon Group or end their positions as employees or consultants of Livzon Group (as appropriate), irrespective of whether such person's act would breach his employment contract or consultancy contract (as appropriate); or
 - b) employ any person within three years after terminating his employment as Directors, senior management or consultants belonging to any members of Livzon Group (other than those who serves as the Directors, senior management or consultants belonging to the Company and/or subsidiaries (excluding the Livzon Group) of the Company on the date of issuing this letter of undertaking), and such person has or may have any confidential information or commercial secrets relating to the Restricted Activities; or
 - c) alone or jointly with any other person through or as manager, adviser, consultant, employee or agent for or shareholder in any person, firm or company, in competition with any member of Livzon Group, canvass, or solicit or accept orders from or do business with any person with whom any member of Livzon Group has done business or solicit or persuade any person who has dealt with our Group or is in the process of negotiating with Livzon Group in relation to the Restricted Business to cease to deal with Livzon Group or reduce the amount of business which the person would normally do with Livzon Group or seek to improve their terms of trade with any member of Livzon Group."

Performance of undertaking: The Covenantors performed its undertaking obligation.

4. PERFORMANCE OF UNDERTAKINGS *(continued)*

4.1. Undertaking Made by Controlling Shareholders of the Company on the Company's B-to-H Share Conversion: *(continued)*

Covenantor: Joincare

Time of undertaking: 10 January 2014

Details of undertaking: "As the controlling shareholder of the Company, pursuant to Rule 10.07(1) of the Hong Kong Listing Rules, Joincare undertook to the Company and the Hong Kong Stock Exchange, save as the waiver granted by the Hong Kong Stock Exchange, that it shall not (and shall procure the registered holders not to) carry on the following events:

1. dispose of its securities beneficially owned as described in the prospectus, or enter into any agreement to dispose of its securities in relation to its securities beneficially owned, or create any option, rights, benefits or encumbrances, during the period from the day of holding the Company's equity interests up to six full months since the agreed listing and trading of securities on the Hong Kong Stock Exchange (the "Initial Limitation Period") as disclosed in the listing prospectus; and
2. dispose of its securities beneficially owned as described in the prospectus, or enter into any agreement to dispose of its securities in relation to its securities beneficially owned, or create any option, rights, benefits or encumbrances, such that it no longer served as the controlling shareholder of the Company after disposing of such securities, or exercising or executing such option, rights, benefits or encumbrances, within six months upon the day of expiry of the Initial Limitation Period.

It hereby further undertakes to the Company and the Hong Kong Stock Exchange pursuant to Note (3) of Rule 10.07(2) under the Hong Kong Listing Rules, during the period from the day of holding the Company's equity interests up to 12 full months since the agreed listing and trading of securities on the Hong Kong Stock Exchange as disclosed in the listing prospectus:

- "1. If it pledges or charges the Company's securities beneficially owned under its name to recognised institutions (based on the implications under "Banking Ordinance" (Rule 155 of Hong Kong law)) as a beneficiary to obtain bona fide commercial loan pursuant to Note (2) of Rule 10.07(2) under the Hong Kong Listing Rules, it shall immediately notify the Company of the pledge or charge and the number of securities pledged or charged; and
2. If it receives instructions from the pledgee or chargee, either verbally or literally, stating that such Company's securities used for pledge or charge would be sold, it shall immediately inform the Company of such instructions."

Performance of undertaking: The Covenantor conscientiously performed its undertaking obligation.

4. PERFORMANCE OF UNDERTAKINGS *(continued)*

4.2 Undertaking Regarding the Share Segregation Reform of the Company's A shares

Covenantor: Joincare

Time and term of undertaking: 17 December 2008, on which this undertaking is effective for a long term.

Details of undertaking: "Joincare shall strictly follow relevant provisions of the Guiding Opinions on Transfer of Shares subject to Trading Moratorium by Listed Companies ([2008] No. 15 notice) issued by CSRC when transferring the Livzon Group's shares subject to trading moratorium held by it; Joincare planned to sell the Livzon Group's shares subject to trading moratorium held by it, through the auction trading system of the stock exchange. If Joincare's plans to dispose the released tradable shares held by it through the auction system of stock exchanges and its reduced shareholding amounts to 5% and more within 6 months since its first reduction date, it will disclose an indicative announcement through Livzon Group within two trading days prior to the first reduction of shareholding."

Performance of undertaking: During the Reporting Period, the Covenantor conscientiously performed its undertaking obligation.

4.3. Other Undertakings

Covenantor: Topsino Industries Limited

Time and term of undertaking: 8 January 2013. The term of this undertaking was six months.

Details of undertaking: "Topsino Industries Limited undertook that from 9 January 2012 to 8 January 2013, after completion of acquisition of the Company's B shares in the form of competitive bidding through the trading system of the Shenzhen Stock Exchange, the lock-up period of shares acquired was six months since the day completing the acquisition."

Performance of undertaking: Completed in accordance with the undertaking.

5. DURING THE REPORTING PERIOD, NO EXPLANATION HAS BEEN GIVEN BY THE SUPERVISORY COMMITTEE AND INDEPENDENT DIRECTORS BECAUSE NO "NON-STANDARD AUDITORS' REPORT" WAS ISSUED BY THE AUDITORS

SHARE CAPITAL

As at 31 December 2013, the share capital of the Company was as follows:

	Number (Share)	As a percentage of the total share capital of the Company (%)
I. Shares subject to selling restrictions	6,059,428	2.05%
1. State-owned shares	—	—
2. State-owned legal person shares	6,059,428	2.05%
3. Other domestic shares	—	—
Of which: Domestic legal person shares	—	—
Domestic natural person shares	—	—
4. Foreign shares	—	—
Of which: Overseas legal person shares	—	—
Overseas natural person shares	—	—
5. Shares held by senior management	—	—
II. Shares not subject to selling restrictions	289,662,424	97.95%
1. Ordinary shares denominated in Renminbi	177,669,070	60.08%
2. Domestically listed foreign shares ^(Note)	111,993,354	37.87%
3. Overseas listed foreign shares	—	—
4. Others	—	—
III. Total number of shares	295,721,852	100%

Note: On 16 January 2014, the Company's domestically listed foreign shares (B Shares) were converted into overseas listed foreign shares (H Shares) and were listed by way of introduction and traded on the Main Board of the Hong Kong Stock Exchange.

AT THE END OF THE REPORTING PERIOD, SHAREHOLDINGS OF TOP TEN SHAREHOLDERS OF THE COMPANY

Name of shareholder	Nature of Shareholding shares	percentage (%)	Number of shares held at the end of the Reporting Period (Share)	Change during the Reporting Period	Number of shares with selling restrictions (Share)	Pledge or lock up share status	Number
Joincare Pharmaceutical Industry Group Co., Ltd.	A Share	26.21%	77,510,167	—	—	—	—
Topsino Industries Limited Shenzhen A/C	B Share	17.13%	50,660,052	—	—	—	—
Gaoling Fund, L.P.	B Share	3.64%	10,767,777	—	—	—	—
First Shanghai Securities Limited	B Share	3.64%	10,751,097	19,993	—	—	—
Industrial and Commercial Bank of China – Bosera Select Equity Securities Investment Fund	A Share	2.98%	8,800,237	8,800,237	—	—	—
Guangzhou Begol Trading Corporation	A Share	2.05%	6,059,428	—	6,059,428	Pledge and lock up	6,059,428
Shenzhen Haibin Pharmaceutical Co., Ltd.	A Share	1.99%	5,892,943	—	—	—	—
Bank of Communications – Bosera Emerging Growth Equity Securities Investment Fund	A Share	1.85%	5,464,326	5,464,326	—	—	—
Agricultural Bank of China – Greatwall Anxin Return Mixed Type Securities Investment Fund	A Share	1.81%	5,362,584	-337,416	—	—	—
Agricultural Bank of China – Penghua Power Growth Mixed Type Securities Investment Fund	A Share	1.16%	3,416,900	-5,783,082	—	—	—

CONTROLLING SHAREHOLDER OF THE COMPANY

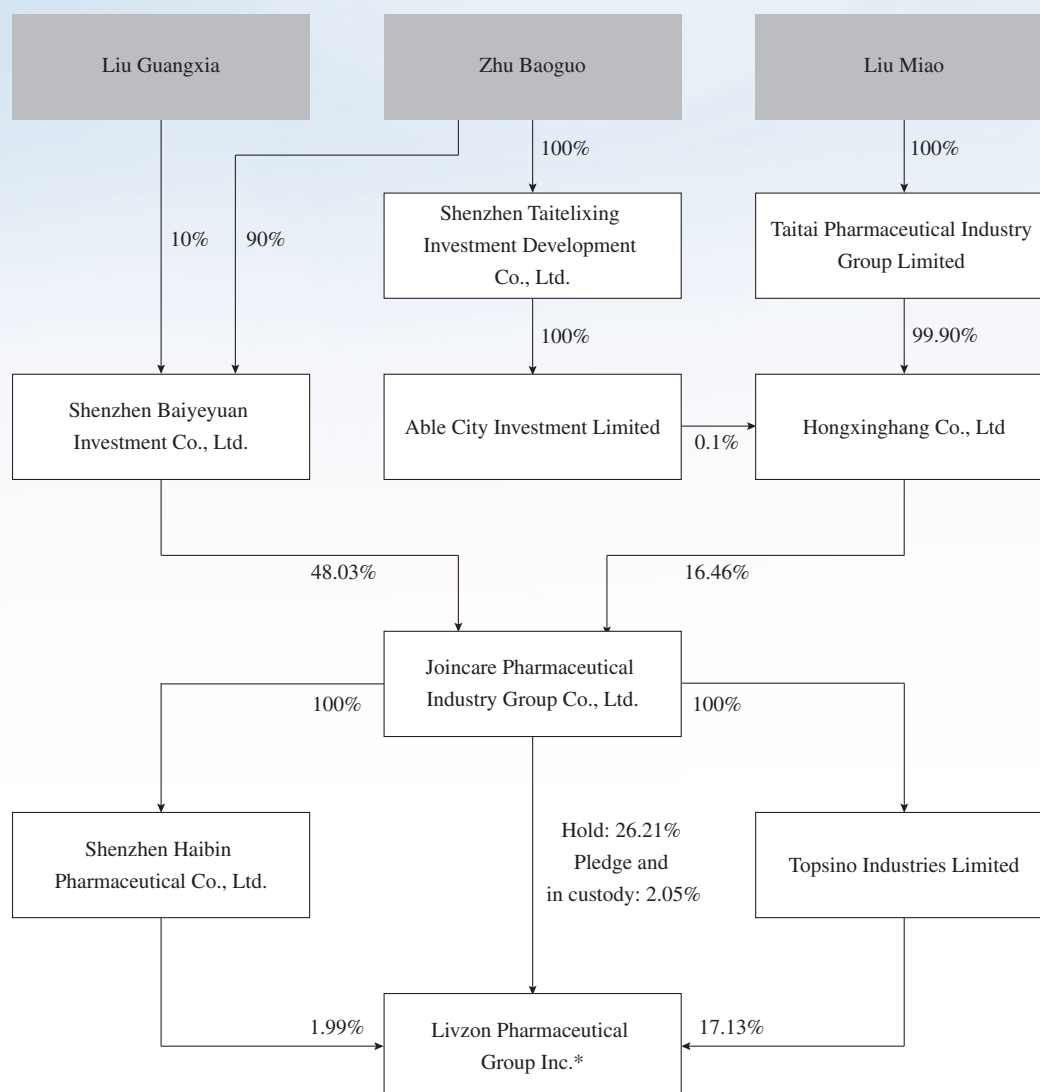
Name of Controlling Shareholder	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)
Legal representative	Zhu Baoguo (朱保國)
Date of establishment	18 December 1992
Registered capital	RMB1,545,835,892
Principal activities	Research and development of Chinese medicines, chemical bulk medicines, chemical drug preparation products, antibiotics bulk medicines and their preparations, food, health food supplements, cosmetics, (exclusive of research and development of state protected resources for Chinese herbal medicines, secret recipe of Chinese medicines), wholesale, import and export and related supplementary businesses (except the commodities subject to the State-run trade management with regard to the commodities subject to quota and license management, make applications in accordance with the relevant regulations of the State)

ULTIMATE BENEFICIAL OWNER OF THE COMPANY

Name of the ultimate beneficial owner	Zhu Baoguo (朱保國)
Nationality	Chinese
Obtain any right of residence of other countries or regions	No
Careers and duties for the past five years	Please see related details in the section headed “Directors, Supervisors, Senior Management and Employees” in this report.
Controlled domestic and overseas listed companies for the past ten years	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)

ULTIMATE BENEFICIAL OWNER OF THE COMPANY*(continued)*

Structure chart on ownership and controlling relationship between the Company and its ultimate beneficial owner



Note: Liu Miao (劉苗) is the mother of Zhu Baoguo (朱保國), and Zhu Baoguo (朱保國) is the spouse of Liu Guangxia (劉廣霞).

* For identification purpose only

THE COMPANY'S SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES OR DEBENTURES IN ACCORDANCE WITH THE SECURITIES AND FUTURES ORDINANCE

As at 31 December 2013, if pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), those persons (other than the Directors, Supervisors or chief executives of the Company) with interests or short positions in the Company's shares and underlying shares as recorded in the register required to be kept shall be as follows^{*Note}:

Name	Class of shares	Capacity	Number of shares held (Share)	Nature	As a percentage of the total share capital of the	As a percentage of
					Company (%)	class of shares (%)
Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) ^{Note 1}	A Share	Interest in a controlled corporation	83,403,110	Long position	28.20%	45.40%
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	A Share	Beneficial owner	77,510,167	Long position	26.21%	42.19%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	A Share	Beneficial owner	5,892,943	Long position	1.99%	3.21%
Guangzhou Begol Trading Corporation ^{Note 2} (廣州市保科力貿易公司)	A Share	Beneficial owner	6,059,428	Long position	2.05%	3.30%
Shenzhen Baiyeyuan Investment Co., Ltd. ^{Note 1} (深圳市百業源投資有限公司)	B Share	Interest in a controlled corporation	50,660,052	Long position	17.13%	45.23%
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	B Share	Interest in a controlled corporation	50,660,052	Long position	17.13%	45.23%
Topsino Industries Limited Shenzhen A/C (天誠實業有限公司)	B Share	Beneficial owner	50,660,052	Long position	17.13%	45.23%
Hillhouse Capital Management, Ltd.	B Share	Investment manager	10,767,777	Long position	3.64%	9.61%
Gaoling Fund L.P.	B Share	Beneficial owner	10,767,777	Long position	3.64%	9.61%
Sunrise Palace Limited	B Share	Beneficial owner	10,106,560	Long position	3.42%	9.02%

Note 1: Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) is a company in which 90% and 10% equity interest are held by Zhu Baoguo (朱保國), Chairman and a Non-executive Director, and Liu Guangxia (劉廣霞), Vice Chairman and a Non-executive Director, respectively.

Note 2: On 2 January 2004, three parties, namely Joincare, Guangzhou Begol Trading Corporation (廣州市保科力貿易公司) and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司), entered into a share transfer, custody and pledge agreement. Joincare and Guangzhou Begol Trading Corporation (廣州市保科力貿易公司) entered into a share transfer and custody agreement and a share pledge agreement, pursuant to which the 6,059,428 original domestic legal person shares of the Company held by Guangzhou Begol Trading Corporation (廣州市保科力貿易公司) has been directly transferred to, held in custody by and pledged to Joincare.

^{*Note:} No such register existed at that time as the Company was not listed as at 31 December 2013.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

SUFFICIENT PUBLIC FLOAT

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

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the date of this report, brief biographies of the current Directors, Supervisors and senior management of the Company are as follows:

1. Brief Biography of Executive Director

Mr. Tao Desheng (陶德勝先生), aged 50, is currently our Executive Director, President, authorised representative and a committee member of Strategic Committee, Nomination Committee and Remuneration and Assessment Committee, and also served as a Director in other subsidiaries of the Group. Mr. Tao graduated with a bachelor's degree in chemistry from the faculty of pharmaceutical chemistry of the Nanjing School of Pharmaceutical Sciences (南京藥學院). From 2000 to 2002, Mr. Tao attended a postgraduate advanced course in enterprise management organised by Sun Yat-Sen University (中山大學). Mr. Tao obtained his practising pharmacist qualification (執業藥師) in October 2002 and the title of senior engineer in pharmaceutical manufacturing (professor) (製藥專業高級工程師(教授)職稱) in 2013. Mr. Tao has been the vice president and president of our Company since June 2005 and March 2014, respectively, and he has been our Director from July 2009 to present.

2. Brief Biographies of Non-executive Directors

Mr. Zhu Baoguo (朱保國先生), aged 52, is currently our Chairman, Non-executive Director and the Chairman of our Strategic Committee, and also served as a Director in other subsidiaries of the Group. Mr. Zhu obtained his bachelor's degree in chemistry from Henan Normal University (河南師範大學) in 1985. Since 2002 to present, Mr. Zhu has been the chairman of our Board and since April 2006 to September 2013, he has also been the president of our Company. Mr. Zhu is also the founder of Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司), and is currently the chairman of Joincare. Since May 2010 and June 2012, Mr. Zhu has been a committee member of 5th Shenzhen CCPCC (政協深圳市第五屆委員會) and the vice chairman of Shenzhen Federation of Industry and Commerce (深圳市工商業聯合會), respectively. Mr. Zhu Baoguo is the spouse of Ms. Liu Guangxia (劉廣霞女士), being our Vice Chairman and Non-executive Director.

Ms. Liu Guangxia (劉廣霞女士), aged 45, is currently our Vice Chairman and Non-executive Director. Ms. Liu graduated from Henan Normal University (河南師範大學) majoring in English in 1990. Since January 1999 and November 1999, Ms. Liu has been a director of Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) and the vice chairman of Joincare, respectively. Ms. Liu has been our Non-executive Director and Vice Chairman of our Board since April 2007 and June 2008 to present, respectively. Ms. Liu is the spouse of Mr. Zhu Baoguo (朱保國先生), being our Chairman and Non-executive Director.

Mr. Qiu Qingfeng (邱慶豐先生), aged 43, is currently our Non-executive Director. Mr. Qiu obtained his MBA from China Europe International Business School (中歐國際工商學院) in September 2007. Mr. Qiu joined Shenzhen Taitai Pharmaceutical Company Limited (深圳太太藥業有限公司) in 1996 and is currently a director, general manager and the secretary to the board of directors of Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司). Mr. Qiu was the Supervisor and the Chief Supervisor of the Company from June 2005 to April 2007. Mr. Qiu has been our Non-executive Director from April 2007 to present.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT*(continued)***2. Brief Biographies of Non-executive Directors** *(continued)*

Mr. Zhong Shan (鍾山先生), aged 43, is currently our Non-executive Director and a committee member of our Strategic Committee. Mr. Zhong graduated from the applied chemistry profession of the Faculty of Applied Chemistry of Huaqiao University (華僑大學) and obtained a bachelor's certificate in 1993. From July 1994 to April 2000, Mr. Zhong worked in the Guangzhou branch of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu (Hong Kong) which provide auditing and accounting consultancy services. Mr. Zhong joined Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) in 2001 and is currently the vice general manager of Joincare. Mr. Zhong has been our Non-executive Director from April 2007 to present.

3. Brief Biographies of Independent Non-executive Directors

Mr. Luo Xiaosong (羅曉松先生), aged 39, is currently our Independent Non-executive Director, the Chairman of our Audit Committee and a member of our Remuneration and Assessment Committee. Mr. Luo graduated from Xian Jiaotong University (西安交通大學), majoring in accounting, in 2006. Mr. Luo is a Certified Public Accountant in the PRC. Since 2005, Mr. Luo has been the project manager, department manager and salaried partner of Shenzhen Greatwall Certified Public Accountants Co., Ltd. (深圳市長城會計師事務所有限公司). Mr. Luo has been our Independent Non-executive Director from June 2008 to present.

Mr. Guo Guoqing (郭國慶先生), aged 52, is currently our Independent Non-executive Director, the Chairman of our Remuneration and Assessment Committee and a member of our Audit Committee and Nomination Committee. Mr. Guo obtained his doctoral degree in economics from Renmin University of China (中國人民大學) in January 1998. Mr. Guo is a committee member of 7th All-China Youth Federation (全國青聯會), 8th and 9th CPPCC National Committee (全國政協), a member of the 11th National People's Congress (全國人民代表大會) and a member of the Democratic League of China (中國民主同盟) Central Committee. He was one of the experts entitled to special subsidy granted by the State Council of the PRC. Mr. Guo has been a deputy director of the School of Trade Economics and the vice-president of the Faculty of Business Administration of Renmin University of China (中國人民大學). Mr. Guo is currently a professor and doctoral tutor of the School of Business of Renmin University of China (中國人民大學) and the director of PRC marketing research centre of Renmin University of China (中國人民大學). Mr. Guo is also a consultant of China Marketing Association of University (中國高校市場學研究會), the vice-president of PRC Business History Society (中國商業史學會) and an expert of the National Natural Science Foundation of Management Science Review Panel (國家自然科學基金委員會管理科學部評審組). Mr. Guo has been our Independent Non-executive Director from June 2013 to present.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

*(continued)*3. Brief Biographies of Independent Non-executive Directors *(continued)*

Mr. Guo Guoqing (郭國慶先生) has held directorship in other listed companies as follows:

Name of listed company and stock code	Role	Period
Longrun Tea Group Company Limited (龍潤茶集團有限公司) (02898.HK)	Independent Non-executive Director	August 2002 – present
Sinosteel Jilin Carbon Co., Ltd. (中鋼集團吉林炭素股份有限公司) (000928.CN)	Independent Director	June 2011 – present
Jiugui Liquor Co., Ltd. (酒鬼酒股份有限公司) (000799.CN)	Independent Director	July 2008 – present
Beijing Wangfujing Department Store (Group) Co., Ltd. (北京王府井百貨(集團)股份有限公司) (600859.CN)	Independent Director	June 2011 – present
Gree Real Estate Co., Ltd. (格力地產股份有限公司) (600185.CN)	Independent Director	August 2010 – present

Mr. Wang Xiaojun (王小軍先生), aged 60, is currently our Independent Non-executive Director. Mr. Wang graduated from Renmin University of China (中國人民大學) majoring in law in July 1983 and graduated from the Graduate School of the Chinese Academy of Social Sciences (中國社會科學院) in December 1986. Mr. Wang qualified as a lawyer in the PRC in 1988, and passed solicitor qualifying examinations in Hong Kong in 1992. Mr. Wang currently holds lawyer licences in Hong Kong, England and the PRC. From October 1992 to February 1993, Mr. Wang was an assistant manager in the China Listing Affairs Unit of the Hong Kong Stock Exchange. From March 1993 to December 1995 and January 1996 to March 1996, Mr. Wang worked as a trainee solicitor and an assistant solicitor at Richards Butler, respectively. Mr. Wang is currently a partner of Junhe Law Offices. Mr. Wang was named as “Leading Lawyers in Capital Markets and Corporate Finance” by Asialaw in 2008 and 2010. Mr. Wang has been our Independent Non-executive Director from September 2013 to present.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(continued)

3. Brief Biographies of Independent Non-executive Directors (continued)

Mr. Wang Xiaojun (王小軍先生) has held directorship in other listed companies as follows:

Name of listed company and stock code	Role	Period
Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司) (01171.HK)	Independent Non-executive Director	May 2011 – present
China Aerospace International Holdings Limited (中國航天國際控股有限公司) (00031.HK)	Independent Non-executive Director	March 2013 – present
OP Financial Investments Limited (東英金融投資有限公司) (01140.HK)	Independent Non-executive Director	August 2004 – present
Zijin Mining Group Co., Ltd. (紫金礦業集團股份有限公司) (02899.HK)	Independent Non-executive Director	November 2009– present
Norinco International Cooperation Limited (北方國際合作股份有限公司) (000065.CN)	Independent Director	June 2008 – present
Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司) (00317.HK)	Independent Non-executive Director	May 2005 – May 2011

Mr. Yu Xiong (俞雄先生), aged 53, is currently our Independent Non-executive Director. Mr. Yu graduated from Fudan University (復旦大學) majoring in Chemistry, and obtained his bachelor's degree in July 1984. Mr. Yu is currently the deputy vice-president and a researcher of China State Institute of Pharmaceutical Industry (中國醫藥工業研究總院), the chairman of the Pharmaceutical Engineering Expert Committee of the Chinese Pharmaceutical Association (中國藥學會製藥工程專業委員會). He 獲國務院頒發的政府特殊津貼in 1999. He has been an Independent Director of Shandong Lukang Pharmaceutical Group Co., Ltd. (山東魯抗醫藥股份有限公司) (600789.CN) from April 2006 to April 2012, and a Director of Shanghai Shyndec Pharmaceutical Co., Ltd. (上海現代製藥股份有限公司) (600420.CN) from June 2003 to June 2011. He has been an Independent Director of Guangdong Taientang Pharmaceutical Co., Ltd. (廣東太安堂藥業股份有限公司) (002433.CN) from July 2007 to July 2013. Mr. Yu has been our Independent Non-executive Director from September 2013 to present.

Mr. Yang Bin (楊斌先生), aged 42, is currently our Independent Non-executive Director, the Chairman of our Nomination Committee and a committee member of our Audit Committee. Mr. Yang obtained his master's degree in business administration from Xian Jiaotong University (西安交通大學) in June 2004. Since January 2011, he has been the secretary of the board of directors of CAU Technology Co., Ltd. (中國農大科技股份有限公司) (000004.CN). Since February 2010, he has been an Independent Director of Shenzhen Chinese Testing International Corporation (深圳市華測檢測技術股份有限公司) (300012.CN). Mr. Yang has been our Independent Non-executive Director from July 2009 to present.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

*(continued)***4. Brief Biographies of Supervisors of the Company**

Mr. Yuan Huasheng (袁華生先生), aged 52, is currently our Chief Supervisor. Mr. Yuan graduated from China Europe International Business School (中歐國際工商學院), obtained his master's degree in March 1993 and is a senior economist. Mr. Yuan has been a director of the futures department of China Jinchuan Nonferrous Supply Co., Ltd. (中國有色金川供銷公司); a manager of the business department (import) of Jinchuan Nonferrous Metals Import-Export Co., Ltd. (金川有色金屬進出口公司); the general manager of the asset management department of Zhuhai Gongye Holdings Co., Ltd. (珠海市功業控股有限公司); the vice-chairman and legal representative of Zhuhai Lianshen Asset Management Co., Ltd. (珠海市聯晟資產託管有限公司); the communist party committee member, the chairman of the labour committee, the secretary of branch agencies, director as well as the vice-general manager of Zhuhai Lianji Holdings Co., Ltd. (珠海市聯基控股有限公司); the vice-general manager and communist party committee member of Zhuhai Shanglian Investment Holdings Co., Ltd. (珠海市商聯投資控股有限公司). Mr. Yuan has been the vice-general manager of Zhuhai Aviation Industrial Development Group Co., Ltd. (珠海航空城發展集團有限公司) since May 2009 to present, and the vice-president of Zhuhai seventh session of Airport Group Corp. (珠海機場集團公司) since August 2012 to present. Mr. Yuan has been the Chief Supervisor of the Seventh Session of our Supervisory Committee from June 2013 to present.

Mr. Huang Huamin (黃華敏先生), aged 43, is currently our Supervisor. Mr. Huang obtained his bachelor's degree from the Shanghai University of Finance and Economics (上海財經大學) in 1993 and is an accountant. Mr. Huang has been the chief financial officer and assistant to the general manager of Livzon Group Lixin Co. Ltd. (麗珠集團麗新公司), the manager of the finance department and business department of Livzon Group Liwei Co., Ltd. (麗珠集團麗威公司) as well as the manager of finance clearing centre of Livzon Pharmaceutical Group Inc.* (麗珠醫藥集團股份有限公司). From September 2008 to May 2009, Mr. Huang was employed by Zhuhai Gree Real Estate Co., Ltd. (珠海格力房產有限公司) (600185.CN). Mr. Huang has been the chief financial controller and the secretary to the board of directors of Gree Real Estate Co., Ltd. (格力地產股份有限公司) (the original Xi 'an Seastar Modern-Tech Co., Ltd. (西安海星現代科技股份有限公司)) since May 2009 and October 2009, respectively. Mr. Huang was elected as the Supervisor of the Seventh Session of our Supervisory Committee from June 2013 to present.

Mr. Wang Maolin (汪卯林先生), aged 48, is currently our employee representative Supervisor. Mr. Wang graduated from the Law Department of Anhui University (安徽大學) and was awarded with a bachelor's degree in 1989. In 2012, Mr. Wang was elected as a representative of 8th Zhuhai People's Congress (珠海市第八屆人民代表大會). From January 2001 to present, Mr. Wang has been our Chief Supervisor of the legal supervision head office. Mr. Wang has been our Supervisor from January 2010 to present.

5. Brief Biographies of Other Senior Management of the Company

Mr. Xu Guoxiang (徐國祥先生), aged 52, is currently our Vice President. From November 2010 to November 2011, Mr. Xu attended an advanced EMBA course in PRC's pharmaceutical industry organised by the Medical School of Peking University (北京大學醫學部) and obtained a completion certificate. From 2000 to 2005, Mr. Xu was the director of Yangtze River Pharmaceutical Co., Ltd. (揚子江製藥股份有限公司). In March 2007, Mr. Xu was the Chief Sale Supervisor of Livzon Pharmaceutical Group Inc.* (麗珠醫藥集團股份有限公司) and the general manager of our branch company in Henan Province. Mr. Xu has been our Vice President from December 2007 to present.

* For identification purpose only

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(continued)

5. Brief Biographies of Other Senior Management of the Company (continued)

Mr. Lu Wenqi (陸文岐先生), aged 47, is currently our Vice President. Mr. Lu obtained his bachelor's degree in industrial electrical automation from Huazhong University of Science and Technology (華中理工大學) in 1988. From 1995 to 2006, Mr. Lu worked as the manager of development management of Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司) and a director of the research institute of Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (600280.CN). Mr. Lu has been our Vice President from October 2006 to present.

Mr. Yang Daihong (楊代宏先生), aged 48, is currently our Vice President, pharmaceutical engineer and a licenced pharmacist. From 2000 to 2002, Mr. Yang attended a course in enterprise management organised by Sun Yat-Sen University (中山大學). Mr. Yang obtained qualifications as a pharmaceutical engineer and a licenced pharmacist. From 1999 to 2009, Mr. Yang was the chief engineer and factory manager of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠). Mr. Yang has been our Vice President from May 2006 to present.

Mr. Li Rucai (李如才), aged 44, is currently the Secretary to our Board, our company secretary and our authorised representative. Mr. Li graduated from the Accounting Science Department of Shanghai University of Finance and Economics (上海財經大學) in July 1992 and held a bachelor degree in Auditing and is an accountant. From September 2000 to July 2002, Mr. Li studied in the enterprise management profession at the Management College of Sun Yat-Sen University (中山大學). From June 2005 to August 2007, Mr. Li was appointed as the financial controller of Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司). From September 2007 to present, Mr. Li has been the Secretary to the Board.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD

Procedures and Basis for Determining the Remuneration of Directors, Supervisors and Senior Management

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

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

Information about the remuneration of each Director and the top five highest paid individuals was set out under Note VIII.5(5) Remuneration of key management personnel to the financial statements in this report.

Directors, Supervisors and senior management of the Company have not been granted any share incentive during the Reporting Period.

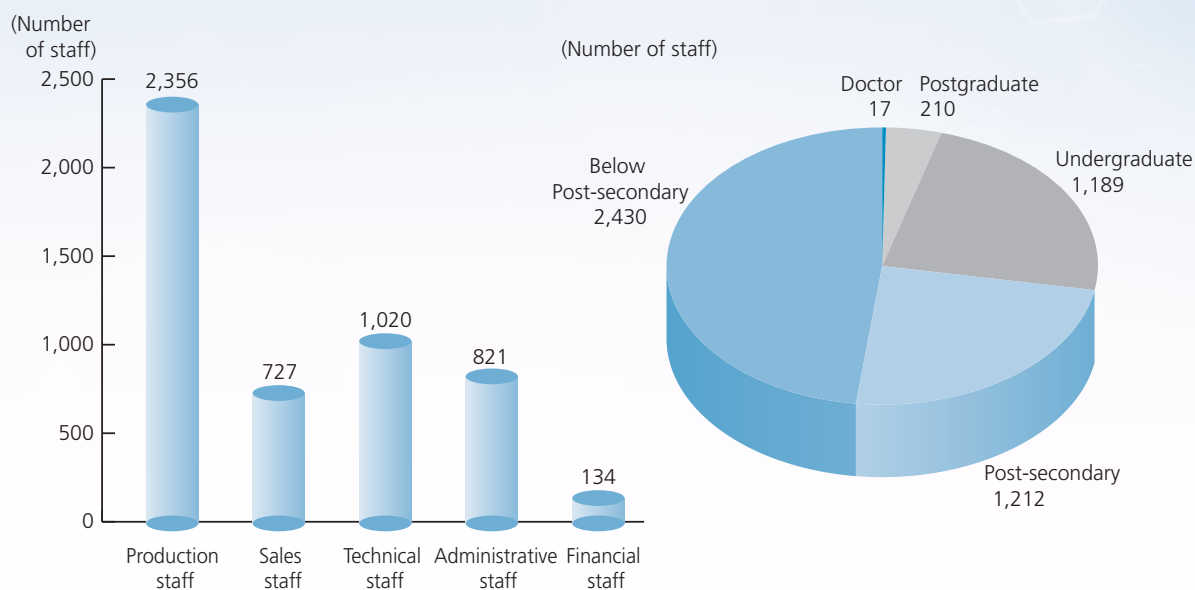
Appointment, Resignation and Dismissal of Directors, Supervisors and Senior Management of the Company.

Name	Position	Type	Date	Reason
Wang Junyan (王 俊 彦)	Independent Director	Resigned upon expiry of term of service	7 June 2013	Resigned due to serving as Independent Director of the Company for six consecutive years.
Guo Guoqing (郭 國 慶)	Independent Director	Elected	7 June 2013	Approved in the Second Extraordinary General Meeting of the Company in 2013, and was elected as Independent Director of the Company.
Cao Pingwei (曹 平 偉)	Supervisor	Resigned	7 June 2013	Resigned due to personal reasons.
Pang Datong (龐 大 同)	Supervisor	Resigned	7 June 2013	Resigned due to personal reasons.
Yuan Huasheng (袁 華 生)	Supervisor	Elected	7 June 2013	Approved in the Second Extraordinary General Meeting of the Company in 2013, and was elected as the Supervisor of the Company.
Huang Huamin (黃 華 敏)	Supervisor	Elected	7 June 2013	Approved in the Second Extraordinary General Meeting of the Company in 2013, and was elected as the Supervisor of the Company.
Wang Xiaojun (王 小 軍)	Independent Director	Elected	16 September 2013	Approved in the Fourth Extraordinary General Meeting of the Company in 2013, and was elected as Independent Director of the Company.
Yu Xiong (俞 雄)	Independent Director	Elected	16 September 2013	Approved in the Fourth Extraordinary General Meeting of the Company in 2013, and was elected as Independent Director of the Company.
An Ning (安 寧)	Director, President	Resigned	5 March 2014	Resigned due to personal and family reasons.

EMPLOYEES OF THE COMPANY

As of the end of the Reporting Period, the Company, its wholly-owned subsidiaries and non-wholly owned subsidiaries had a total of 5,058 current employees, and the Company and its subsidiaries had partial pension distributed to a total of 585 retired employees.

1. The current employees' speciality composition and education level are as follows:



2. **The Employees' Remuneration Policies**

During the Reporting Period, the Company's remuneration policies are in line with the provisions of relevant national laws and regulations, by reference to the industry and regional remuneration level, and consideration of internal equity, depending on the position value, and the basis of the performance and ability of individual employees, the Company determined the Company's employees salary level, formulation and revision of remuneration system are to solicit the views of the majority of employees. To reflect incentive remuneration, employee remuneration comprises of two portions: fixed income and variable income. Variable income was affected by performance of the Company and individual performance, which had fully boosted the morale and initiative of the staff, to achieve the Company's goal of promoting sustainable development.

3. **The Employees' Training Plan**

The Company had a complete training system. It developed and implemented a comprehensive training program during the Reporting Period, which mainly included new employee orientation, college orientation, professional knowledge and technical training, management training and etc. Among which, in 2013, the Company continued to enhance its training effort for management, based on extensive management profile, the Group's senior management gave lessons in person, which enhanced the Company's management team cohesion.

During the Reporting Period, there was no material change in core technology team or key technical staff of the Company.



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AUDITORS' REPORT

Rui Hua Shen Zi [2014] No. 40030006

To the Shareholders of Livzon Pharmaceutical Group Inc.

We have audited the attached financial statements of Livzon Pharmaceutical Group Inc. (the "Company"), which comprise the consolidated balance sheet and the balance sheet of the Company as at 31 December 2013 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity and the income statement, cash flow statement and statement of changes in equity of the Company for the year 2013 together with the notes thereto.

1. MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation and fair presentation of the financial statements. Such responsibilities include (1) the preparation of the financial statements in accordance with Accounting Standards for Business Enterprises, and the presentation of them in a fair manner; (2) the design, implementation and maintenance of internal controls that are necessary to ensure that the financial statements are free from material misstatement, whether due to fraud or error.

2. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with China Code of Ethics for Certified Public Accountants, and plan and perform the audit in order to obtain reasonable assurance as to whether these financial statements are free from material misstatement.

The audit involves implementation of audit procedures to obtain audit evidences related to the amounts and disclosures specified in the financial statements. The selection of the audit procedures depend on the certified public accountants' judgment, including assessing material misstatement in the financial statements caused by fraud or error. While assessing risks, the certified public accountants shall consider the internal control related to the preparation and fair presentation of the financial statements in order to design proper audit procedures. The audit also includes assessing the appropriateness of the accounting policies selected by the management and the reasonableness of the accounting estimates made by the management and evaluating the overall presentation of the financial statements.

We believe the audit evidences obtained by us are sufficient and appropriate and provide basis for our audit opinions.

3. AUDIT OPINIONS

In our opinion, the above mentioned financial statements are, in all material aspects, prepared in accordance with the Accounting Standards for Business Enterprises and give a fair view on the consolidated financial conditions and the financial conditions of the Company as at 31 December 2013 and the consolidated results and consolidated cash flow as well as the results and cash flow of the Company for the year 2013.

Ruihua Certified Public Accountants (LLP)

Beijing, the People's Republic of China,

Wang Shuyan

Chinese Certified Public Accountants

Li Encheng

Chinese Certified Public Accountants

24 March 2014

Prepared by : Livzon Pharmaceutical Group Inc.

Amounts
denominated : RMB
At the beginning of
the year

Item	Notes	As at the year end	
Current assets :			
Cash at bank and on hand	VII.1	761,044,135.54	1,221,332,802.40
Financial assets held for trading	VII.2	11,335,125.54	59,319,616.94
Bills receivables	VII.3	271,431,749.11	112,482,782.18
Accounts receivables	VII.4	1,053,350,426.59	774,021,470.88
Prepayments	VII.5	202,437,865.84	207,180,789.68
Interest receivables			
Dividends receivables			
Other receivables	VII.6	39,477,295.95	53,040,257.13
Inventories	VII.7	641,649,965.85	546,497,999.53
Non-current assets due within one year			
Other current assets			
Total current assets		2,980,726,564.42	2,973,875,718.74
Non-current assets :			
Available-for-sale financial assets	VII.8	10,041,559.76	10,612,859.66
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	VII.9	123,764,866.29	120,961,203.38
Investment properties			
Fixed assets	VII.10	1,976,910,773.96	1,127,285,485.37
Construction in progress	VII.11	1,082,419,104.88	1,028,769,050.48
Construction supplies	VII.12	481,529.20	1,623,576.06
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets	VII.13	224,516,411.93	205,129,693.66
Development costs	VII.14		1,510,153.51
Goodwill	VII.15	103,040,497.85	103,040,497.85
Long-term deferred expenses	VII.16	13,914,408.10	17,785,870.45
Deferred tax assets	VII.17	50,190,408.52	43,159,851.98
Other non-current assets			
Total non-current assets		3,585,279,560.49	2,659,878,242.40
Total assets		6,566,006,124.91	5,633,753,961.14

CONSOLIDATED BALANCE SHEET

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31 December 2013

Prepared by : Livzon Pharmaceutical Group Inc.

Amounts
denominated : RMB
At the beginning of
the year

Item	Notes	As at the year end	
Current liabilities :			
Short-term loans	VII.20	491,084,453.79	536,169,502.91
Financial liabilities held for trading			
Bills payables	VII.21	375,775,891.08	283,581,118.89
Accounts payables	VII.22	435,966,092.72	311,814,060.41
Receipts in advance	VII.23	61,780,193.14	37,950,040.42
Employee benefits payables	VII.24	90,493,756.24	74,462,512.02
Taxes payables	VII.25	89,414,763.31	96,658,310.36
Interest payables	VII.26	15,434,979.65	10,454,004.86
Dividends payables	VII.27	2,531,984.46	2,531,984.46
Other payables	VII.28	766,798,857.30	622,164,203.12
Non-current liabilities due within one year	VII.29	400,000.00	400,000.00
Other current liabilities	VII.30		400,000,000.00
Total current liabilities		2,329,680,971.69	2,376,185,737.45
Non-current liabilities :			
Long-term loans	VII.31	149,900,000.00	700,000.00
Notes payables	VII.32	400,000,000.00	
Long-term payables			
Special payables			
Accrued liabilities			
Deferred tax liabilities	VII.17	2,834,136.62	2,576,489.15
Other non-current liabilities	VII.33	79,071,532.72	74,172,485.90
Total non-current liabilities		631,805,669.34	77,448,975.05
Total liabilities		2,961,486,641.03	2,453,634,712.50
Shareholders' equity :			
Share capital	VII.34	295,721,852.00	295,721,852.00
Capital reserve	VII.35	218,364,428.76	219,110,205.68
Less: Treasury shares			
Special reserve			
Surplus reserve	VII.36	501,196,946.97	490,319,036.90
General risks provision			
Retained earnings	VII.37	2,352,112,358.31	2,023,348,842.58
Translation differences of financial statements denominated in foreign currency		-22,747,009.55	-20,484,128.53
Total equity attributable to shareholders of the parent company		3,344,648,576.49	3,008,015,808.63
Non-controlling interests	VII.38	259,870,907.39	172,103,440.01
Total shareholders' equity		3,604,519,483.88	3,180,119,248.64
Total liabilities and shareholders' equity		6,566,006,124.91	5,633,753,961.14

Legal representatives

Principal in charge of
accounting work

Name of the accounting firm's
principal

(The accompanying notes form part of the financial statements.)

Prepared by : Livzon Pharmaceutical Group Inc.		Amounts denominated : RMB	
Item	Notes	For the year	For the previous year
I. Total operating income		4,618,680,040.86	3,943,525,305.20
Including: Operating income	VII.39	4,618,680,040.86	3,943,525,305.20
II. Total operating costs		4,031,426,221.20	3,445,290,746.13
Including: Operating costs	VII.39	1,694,615,109.00	1,569,688,115.45
Business taxes and surcharges	VII.40	58,522,104.24	54,545,405.98
Selling expenses	VII.41	1,810,747,376.60	1,441,654,242.80
Administrative expenses	VII.42	437,293,065.57	351,031,228.58
Financial expenses	VII.43	-15,076,696.90	-17,122,110.76
Impairment loss	VII.44	45,325,262.69	45,493,864.08
Add: Gains from changes in fair value ("—" represents losses)	VII.45	-1,236,410.63	16,381,681.02
Investment income ("—" represents losses)	VII.46	4,539,511.05	4,136,556.80
Including: Income from investment in associates and jointly controlled entities		2,803,662.91	2,432,195.47
III. Operating profit ("—" represents losses)		590,556,920.08	518,752,796.89
Add: Non-operating income	VII.47	43,108,434.91	44,267,854.06
Less: Non-operating expenses Including: Losses from disposal of non-current assets	VII.48	4,724,901.29	2,707,911.81
		179,663.39	1,081,686.28
IV. Profit before income tax ("—" represents losses)		628,940,453.70	560,312,739.14
Less: Income tax expenses	VII.49	104,953,936.07	85,089,640.18
V. Net profit ("—" represents losses)		523,986,517.63	475,223,098.96
Net profit attributable to the shareholders of the parent company		487,502,351.80	441,671,519.69
Non-controlling interests		36,484,165.83	33,551,579.27
VI. Earnings per share :			
(1) Basic earnings per share	VII.50	1.65	1.49
(2) Diluted earnings per share	VII.50	1.65	1.49
VII. Other comprehensive income for the year	VII.51	-2,765,356.39	101,902.85
VIII. Total comprehensive income for the year		521,221,161.24	475,325,001.81
Total comprehensive income attributable to the shareholders of the parent company		484,753,865.86	441,774,851.77
Total comprehensive income attributable to non-controlling interests		36,467,295.38	33,550,150.04

Legal representatives

Principal in charge of
accounting work

Name of the accounting firm's
principal

(The accompanying notes form part of the financial statements.)

CONSOLIDATED CASH FLOW STATEMENT

77

2013

Prepared by: Livzon Pharmaceutical Group Inc.

Item

Notes

For the year

Amounts
denominated: RMB
For the previous year

I. Cash flows from operating activities:

Cash received from sale of goods and rendering of services		4,456,512,759.42	3,837,904,425.46
Refund of taxes		18,024,648.66	18,549,397.36
Cash received relating to other operating activities	VII.53	139,596,652.32	170,178,750.63
Sub-total of cash inflows from operating activities		4,614,134,060.40	4,026,632,573.45
Cash paid for goods and services		1,283,593,895.13	1,096,651,444.82
Cash paid to and for employees		375,282,809.41	318,506,211.16
Cash paid for all types of taxes		637,719,137.22	561,470,340.88
Cash paid relating to other operating activities	VII.53	1,877,551,692.95	1,456,039,912.29
Sub-total of cash outflows from operating activities		4,174,147,534.71	3,432,667,909.15
Net cash flows from operating activities		439,986,525.69	593,964,664.30

II. Cash flows from investing activities:

Cash received from disposal of investments		46,531,879.23	16,855,285.74
Cash received from return on investments		891,519.24	1,148,151.21
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		186,298.00	341,498.60
Cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investing activities	VII.53	6,849,946.69	
Sub-total of cash inflows from investing activities		54,459,643.16	18,344,935.55
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		920,001,234.77	762,302,440.55
Cash paid for acquisition of investments		460,000.00	151,532,596.80
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities	VII.53	8,563,590.71	
Sub-total of cash outflows from investing activities		929,024,825.48	913,835,037.35
Net cash flows from investing activities		-874,565,182.32	-895,490,101.80

Prepared by: Livzon Pharmaceutical Group Inc.		Amounts denominated: RMB	
Item	Notes	For the year	For the previous year
III. Cash flows from financing activities:			
Cash received from investors		51,500,000.00	
Including: Cash received from non-controlling shareholders of subsidiaries		51,500,000.00	
Cash received from borrowings		947,017,564.37	502,257,886.64
Cash received from issue of financing bills		400,000,000.00	400,000,000.00
Cash received relating to other financing activities	VII.53	40,666,343.14	13,250,000.00
Sub-total of cash inflows from financing activities		1,439,183,907.51	915,507,886.64
Cash repayments of borrowings		1,235,160,644.60	620,750,531.16
Cash paid for dividends, profit distributions or interest		192,256,865.44	216,702,279.93
Including: Dividends and profits paid to non-controlling shareholders of subsidiaries			31,433,731.21
Cash paid relating to other financing activities	VII.53	4,000,000.00	30,850,000.00
Sub-total of cash outflows from financing activities		1,431,417,510.04	868,302,811.09
Net cash flows from financing activities		7,766,397.47	47,205,075.55
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-895,308.05	780,867.69
V. Net increase in cash and cash equivalents		-427,707,567.21	-253,539,494.26
Add: Cash and cash equivalents at the beginning of the period		1,178,636,300.52	1,432,175,794.78
VI. Cash and cash equivalents at the end of the period		750,928,733.31	1,178,636,300.52

Legal representatives

Principal in charge of
accounting work

Name of the accounting firm's
principal

(The accompanying notes form part of the financial statements.)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

79

2013

Prepared by: Livzon Pharmaceutical Group Inc.

Amounts denominated: RMB

Item	For the year										For the previous year									
	Attributable to shareholders of the Company										Attributable to shareholders of the Company									
	Share capital	Capital reserve	Treasury shares	Less:	Special reserve	Surplus reserve	General risks provision	Retained earnings	Transition differences of financial statements denominated in foreign currency	Total shareholders' equity	Share capital	Capital reserve	Treasury shares	Less:	Special reserve	Surplus reserve	General risks provision	Retained earnings	Transition differences of financial statements denominated in foreign currency	Total shareholders' equity
I. Balance at 31 December 2012	257,711,853.00	219,110,205.68				490,319,008.90		2,003,348,842.58	-20,484,128.53	172,103,440.01	257,711,853.00	348,093,166.41				479,211,417.19		1,740,645,888.60	-20,500,598.00	3,011,617,881.95
II. Balance at 1 January 2014	257,711,853.00	219,110,205.68				490,319,008.90		2,003,348,842.58	-20,484,128.53	172,103,440.01	257,711,853.00	348,093,166.41				479,211,417.19		1,740,645,888.60	-20,500,598.00	3,011,617,881.95
III. Changes in equity for the year (=I represents decrease)		-145,716.92				10,877,910.07		328,753,513.73	-2,362,881.02	87,167,467.38		-128,881,930.73				11,107,619.71		282,721,973.98	18,499.47	188,501,416.69
(I) Net profit for the year								497,502,351.80		36,494,165.83		84,882,161						441,671,519.69		33,551,579.27
(II) Other comprehensive income for the year		-483,604.92						-16,870.45	-2,362,881.02	-16,870.45		84,882,161						18,499.47	-1,429.23	10,902.85
Subtotal of (I) and (II)		-483,604.92						480,631,741.35	-2,362,881.02	36,477,295.38		84,882,161						441,671,519.69	18,499.47	33,550,150.04
(III) Shareholders' contributions and decrease of capital																				
1. Contributions by shareholders																				
2. Increase in shareholders' equity resulted from share-based payments																				
3. Others																				
(IV) Appropriation of profits																				
1. Appropriation of surplus reserve						10,877,910.07		-139,738,836.67								11,107,619.71		-138,865,457.71		-31,433,731.21
2. Appropriation of general risks provision						10,877,910.07		-10,877,910.07								11,107,619.71		-11,107,619.71		
3. Distributors to shareholders																				
4. Others																				
(V) Transfer of shareholders' equity																				
1. Capital reserve transferred to capital (or share capital)																				
2. Surplus reserve transferred to capital (or share capital)																				
3. Surplus reserves transferred to retained earnings for losses incurred																				
4. Others																				
(VI) Special reserve																				
1. Appropriation of special reserve																				
2. Utilization of special reserve																				
(VII) Others																				
IV. Balance at 31 December 2014	257,711,853.00	218,384,428.76				501,196,946.97		2,351,112,358.31	-22,740,009.55	258,970,907.39	257,711,853.00	219,110,205.68	-129,867,283.34			490,319,008.90		2,033,348,842.58	-20,484,128.53	3,180,119,248.64

Name of the accounting firm's principal

Principal in charge of accounting work

Legal representatives

(The accompanying notes form part of the financial statements.)

31 December 2013

Prepared by: Livzon Pharmaceutical Group Inc.

Amounts
denominated: RMB
At the beginning of
the year

Item	Notes	As at the year end	
Current assets:			
Cash at bank and on hand		605,185,530.12	1,140,415,395.77
Financial assets held for trading			
Bills receivables		120,567,146.16	18,838,299.32
Accounts receivables	XIV.1	539,436,165.11	356,944,182.17
Prepayments		20,854,996.19	11,947,252.36
Interest receivables			
Dividends receivables			
Other receivables	XIV.2	1,310,892,358.58	672,875,015.59
Inventories		92,506,921.96	80,003,596.83
Non-current assets due within one year			
Other current assets			
Total current assets		2,689,443,118.12	2,281,023,742.04
Non-current assets:			
Available-for-sale financial assets		10,041,559.76	10,612,859.66
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XIV.3	1,712,566,612.12	1,660,096,199.25
Investment properties			
Fixed assets		83,633,614.63	89,894,096.64
Construction in progress			
Construction supplies			
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets		29,475,846.39	33,297,100.50
Development costs			1,289,662.78
Goodwill			
Long-term deferred expenses			
Deferred tax assets		16,692,683.03	13,899,260.85
Other non-current assets			
Non-Total current assets		1,852,410,315.93	1,809,089,179.68
Total assets		4,541,853,434.05	4,090,112,921.72

31 December 2013

Prepared by: Livzon Pharmaceutical Group Inc.

Amounts
denominated: RMB
At the beginning of
the year

Item	Notes	As at the year end	
Current liabilities:			
Short-term loans		362,142,733.79	403,190,102.91
Financial liabilities held for trading			
Bills payables		643,744,938.79	565,951,118.89
Accounts payables		162,503,401.93	117,634,591.39
Receipts in advance		10,149,207.65	7,154,698.64
Employee benefits payables		16,057,652.73	24,141,017.37
Taxes payables		37,262,819.18	24,119,667.76
Interest payables		14,494,945.92	9,058,796.48
Dividends payables		20,174.46	20,174.46
Other payables		1,437,995,908.72	1,042,693,215.88
Non-current liabilities due within one year			
Other current liabilities			400,000,000.00
Total current liabilities		2,684,371,783.17	2,593,963,383.78
Non-current liabilities:			
Long-term loans			
Notes payables		400,000,000.00	
Long-term payables			
Special payables			
Accrued liabilities			
Deferred tax liabilities		1,132,729.35	1,218,424.33
Other non-current liabilities		10,297,117.74	9,311,879.60
Total non-current liabilities		411,429,847.09	10,530,303.93
Total liabilities		3,095,801,630.26	2,604,493,687.71
Shareholders' equity:			
Share capital		295,721,852.00	295,721,852.00
Capital reserve		338,633,539.58	339,119,144.50
Less: Treasury shares			
Special reserve			
Surplus reserve		296,233,893.39	285,355,983.32
General risks provision			
Retained earnings		515,462,518.82	565,422,254.19
Total shareholders' equity		1,446,051,803.79	1,485,619,234.01
Total liabilities and shareholders' equity		4,541,853,434.05	4,090,112,921.72

Legal representatives

Principal in charge of
accounting workName of the accounting firm's
principal

(The accompanying notes form part of the financial statements.)

Prepared by: Livzon Pharmaceutical Group Inc.		Amounts denominated: RMB	
Item	Notes	For the year	For the previous year
I. Operating income	XIV.4	2,189,485,421.69	1,794,286,022.12
Less: Operating costs	XIV.4	847,936,418.27	815,430,745.46
Business taxes and surcharges	XIV.5	26,332,944.59	20,545,856.28
Selling expenses		1,050,499,381.91	788,328,327.59
Administrative expenses		149,250,698.10	120,472,848.61
Financial expenses		-23,719,958.75	-10,089,297.64
Impairment loss		22,026,725.22	17,758,281.32
Add: Gains from changes in fair value ("—" represents losses)			
Investment income ("—" represents losses)	XIV.6	1,278,528.23	63,630,243.57
Including: Gains from investment in associates and jointly controlled entities		570,412.87	-304,103.24
II. Operating profit ("—" represents losses)		118,437,740.58	105,469,504.07
Add: Non-operating income		8,347,840.13	11,990,618.58
Less: Non-operating expenses		2,097,854.12	115,734.07
Including: Losses from disposal of non- current assets		179,663.39	
III. Total profit ("—" represents total losses)		124,687,726.59	117,344,388.58
Less: Income tax expenses		15,908,625.89	6,268,191.53
IV. Net profit ("—" represents net losses)		108,779,100.70	111,076,197.05
V. Other comprehensive income		-485,604.92	1,167,961.50
VI. Total comprehensive income		108,293,495.78	112,244,158.55
<i>Legal representatives</i>	<i>Principal in charge of accounting work</i>	<i>Name of the accounting firm's principal</i>	

(The accompanying notes form part of the financial statements.)

CASH FLOW STATEMENT

83

2013

Prepared by: Livzon Pharmaceutical Group Inc.

Item

Notes

For the year

Amounts
denominated: RMB
For the previous year

I. Cash flows from operating activities:

Cash received from sale of goods and rendering of services

2,193,466,591.99

1,756,700,972.20

Refund of taxes

Cash received relating to other operating activities

84,364,389.45

223,774,247.00

Sub-total of cash inflows from operating activities

2,277,830,981.44

1,980,475,219.20

Cash paid for goods and services

967,459,771.66

667,109,629.27

Cash paid to and for employees

78,808,595.73

75,035,649.34

Cash paid for all types of taxes

253,629,400.23

176,162,533.14

Cash paid relating to other operating activities

1,072,167,311.74

985,230,737.06

Sub-total of cash outflows from operating activities

2,372,065,079.36

1,903,538,548.81

Net cash flows from operating activities

-94,234,097.92

76,936,670.39

II. Cash flows from investing activities:

Cash received from disposal of investments

708,115.36

14,884,600.00

Cash received from return on investments

65,017,415.70

Net cash received from disposal of fixed assets, intangible assets and other long-term assets

73,000.00

168,000.00

Cash received relating to other investing activities

Sub-total of cash inflows from investing activities

781,115.36

80,070,015.70

Cash paid for acquisition of fixed assets, intangible assets and other long-term assets

22,742,638.91

14,286,026.11

Cash paid for acquisition of investments

51,900,000.00

154,696,596.80

Cash paid relating to other investing activities

Sub-total of cash outflows from investing activities

74,642,638.91

168,982,622.91

Net cash flows from investing activities

-73,861,523.55

-88,912,607.21

Prepared by: Livzon Pharmaceutical Group Inc.		Amounts denominated: RMB	
Item	Notes	For the year	For the previous year
III. Cash flows from financing activities:			
Cash received from investors			
Borrowings received from subsidiaries		321,813,407.55	
Cash received from borrowings		666,513,754.37	477,852,886.64
Cash received from issue of financing bills		400,000,000.00	400,000,000.00
Cash received relating to other financing activities		40,666,343.14	
Sub-total of cash inflows from financing activities		1,428,993,505.06	877,852,886.64
Cash repayments of borrowings		1,096,531,655.40	559,848,551.16
Cash paid for dividends, profit distributions or interest		176,564,191.21	200,570,037.31
Advances to subsidiaries			282,559,237.99
Cash paid relating to other financing activities		481,494,332.78	30,850,000.00
Sub-total of cash outflows from financing activities		1,754,590,179.39	1,073,827,826.46
Net cash flows from financing activities		-325,596,674.33	-195,974,939.82
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-350,219.36	291,788.29
V. Net increase in cash and cash equivalents		-494,042,515.16	-207,659,088.35
Add: Cash and cash equivalents at the beginning of the period		1,099,218,893.89	1,306,877,982.24
VI. Cash and cash equivalents at the end of the period		605,176,378.73	1,099,218,893.89

Legal representatives

Principal in charge of
accounting work

Name of the accounting firm's
principal

(The accompanying notes form part of the financial statements.)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

85

2013

Prepared by: Livzon Pharmaceutical Group Inc.

Amounts denominated: RMB

Item	For the year						For the previous year											
	Share capital	Capital reserve	Less: Treasury shares	Special reserve	Surplus reserve	General risks provision	Retained earnings	shareholders' equity	Total	Share capital	Capital reserve	Less: Treasury shares	Special reserve	Surplus reserve	General risks provision	Retained earnings	shareholders' equity	Total
Balance at 31 December 2013	295,721,852.00	339,119,144.50			285,355,983.32		566,422,254.19	1,485,619,234.01		295,721,852.00	337,951,183.00			274,248,363.61		613,314,602.85	1,521,236,001.46	
Add: Effects of changes in accounting policies																		
Effects of correction on errors in prior years																		
Others																		
Balance at 1 January 2014	295,721,852.00	339,119,144.50			285,355,983.32		566,422,254.19	1,485,619,234.01		295,721,852.00	337,951,183.00			274,248,363.61		613,314,602.85	1,521,236,001.46	
III. Changes in equity for the year (=I - II) represents decrease		-485,604.92			10,877,910.07		-49,959,735.37	-39,567,430.22			1,167,961.50			11,107,619.71		-47,882,348.66	-35,616,767.45	
(I) Net profit for the year							108,779,100.70	108,779,100.70								111,076,197.05	111,076,197.05	
(II) Other comprehensive income for the year		-485,604.92						-485,604.92			1,167,961.50					111,076,197.05	1,167,961.50	
Sub-total of (I&II)		-485,604.92					108,779,100.70	108,293,495.78			1,167,961.50					112,244,158.55	112,244,158.55	
(III) Shareholders' contributions and decrease of capital																		
1. Contributions by shareholders																		
2. Increase in shareholders' equity resulted from share-based payments																		
3. Others																		
(IV) Appropriation of profits					10,877,910.07		-158,738,836.07	-147,860,926.00						11,107,619.71		-158,968,545.71	-147,860,926.00	
1. Appropriation of surplus reserve					10,877,910.07		-10,877,910.07							11,107,619.71		-11,107,619.71		
2. Appropriation of general risks provision																		
3. Distributions to shareholders																		
4. Others																		
(V) Transfer of shareholders' equity																		
1. Capital reserve transferred to capital (or share capital)																		
2. Surplus reserve transferred to capital (or share capital)																		
3. Surplus reserves transferred to retained earnings for losses incurred																		
4. Others																		
(VI) Special reserve																		
1. Appropriation of special reserve																		
2. Utilisation of special reserve																		
(VII) Others																		
IV. Balance at 31 December 2014	295,721,852.00	338,633,539.58			296,233,893.39		515,462,518.82	1,446,051,803.79		295,721,852.00	339,119,144.50			285,355,983.32		555,422,254.19	1,485,619,234.01	

Principal in charge of accounting work

Legal representatives

Name of the accounting firm's principal

Name of the accounting firm's principal

Principal in charge of accounting work

Legal representatives

(The accompanying notes form part of the financial statements.)

I. COMPANY STATUS

1. History and development

In March 1992, Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司) was transformed into a sino-foreign fund raising company limited by shares. Funds were raised from its seven promoters namely, Macau Nam Yue (Group) Co., Ltd. (澳門南粵(集團)有限公司), Zhuhai Credit Cooperative Union (珠海市信用合作聯社), Guangdong Medicine Group Co., Ltd. (廣東省製藥工業公司), Zhuhai Medicine Corporation (珠海市醫藥總公司), Guangzhou Medicines & Health Products Imp. & Exp. Corp. (廣州醫藥保健品進出口公司), Zhuhai Trust and Consultancy of the Bank of China (中國銀行珠海信託諮詢公司) and Zhuhai Guihua Employees Mutual Aid Association (珠海桂花職工互助會), which converted their interests in the Company's net assets into shares, as well as from other domestic legal persons and internal staff pursuant to the approval documents [1992] No. 29 issued by Zhuhai Economic System Reform Commission (珠海市經濟體制改革委員會) and [1992] No. 45 jointly issued by Joint Examination Group for Pilot Joint Stock Enterprise in Guangdong Province (廣東省企業股份制試點聯審小組) and Guangdong Economic System Reform Committee (廣東省經濟體制改革委員會).

In 1993, pursuant to Yue Zheng Jian Fa Zi [1993] No. 001 document (粵證監發字[1993]001號文) issued by Guangdong Securities Regulatory Commission (廣東省證券監督管理委員會), Shen Ren Yin Fu Zi [1993] No. 239 document (深人銀復字[1993]第239號文) issued by Shenzhen Special Economic Zone branch of the People's Bank of China (中國人民銀行深圳經濟特區分行) and Zheng Jian Fa Shen Zi [1993] No. 19 document (證監發審字[1993]19號文) issued by China Securities Regulatory Commission ("CSRC"), the Company was listed on the Shenzhen Stock Exchange.

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

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

I. COMPANY STATUS *(continued)***1. History and development** *(continued)*

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

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

In the First Extraordinary Shareholders' Meeting held in 2008, the Company examined and passed the "Resolution in respect of the Repurchase of Domestically Listed Foreign Shares (B Shares) of Livzon Pharmaceutical Group Inc". As of 2 December 2009 (the expiry date of implementing the repurchase), the Company accumulatively repurchased 10,313,630 B shares. On 4 December 2009, the Company completed the cancellation procedures in respect of the repurchased shares with China Securities Depository and Clearing Corporation Limited (Shenzhen branch) (中國證券登記結算有限責任公司深圳分公司). The total share capital of the Company was reduced by 10,313,630 shares, and the registered capital of the Company was reduced from RMB306,035,482 to RMB295,721,852. The Company completed the registration procedures at the Administration of Industry and Commerce on 20 April 2010, and obtained the business licence with number of 440400400032571.

2. Industry of the Company

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

3. Scope of business

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

I. COMPANY STATUS *(continued)***4. Change of principal activities**

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

The financial statements has been approved and published by the Board meeting on 24 March 2014 (The financial statements will be submitted to the general Shareholders' meeting for deliberation in accordance with the company's articles of association).

II. BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS

The Company operates normally with sufficient working capital, and its main products are well recognised in the market, the sales of which are growing continuously. The Company has good goodwill and possesses capabilities of ongoing operation.

The financial statements have been prepared by the Company on the basis of going concern, actual transactions and events. The financial statements were prepared in accordance with the Accounting Standards for Business Enterprises – Basic Standards issued on 15 February 2006, and another 40 specific accounting standards amended and revised in 2014. The financial statements were also prepared based on the Accounting Standards for Business Enterprises – Application Guide, interpretations to the Accounting Standards for Business Enterprises and the other related provisions (together the "Accounting Standards for Business Enterprises"), and the disclosure provisions of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2010) issued by the China Securities Regulatory Commission.

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

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

The financial statements prepared by the Company comply with the Accounting Standards for Business Enterprises, which truly and completely present the information on the financial conditions of the Company as at 31 December 2013 and the results and cash flow of the Company for the year 2013. In addition, the financial statements of the Company, in all material aspects, comply with the disclosure requirements of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2010) issued by the China Securities Regulatory Commission on financial statements and notes thereof.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

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

2. Functional currency

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

3. Accounting treatments for business combinations

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

(1) Business combinations involving enterprises under common control

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***3. Accounting treatments for business combinations** *(continued)***(2) Business combinations involving enterprises not under common control**

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***3. Accounting treatments for business combinations** *(continued)***(2) Business combinations involving enterprises not under common control**
(continued)

For the business combination involving enterprises not under common control realised through several transactions, it is to determine whether such transactions are “a basket of transactions” in accordance with the standards on “a basket of transactions” specified in the Notice of the Ministry of Finance on Issuing Interpretation No. 5 of the Accounting Standards for Business Enterprises (Cai Kuai [2012] No. 19) (note IV 4(2)). In case such transactions are “a basket of transactions”, the accounting treatment will be made with reference to the above paragraphs and note IV 10 (Long-term equity investments); and in case such transactions are not “a basket of transactions”, separate finance statements and consolidated financial statements will be subject to different ways of accounting treatment.

In the separate financial statements, the initial investment cost of the investment is the sum of the carrying amount of the equity investment of the acquirees held before the acquisition date and the additional investment cost on the acquisition date; and the other comprehensive income involved in the equity of the acquirees held before the acquisition date is carried forward to the investment income for the current period at the disposal time of the investment.

In the consolidated financial statements, the equity of the acquirees held before the acquisition date is re-measured at the fair value of the equity on the acquisition date and the differences between the fair value and the carrying amount are recognised in the investment income for the current period; and the other comprehensive income involved in the equity of the acquirees held before the acquisition date is carried forward to the investment income for the current period attributable to the acquisition date.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***4. Preparation of consolidated financial statements****(1) Determination in the scope of consolidation**

The scope of consolidated financial statements is determined based on control. Control is the power to govern the financial and operating policies of the investees so as to obtain benefits from their operating activities. The scope of consolidation comprises the Company and all of its subsidiaries. Subsidiaries are the enterprises or entities controlled by the Company.

(2) Preparation of consolidated financial statements

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***4. Preparation of consolidated financial statements** *(continued)***(2) Preparation of consolidated financial statements** *(continued)*

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

Where the Company loses its control over the original subsidiary due to the disposal of some equity investment or other reasons, the remaining equity is re-measured at its fair value on the date when the Company loses its control. The different between the sum of the consideration acquired due to the disposal of the equity and the fair value of the remaining equity and the Company's share in the net assets of the original subsidiary calculated on an on-going basis from the acquisition date based on the original shareholding proportion is recognised in the investment income for the current period when the control is lost. The other comprehensive income related to the equity investment in the original subsidiary is carried forward to the investment income for the current period when the control is lost. After that, the remaining equity is subject to subsequent measurement in accordance with such rules as the "Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investment" and the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments". Please see note IV 10 (Long-term equity investment) and note IV 7 (Financial Instruments) for details.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***4. Preparation of consolidated financial statements** *(continued)***(2) Preparation of consolidated financial statements** *(continued)*

Where the Company disposes of the equity investment in the subsidiary through several transactions until the Company loses control, it shall be determined whether such transactions are a basket of transactions. Where the terms, conditions and economic impacts of various transactions involved in the disposal of the equity investment in the subsidiary satisfy one or several of the following circumstances, such several transactions shall be normally deemed as a basket of transactions in accounting treatment: 1. Such transactions are entered into simultaneously or upon the consideration of the mutual impacts; 2. No complete commercial result will be realised without such transactions as a whole; 3. The occurrence of one transaction depends on the occurrence of at least another transaction; 4. One transaction is not economical independently but economical together with other transactions. In case no basket of transactions is constituted, each transaction is subject to the accounting treatment separately based on the applicable principles stipulated in "Partial disposal of the long-term equity investment in subsidiaries without losing control" (note IV 10 (2)4) and "Lose of control over original subsidiaries due to the disposal of partial equity investment or other reasons" (above paragraph) as the case may be. Where such transactions constitute a basket of transactions, such transactions are together subject to the accounting treatment as a transaction of disposal subsidiaries and losing control; provided that the difference between the consideration of each disposal and the Company's share in the net assets of the subsidiary corresponding to the investment disposal before the loss of the control is recognised as the other comprehensive income and carried forward to the profit or loss for the current period when the control is lost.

5. Cash and Cash Equivalents

Cash and cash equivalents of the Company include cash on hand, bank deposit available for payment at any time and those investments that are short-term (to be matured within three months at the time of acquisition), highly liquid, readily convertible into known amounts of cash and subject to an insignificant risk of change in value are classified as cash and cash equivalents.

6. Foreign currency transactions and Translation of financial statements in foreign currency**(1) Translation of foreign currency transactions**

Foreign currency transactions incurred by the Company are translated to the functional currency at the spot exchange rates on the date of the transactions at the initial confirmation, which is normally the median exchange rate quoted by the People's Bank of China of that day; provided that the foreign currency exchange business or the transactions involving foreign currency exchange incurred by the Company are translated to the functional currency at the prevailing exchange rates.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***6. Foreign currency transactions and Translation of financial statements in foreign currency** *(continued)***(2) Translation of monetary items and non-monetary items denominated in foreign currency**

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

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

(3) Translation of financial statements in foreign currency

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

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

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

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

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

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

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

7. Financial Instruments

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

Fair value is the amount of the knowing and voluntary asset exchange or debt repayment by the parties in a fair transaction. For financial assets or financial liabilities where there is an active market, the fair value is determined by reference to quoted price in the active market. The quoted price in the active market is the price easily to be obtained on a regular basis from exchanges, brokers, industrial associations, pricing institutions and other similar organisations and represents the actual price of the market transaction in the fair transaction. If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Such valuation techniques include referring to the price adopted by the parties trading knowingly and voluntarily in the latest market transaction, referring to the current fair value of the other financial instruments of substantially the same type, the discounted future cash flow and the option pricing model.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***7. Financial Instruments** *(continued)***(2) Classification, recognition and measurement of financial instruments**

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

1 Financial assets at fair value through profit or loss

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***7. Financial Instruments** *(continued)***(2) Classification, recognition and measurement of financial instruments** *(continued)***2 Held-to-maturity investments**

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

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

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

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

3 Loans and receivables

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***7. Financial Instruments** *(continued)***(2) Classification, recognition and measurement of financial instruments** *(continued)***4 Available-for-sale financial assets**

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

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

Available-for-sale financial assets are subsequently measured at fair value. The gains or losses arising from the change in fair value are recognised as other comprehensive income in capital reserve and carried forward to the profit or loss for the current period upon de-recognition except for impairment loss, and exchange differences of monetary financial assets in foreign currency related to amortised cost which are recognised in the profit or loss for the current period.

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

(3) Impairment of financial assets

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

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

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

7. Financial Instruments *(continued)*

(3) Impairment of financial assets *(continued)*

1 Impairment of held-to-maturity investments, loans and receivables

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

2 Impairment of available-for-sale financial assets

If there is a significant or prolonged decline in the fair value of available-for-sale financial assets based on relevant factors, the available-for-sale equity instrument investment is impaired. "Significant decline" refers to the decline of fair value by more than 20%; "prolonged decline" refers to the decline of fair value for more than 12 months consecutively.

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***7. Financial Instruments** *(continued)***(4) Recognition basis and measurement methods of transfer of financial assets**

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***7. Financial Instruments** *(continued)***(5) Classification and measurement of financial liabilities**

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

1 Financial liabilities at fair value through profit or loss

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

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

2 Other financial liabilities

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

3 Financial guarantee contracts and loan commitments

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***7. Financial Instruments** *(continued)***(6) De-recognition of financial liabilities**

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

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

(7) Offset between financial assets and financial liabilities

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

(8) Equity instruments

Equity instruments refer to the contracts proving the ownership of the remaining equities in the assets of the Company upon the deduction of all the liabilities. The consideration received from the issue of the equity instruments increases the shareholders' equity upon the deduction of the transaction costs.

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

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

8. Receivables

Receivables include accounts receivables and other receivables.

(1) Treatment of bad debts provision

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

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

Methods of providing bad debts for single receivables with significant amount on individual provision basis

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

Amount of more than 10% of the balance of receivables

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***8. Receivables** *(continued)***(1) Treatment of bad debts provision** *(continued)*

- 2 Bad debt provision for receivables by portfolio:

**Basis for determining
the portfolio
Method for bad debt
provision by portfolio**

**Basis for determining portfolio of
credit risk by ageing
Ageing analysis method**

Method of bad debts provision of receivables based on portfolio of credit risk by ageing:

	Percentage of provision for accounts receivables	Percentage of provision for other receivables
Ageing		
within one year (inclusive)	5%	5%
1-2 years (inclusive)	6%	6%
2-3 years (inclusive)	20%	20%
3-4 years (inclusive)	70%	70%
4-5 years (inclusive)	90%	90%
over 5 years	100%	100%

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

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

**Basis for determining
the portfolio**

Method of bad debts
provision

**Amount that are not individually
significant and aged over 3 years**

For the individual impairment test, provisions for bad debts are made as the excess of the carrying amount over the estimated present value of future cash flow. If the present value of future cash flow cannot be estimated accurately, provisions for bad debts are made based on the portfolio of credit risk using ageing analysis method.

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

8. Receivables *(continued)*

(1) *Treatment of bad debts provision (continued)*

4 *(continued)*

For other receivables (including bills receivable, prepayments, interest receivable and long-term receivables), provisions for bad debts are made based on the excess of the carrying amount over the estimated present value of future cash flow.

The above amounts that are not recoverable are written off against the corresponding receivables after approval.

(2) *Reversal of bad debts provision*

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

9. Inventories

(1) *Classification of inventories*

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

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

(3) *Method of measurement*

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***9. Inventories** *(continued)***(4) The underlying factors in the determination and the basis of provision for diminution in net realisable value of inventories:** *(continued)*

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

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

10. Long-term equity investment**(1) Determination of investment cost**

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Long-term equity investment** *(continued)***(2) Subsequent measurement and recognition of profit or loss**

For a long-term equity investment in an investee over which the Company does not have common control or significant influence, or a long-term equity investment that is not quoted in an active market and its fair value cannot be reliably measured, it is accounted for using the cost method. For a long-term equity investment in an investee over which the Company has common control or significant influence, it is accounted for using the equity method. For a long-term equity investment in an investee over which the Company does not have control, common control or significant influence, and its fair value can be reliably measured, it is accounted for as available-for-sale financial assets or measured at fair value and the changes are accounted in the profit or loss for the current period as financial assets.

In addition, the Company accounts the long-term equity investments in which the Company may control the investee using the cost method.

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

When accounted for using the cost method, the long-term equity investment is measured at the initial investment cost, and cash dividend or profit distributions declared by the investee are recognised as investment income, except those that have been declared but unpaid at the time of acquisition and therefore included in the consideration.

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

When accounted for using the equity method, the initial investment cost of the long-term equity investment is not adjusted if the initial investment cost of the long-term equity investment is higher than the Company's share in the fair value of the identifiable net value of the investee at the time of investment; and the difference is recognised in the profit or loss for the current period and the cost of the long-term equity investment is adjusted if the initial investment cost of the long-term equity investment is lower than the Company's share in the fair value of the identifiable net value of the investee at the time of investment.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Long-term equity investment** *(continued)***(2) Subsequent measurement and recognition of profit or loss** *(continued)***2 Long-term equity investment accounted for using the equity method** *(continued)*

In case of equity methods, the investment profit or loss for the current period is the Company's share in the net profit or loss of the investee in the year. The Company's share in the net profit or loss of the investee is determined based on the fair value of various identifiable assets of the investee at the time of investment and upon adjustment on the net profit of the investee made in accordance with the accounting policies and accounting period of the Company. The profit or loss of the unrealised internal transactions between the Company and its associates and joint ventures is calculated in proportion to the shareholdings and the Company's share is offset, and the investment profit or loss is determined on such basis. However, if the loss of the unrealised internal transactions between the Company and the investee is the impairment loss attributable to the transferred assets in accordance with the Accounting Standards for Business Enterprises No. 8 – Assets Impairment, no offset is available. For the other comprehensive income of the investee, the carrying amount of the long-term equity investment is accordingly adjusted and recognised in the capital reserve as other comprehensive income.

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

3 Acquisition of non-controlling interests

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Long-term equity investment** *(continued)***(2) Subsequent measurement and recognition of profit or loss** *(continued)***4 Disposal of long-term equity investment**

In the consolidated financial statements, if the parent disposes part of the long-term equity investment in the subsidiary without losing its control, the difference between the disposal price and the Company's share in the net assets of the subsidiary corresponding to the disposal of the long-term equity investment is recognised in the shareholders' equity; if the parent disposes part of the long-term equity investment in the subsidiary and so loses its control over the subsidiary, the accounting treatment shall be done in accordance with note IV 4(2) (Preparation of consolidated financial statements).

In other cases, upon the disposal of a long-term equity investment, the difference between the carrying amount of the investment and the sales proceeds received is recognised in the profit or loss for the current period. For the disposal of a long-term equity investment that is accounted for using equity method, other comprehensive income originally recognised in the shareholders' equity is carried forward to the profit or loss for the current period in the corresponding proportion. The remaining equity is recognised as long-term equity investment or other relevant financial assets at its carrying amount and subsequently measured based on the above mentioned accounting policies applicable to long-term equity investment or financial assets. Where the remaining equity originally accounted for using the cost method is to be accounted by equity method, the adjustment is made retrospectively in accordance with applicable rules.

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

Control refers to the power to govern the financial and operating policies of the investees so as to obtain benefits from their operating activities. Common control refers to the common control over certain economic activities as agreed in contracts and will exist only if the investors who are required to share the control over the important financial and operational decisions related to the economic activities so unanimously agree. Significant influence refers to the power to participate in the financial and operational decisions of an enterprise without control or common control over the formulation of such policies. When determining whether it has control or significant influence over the investee, the Company shall consider the convertible corporate bonds, exercisable call options and other voting rights of the investee held by the Company in the current period.

(4) Impairment test and provision for impairment

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***11. Investment Properties**

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

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

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

Please see note IV 18 (Impairment of non-fixed non-financial assets) for the impairment test and provision for impairment on investment properties.

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***12. Fixed Assets****(1) Recognition of fixed assets**

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

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

(2) Classification of fixed assets

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

(3) Measurement of fixed assets

Fixed assets are initially measured at cost.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***12. Fixed Assets** *(continued)***(3) Measurement of fixed assets** *(continued)*

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

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

(4) Method for depreciation of fixed assets

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

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

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

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

Please see note IV 18 (Impairment of non-fixed non-financial assets) for the impairment test and provision for impairment on fixed assets.

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

13. Construction in progress

(1) *Classification of construction in progress*

Construction in progress is classified into individual projects.

(2) *Conversion of construction in progress to fixed assets*

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

(3) *Impairment of construction in progress*

Please see note IV 18 (Impairment of non-fixed non-financial assets) for the impairment test and provision for impairment on construction in progress.

14. Borrowing Costs

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***14. Borrowing Costs** *(continued)*

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***15. Biological Assets****(1) Determination and classification of biological assets**

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***16. Intangible Assets****(1) Intangible assets**

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

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

Intangible assets are measured initially at cost.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***16. Intangible Assets** *(continued)***(1) Intangible assets** *(continued)*

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

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

(2) Research and development expenditures

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***16. Intangible Assets** *(continued)***(2) Research and development expenditures** *(continued)*

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

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

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

Please see note IV 18 (Impairment of non-fixed non-financial assets) for the impairment test and provision for impairment on intangible assets.

17. Long-term deferred expenses

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

18. Impairment of Non-fixed Non-financial Assets

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***18. Impairment of Non-fixed Non-financial Assets** *(continued)*

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

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

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

19. Provisions**(1) Principles for the recognition of provisions**

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

- 1 An entity has a present obligation;
- 2 It is probable that an outflow of economic benefits will be required to settle the obligation;

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***19. Provisions** *(continued)***(1) Principles for the recognition of provisions** *(continued)*

- 3 The amount of the obligation can be estimated reliably.

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

(2) Determination for the best estimate of provisions

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

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

20 Repurchase of shares of the Company

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***21. Revenue****(1) Sale of goods**

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

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

(2) Rendering of services

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***21. Revenue** *(continued)***(3) Assignment of asset use right**

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

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

22. Government Grant

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

(1) Principles of recognition and classification standards

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

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

(2) Measurement

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***22. Government Grant** *(continued)***(3) Accounting treatment**

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

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

23. Recognitions of deferred tax assets/deferred tax liabilities

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***24. Accounting Treatment for Income tax**

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

(1) Recognition of deferred tax assets

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

(2) Recognition of deferred tax liabilities

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

- 1 Initial recognition of goodwill;
- 2 Initial recognition of assets or liabilities satisfying both the below conditions:
 - A. The transactions are not business combinations;
 - B. The transactions affect neither accounting nor taxable profit (or deductible loss).

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***24. Accounting Treatment for Income tax** *(continued)***(2) Recognition of deferred tax liabilities** *(continued)*

- 3 Taxable temporary difference related to investments in subsidiaries, associates and joint ventures if the following conditions are satisfied:
 - A. the Company controls the timing of reversal of the taxable temporary difference;
 - B. it is probable that the taxable temporary difference will not reverse in the foreseeable future.

(3) Measurement of income taxes

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

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

25. Other Comprehensive Income

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***26. Leases**

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

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

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

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

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

(3) The Company books finance leases as a lessee.

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***26. Leases** *(continued)***(4) The Company books finance leases as a lessor.** *(continued)*

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

27. Hold-for-sale Assets

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

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

28. Employee Benefits

Employee benefits are the remuneration or compensation paid by the Company in various forms for obtaining the services provided by employees or terminating employment relationship, including short-term remuneration, compensation for loss of office, severance package and other long-term employee benefits. The benefits provided by the Company to such personnel as the employees' spouses, children, dependants, departed employees' dependants and other beneficiaries.

The Company recognises the actual short-term benefits as liabilities in the profit or loss or relevant asset cost for the current period in the accounting period when employees provide services for it.

The Company recognises employee welfare in the profit or loss or relevant asset cost for the current period based on the actual amount when the same actually arises. Where employee welfare is non-monetary welfare, it shall be measured at fair value.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***28. Employee Benefits** *(continued)*

For the medical insurances, work-related injury insurances, maternity insurances and other social insurances and housing funds paid by the Company for employees and labour union fees and employee education fees provided for as stipulated, the corresponding amount of employee benefits is calculated based on the stipulated provision basis and provision percentage and corresponding liabilities are recognised in the profit or loss or relevant asset cost for the current period during the account period when employees provide services to the Company.

Where the Company provides severance package to employees, the employee benefits liabilities arising from the severance pay are recognised in the profit or loss for the current period on the date when:

- (1) the Company may not unilaterally withdraw the severance pay paid due to the plan of employment relationship rescission or layoff proposal; or
- (2) the Company recognises the cost or expenses related to the restructuring involving the payment of severance pay,

whichever is the earlier.

29. Change in accounting policies, accounting estimates and correction to previous errors

In accordance with the Notice on Issuing the Accounting Standards for Business Enterprises No. 39 – Measurement of Fair Value (Cai Kuai [2014] No. 6), the Notice on Issuing the Accounting Standards for Business Enterprises No. 30 – Presentation of Financial Statements (Cai Kuai [2014] No. 7), the Notice on Issuing the Accounting Standards for Business Enterprises No. 9 – Employee Benefits (Cai Kuai [2014] No. 8), the Notice on Issuing the Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements (Cai Kuai [2014] No. 10) and the Notice on Issuing the Accounting Standards for Business Enterprises No. 40 – Joint Venture Arrangements (Cai Kuai [2014] No. 11), the enterprises listed overseas are encouraged to implement the new or amended accounting standards stipulated in the above 5 notices issued in 2014 in advance. Accordingly, the Twenty-eighth Meeting of the Seventh Board of Directors of the Company resolved that the Company implemented the above 5 accounting standards in advance from 1 January 2013.

The changes in the accounting policies caused by the implementation of the above mentioned accounting policies by the Company have no impact on the financial statements for the year.

There is no change in accounting estimates and correction to previous errors of the Company during this accounting period.

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

V. TAXATION

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

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

Note 1: The Company and its subsidiaries that are incorporated in Zhuhai shall pay local education surcharges that is charged as 2% of the turnover tax to be paid since 1 January 2011. Other subsidiaries shall pay local education surcharges according to the tax rate as specified at its place of incorporation on the basis of turnover tax to be paid.

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

Name	Actual tax rate	Remarks
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司), Ando Development Limited (安滔發展有限公司), Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限公司)	16.5%	Policies regarding Hong Kong Profits Tax are applicable
Companhia de Macau Carason Limitada (澳門嘉安信有限公司), Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	0-12%	Progressive tax rates, with a rate of 12% where the taxable income is MOP 300,000 or more
Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司), Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司), Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	15%	Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) and Zhuhai Livzon Diagnostic Reagent Inc. (珠海麗珠試劑股份有限公司) applied for a review on the application for a high and new technology enterprise in 2013 and has obtained the approval, and obtained the certificates of high and new technology enterprises in March 2014. The other companies were recognised as high and new technology enterprises in 2011 for a valid period of three years.
Other subsidiaries	25%	

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

Preferential value added tax:

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

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

Preferential enterprise income tax:

The Company and its subsidiaries, Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司), Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司) have obtained the certificates of high and new technology enterprises. In accordance with the preferential taxation policies applicable to high and new technology enterprises, such companies were subject to an enterprise income tax rate of 15% in 2013. The subsidiaries, Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司) and Zhuhai Livzon Diagnostic Reagent Inc. (珠海麗珠試劑股份有限公司) applied for a review on the application for a high and new technology enterprise in 2013 and has obtained the approval, and obtained the certificates of high and new technology enterprises in March 2014. Such subsidiaries are entitled to the preferential taxation policies applicable to high and new technology enterprises for three years and were subject to an enterprise income tax rate of 15% in 2013.

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

In accordance with the Revenue Bill 2008 passed by the Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, the subsidiaries of the Company, Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司), Ando Development Limited (安滔發展有限公司) and Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限公司) began to pay enterprise income tax rate at 16.5% from 2008 and were subject to the rate of 16.5% in 2013.

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

I. SUBSIDIARIES STATUS

(I) *Principal subsidiaries acquired through establishment or investment*

Name of the subsidiary	Type of the subsidiary	Place of incorporation	Nature of business	Registered capital	Scope of business
Ando Development Limited (安滔發展有限公司)	Wholly-owned subsidiary	Hong Kong	Investment	HKD500,000	
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	Wholly-owned subsidiary	Hong Kong	Investment	HKD61,000,000	
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	Wholly-owned subsidiary	Zhuhai	Provision of services	RMB6,000,000	Research and development of Chinese medicine, Chinese medicine engineering technologies and equipment, technical services and consulting
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Wholly-owned subsidiary	Zhuhai	Manufacture of medicine	RMB442,109,309.13	Production and sale of Chinese and western medicine, medical equipment, sanitary materials
Livzon Group Livzon Pharmaceutical Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	Wholly-owned subsidiary	Zhuhai	Sales of goods	RMB20,000,000	Sales of pharmaceutical products produced by the company and its subordinate pharmaceutical factories
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	Wholly-owned subsidiary	Zhuhai	Sales of goods	RMB60,000,000	Import and export of Chinese and western drug preparations, raw materials and pharmaceutical intermediates. Preparations and raw materials, pharmaceutical intermediates, chemical raw materials, sanitary materials, hygiene products, health food supplements, biological products, chemical and biological agents and reagents, medical cosmetics, medical devices for Chinese and western medicines
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Non-wholly owned subsidiary	Shanghai	Manufacture of medicine	RMB87,330,000	Production and sales of water injections, capsules, powders, tablets, lyophilised, biochemical and polypeptide bulk medicines
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Wholly-owned subsidiary	Zhuhai	Manufacture of medicine	RMB128,280,000	Production and sales of proprietary chemical bulk medicines, pharmaceutical preparations, pharmaceutical intermediates, chemical products

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS*(continued)***I. SUBSIDIARIES STATUS** *(continued)***(I) Principal subsidiaries acquired through establishment or investment** *(continued)*

Name of the subsidiary	Type of the subsidiary	Place of incorporation	Nature of business	Registered capital	Scope of business
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Non-wholly owned subsidiary	Zhuhai	Manufacture of medicine	RMB46,450,000	Production and sales of proprietary biochemical, immunological and chemical agents, biological products, hygiene products and medical analysis equipment
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	A subsidiary of wholly-owned subsidiary	Hunyuan County	Crop farming	RMB4,000,000	Planting and processing of astragalus, acquisitions and operations of Chinese herbal medicines (except those restricted by China)
Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司) *1	A subsidiary of wholly-owned subsidiary	Longxi County	Crop farming	RMB4,000,000	Procurement, planting, processing and storage of Chinese medicines allowed by China
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限公司)	Wholly-owned subsidiary	Hong Kong	Provision of services	HK\$10,000	Biological technologies, trading, investment
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	Wholly-owned subsidiary	Zhuhai	Provision of services	RMB1,000,000	Design, production, agency and publication for all kinds of advertisement in China and overseas
Zhuhai Livzon Baiameng Biological Materials Co., Ltd. (珠海麗珠-拜阿蒙生物材料有限公司)	Non-wholly owned subsidiary	Zhuhai	Manufacture of medicine	RMB12,000,000	Production and sales of wet synthetic hydroxyapatite powder (濕法合成羥基磷灰石粉料), plasma spray HA-Ti dental Implants (等離子噴塗 HA-Ti 人工種植牙) and artificial hip (人工髖關節), HA porous ceramic particles (HA 多孔陶瓷顆粒), porous hydroxyapatite ceramic products (多孔羥基磷灰石陶瓷製品) produced by the company itself
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	Wholly-owned subsidiary	Zhuhai	Provision of services	RMB1,000,000	Technological research and development of medicine, healthcare products, technical consulting, technology services

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

I. SUBSIDIARIES STATUS (continued)

(I) Principal subsidiaries acquired through establishment or investment (continued)

Name of the subsidiary	Type of the subsidiary	Place of incorporation	Nature of business	Registered capital	Scope of business
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	Wholly-owned subsidiary	Zhuhai	Provision of services	RMB10,000,000	Research and development of Chinese and western medicines, pharmaceutical bulk medicines, pharmaceutical intermediates, herbal medicines, Chinese herbal medicines, health tonics, medicinal cosmetics, sanitary materials, biochemical reagents, medical devices, and the consultation and transfer of relevant technologies
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Wholly-owned subsidiary	Jiaozuo	Manufacture of medicine	RMB70,000,000	Production and sales of pharmaceutical intermediates, chemical products (above all free of dangerous chemicals and hazardous chemicals) (any project involving special licence out of the scope shall engage in production operation with a permit or approval document)
Zhuhai Livzon MAB Biological Technology Co., Ltd. (珠海市麗珠單抗生物技術有限公司)*2	Non-wholly owned subsidiary	Zhuhai	Provision of services	RMB300,000,000	Research and development of technologies for biopharmaceutical products and antibiotics
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Non-wholly owned subsidiary	Zhuhai	Provision of services	RMB65,000,000	Research and development of technologies for biopharmaceutical products and vaccines
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Non-wholly owned subsidiary	Wenshan	Crop farming	RMB9,200,000	Plantation and sales of radix notoginseng (三七), marketing and sales of agricultural by-products (excluding grain procurement)
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Non-wholly owned subsidiary	Pingluo	Manufacture of medicine	RMB100,000,000	Production and sales of pharmaceutical intermediates, chemical raw materials (any project involving a licence shall engage in production operation within the scope approved in the licence)
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Wholly-owned subsidiary	Pingluo	Manufacture of medicine	RMB100,000,000	Production and sales of pharmaceutical intermediates, chemical raw materials (any project involving a licence shall engage in production operation within the scope approved in the licence)

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS*(continued)***I. SUBSIDIARIES STATUS** *(continued)***(I) Principal subsidiaries acquired through establishment or investment** *(continued)*

Name of the subsidiary	Type of the subsidiary	Place of incorporation	Nature of business	Registered capital	Scope of business
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	A subsidiary of non-wholly owned subsidiary	Macau	Sales of goods	MOP100,000	
Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	Wholly-owned subsidiary	Macau	Provision of services	MOP100,000	
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司) *3	A subsidiary of non-wholly owned subsidiary	Shanghai	Provision of services	RMB10,000,000	Biotechnology, technical development in the field of fine chemical product technology, technology consulting, technology services, technology transfer, chemical raw materials and products (except for dangerous chemicals, controlled chemicals, fireworks, civil explosives, precursor chemicals), laboratory equipment, instrumentation equipment, sales of glass products, import and export of goods and technology, investment advisory (except brokers), investment management
Zhuhai Livzon Pharmaceutical Enterprise Management Co., Ltd. (珠海市麗珠醫藥企業管理有限公司) *4	Wholly-owned subsidiary	Zhuhai		RMB1,000,000	Enterprise management service and social economy information consultation

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

I. SUBSIDIARIES STATUS (continued)

(I) Principal subsidiaries acquired through establishment or investment (continued)

Name of the subsidiary	Actual investment amount at the end of the period	Balance of other items substantially comprising the actual net amount of investment in the subsidiary	Percentage of shareholding	Proportion of voting rights
Ando Development Limited (安滔發展有限公司)	HKD500,000	119,761,335.92	100%	100%
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	HKD61,000,000	19,639,866.43	100%	100%
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	RMB6,000,000	0.00	100%	100%
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	RMB423,250,000	0.00	100%	100%
Livzon Group Livzon Pharmaceutical Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	RMB20,000,000	0.00	100%	100%
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	RMB60,000,000	0.00	100%	100%
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	RMB67,440,000	0.00	75.99%	100%
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	RMB128,280,000	0.00	100%	100%
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	RMB23,690,000	0.00	51%	51%
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	RMB3,700,000	0.00	92.50%	92.50%
Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司)*1	RMB4,060,000	0.00	100%	100%
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限公司)	0.00	0.00	100%	100%
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	RMB1,000,000	0.00	100%	100%
Zhuhai Livzon Baiameng Biological Materials Co., Ltd. (珠海麗珠一拜阿蒙生物材料有限公司)	RMB9,840,000	0.00	82%	82%
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	RMB1,000,000	0.00	100%	100%

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS*(continued)***I. SUBSIDIARIES STATUS** *(continued)***(I) Principal subsidiaries acquired through establishment or investment** *(continued)*

Name of the subsidiary	Actual investment amount at the end of the period	Balance of other items substantially comprising the actual net amount of investment in the subsidiary	Percentage of shareholding	Proportion of voting rights
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	RMB10,000,000	0.00	100%	100%
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	RMB52,500,000 HKD19,868,500	0.00	100%	100%
Zhuhai Livzon MAB Biological Technology Co., Ltd. (珠海市麗珠單抗生物技術有限公司)* ²	RMB102,000,000	0.00	51%	51%
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	RMB54,500,000	0.00	83.85%	83.85%
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	RMB4,694,000	0.00	51%	51%
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	RMB100,000,000	0.00	99.214%	99.214%
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	RMB100,000,000	0.00	100%	100%
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	MOP100,000	0.00	51%	51%
Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	0.00	0.00	100%	100%
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司)* ³	RMB7,500,000	0.00	56.99%	75%
Zhuhai Livzon Pharmaceutical Enterprise Management Co. Ltd. (珠海市麗珠醫藥企業管理有限公司)* ⁴	RMB1,000,000	0.00	100%	100%

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

I. SUBSIDIARIES STATUS (continued)

(I) Principal subsidiaries acquired through establishment or investment (continued)

Name of the subsidiary	Included in combination	Non-controlling interests	Amount of non-controlling interests adjusted against profit or loss attributable to non-controlling shareholders	Ending balance after the equity interest attributable to the Company's shareholders adjusted against the loss of subsidiaries for the year shared by non-controlling shareholders exceeded the opening balance of non-controlling interests
Ando Development Limited (安滔發展有限公司)	Yes	0.00	0.00	0.00
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	Yes	0.00	0.00	0.00
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	Yes	0.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Yes	0.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	Yes	0.00	0.00	0.00
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	Yes	0.00	0.00	0.00
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Yes	20,967,668.89	0.00	0.00
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Yes	0.00	0.00	0.00
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Yes	117,657,199.67	0.00	0.00
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	Yes	141,163.34	0.00	0.00
Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司)* ¹	Yes	0.00	0.00	0.00
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技有限公司)	Yes	0.00	0.00	0.00
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	Yes	0.00	0.00	0.00

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

I. SUBSIDIARIES STATUS (continued)

(I) Principal subsidiaries acquired through establishment or investment (continued)

Name of the subsidiary	Included in combination	Non-controlling interests	Amount of non-controlling interests adjusted against profit or loss attributable to non-controlling shareholders	Ending balance after the equity interest attributable to the Company's shareholders adjusted against the loss of subsidiaries for the year shared by non-controlling shareholders exceeded the opening balance of non-controlling interests
Zhuhai Livzon Baiameng Biological Materials Co., Ltd. (珠海麗珠一拜阿蒙生物材料有限公司)	Yes	1,111,467.95	0.00	0.00
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	Yes	0.00	0.00	0.00
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	Yes	0.00	0.00	0.00
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Yes	0.00	0.00	0.00
Zhuhai Livzon MAB Biological Technology Co., Ltd. (珠海市麗珠單抗生物技術有限公司)* ²	Yes	81,879,578.47	0.00	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Yes	4,157,939.13	0.00	0.00
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Yes	13,194,506.05	0.00	0.00
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Yes	0.00	0.00	0.00
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Yes	0.00	0.00	0.00
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	Yes	766,214.69	0.00	0.00
Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	Yes	0.00	0.00	0.00
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司)* ³	Yes	2,357,509.63	0.00	0.00
Zhuhai Livzon Pharmaceutical Enterprise Management Co., Ltd. (珠海市麗珠醫藥企業管理有限公司)* ⁴	Yes	0.00	0.00	0.00

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

I. SUBSIDIARIES STATUS (continued)

(1) Principal subsidiaries acquired through establishment or investment (continued)

- *1. In accordance with the equity interest transfer agreement entered into by Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠) and Longxi County Tongyuan Pharmaceutical Co., Ltd. (隴西縣通源藥業有限責任公司) in November 2013, the Company accepted the transfer of 10.00% equity interest in Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司) at a consideration of RMB460,000. Upon completion of the acquisition, Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠) holds a total of 100% equity interests in Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司).
- *2. It was resolved in the First Extraordinary General Meeting of Zhuhai Livzon MAB Biological Technology Co., Ltd. (珠海市麗珠單抗生物技術有限公司) on 3 June 2013 that its registered capital would be increased to RMB300 million, which would be contributed by the shareholders of that company according to the existing proportion of shareholding. Of which, the contributions for the first phrase would be paid up by 30 June 2013, whilst the remaining contributions would be paid up within 36 months after 30 June 2013. The capital increase as aforesaid was resolved and approved in the Second Extraordinary General Meeting of the Company on 7 June 2013. The contributions for the first phrase at an amount of RMB100 million were provided by the Company and Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) on 9 June 2013. The contribution of registered capital was verified by Ruihua Certified Public Accountants (LLP), Zhuhai Branch with the issue of capital verification report Guo Hao Zhu Yan Zi [2013] No. 841C0001 (國浩珠驗字[2013]841C0001號).
- *3. Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) established Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司) with Zheng Fusang (鄭扶桑) on 27 August 2013 by way of investment in an equity joint venture. The proportion of shareholding was 75% and 25% respectively with a registered capital of RMB10 million. The contribution of registered capital was verified by Shanghai Shenyua CPA Limited (上海申亞會計師事務所有限公司) with the issue of capital verification report Shen Ya Kuai Yan Zi [2013] No. SY1321 (申亞會驗字[2013]第SY1321號).
- *4. The Company established Zhuhai Livzon Pharmaceutical Enterprise Management Co., Ltd. (珠海市麗珠醫藥企業管理有限公司) with Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) on 12 November 2013 by way of investment in an equity joint venture. The proportion of shareholding was 90% and 10% respectively with a registered capital of RMB1 million. The contribution of registered capital was verified by Ruihua Certified Public Accountants (LLP), Zhuhai Branch with the issue of capital verification report Rui Hua Zhu Yan Zi [2013] No. 845C0006 (瑞華珠驗字[2013]第845C0006號).

(2) Subsidiaries acquired from business combinations involving enterprises under common control: none

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS*(continued)***I. SUBSIDIARIES STATUS** *(continued)***(3) Subsidiaries acquired from business combinations involving enterprises not under common control**

Name of the subsidiary	Type of the subsidiary	Place of incorporation	Nature of business	Registered capital	Scope of business
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Wholly-owned subsidiary	Pengzhou	Manufacture of medicine	RMB149,000,000	Research, development, production and sales of Chinese and western medicines, Chinese and western over-the-counter medicines
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Non-wholly owned subsidiary	Qingyuan	Manufacture of medicine	RMB134,930,000	Exports and production of proprietary products and related technologies
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Wholly-owned subsidiary	Shaoguan	Manufacture of medicine	RMB61,560,000	Production of drug preparations, pharmaceutical raw materials, food additives, feed additives, nutritional healthcare products
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Wholly-owned subsidiary	Fuzhou	Manufacture of medicine	USD41,700,000	Production of bulk medicines, intermediates and drug preparations and chemical raw materials for pharmaceutical production of antibiotics (excluding inflammable and explosive and hazardous chemicals and those involving licences to operate)
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Wholly-owned subsidiary	Gutian	Manufacture of medicine	RMB26,700,000	Production and sales of bulk medicines, kanamycin monosulfate (單硫酸卡那黴素), tetracycline hydrochloride (鹽酸四環素), hydrochloric chlortetracycline (鹽酸金黴素)

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

I. SUBSIDIARIES STATUS (continued)

(3) Subsidiaries acquired from business combinations involving enterprises not under common control (continued)

Name of the subsidiary	Actual investment amount at the end of the period	Balance of other items substantially comprising the actual net amount of investment in the subsidiary	Percentage of shareholding	Proportion of voting rights
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	RM149,000,000	0.00	100%	100%
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	RMB124,320,000	0.00	92.14%	92.14%
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	RMB207,720,000	0.00	100%	100%
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	USD41,700,000	0.00	100%	100%
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	RMB26,700,000	0.00	100%	100%

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS*(continued)***I. SUBSIDIARIES STATUS** *(continued)***(3) Subsidiaries acquired from business combinations involving enterprises not under common control** *(continued)*

Name of the subsidiary	Included in combination	Non-controlling interests	Amount of non-controlling interests adjusted against profit or loss attributable to non-controlling shareholders	Ending balance after the equity interest attributable to the Company's shareholders adjusted against the loss of subsidiaries for the year shared by non-controlling shareholders exceeded the opening balance of non-controlling interests
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Yes	0.00	0.00	0.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Yes	17,637,659.57	0.00	0.00
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Yes	0.00	0.00	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Yes	0.00	0.00	0.00
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Yes	0.00	0.00	0.00

2. Special purpose entities and operating entities the control over which arises by such ways as entrusted operation or lease

During this year, the Company had no special purpose entities and operating entities the control over which arises by such ways as entrusted operation or lease.

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

3. Changes in combination scope

As mentioned in note VI. 1(1) on the subsidiaries acquired by such ways as establishment or investment, during the year, the changes in the combination scope included the addition of Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司) and Zhuhai Livzon Pharmaceutical Enterprise Management Co., Ltd. (珠海市麗珠醫藥企業管理有限公司.)

4. Entities newly included and entities not included in the combination scope during the year

(1) Entities newly included and entities not included in the combination scope in the year

- 1 Subsidiaries, special purpose entities and operating entities the control over which arises by such ways as entrusted operation or lease, which were included in the combination scope in the year

Name	Net asset as at the end of the year	Net profit for the year
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司)	9,430,038.54	-569,961.46
Zhuhai Livzon Pharmaceutical Enterprise Consultancy Co., Ltd. (珠海市麗珠醫藥企業管理有限公司)	998,635.00	-1,365.00

- 2 Subsidiaries, special purpose entities and operating entities the control over which arises by such ways as entrusted operation or lease, which were not included in the combination scope in this year

None

5. Exchange rate for translation of main accounts of overseas operating entities

Item	Assets and liabilities	
	31 December 2013	1 January 2013
Lizhu (Hong Kong) Co., Limited (麗珠 (香港)有限公司), Ando Development Limited (安滔發展有限公司)	HK\$1= RMB0.78623	HK\$1= RMB0.81085
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	MOP1= RMB0.7588	MOP1= RMB0.7804

Item	Income, expenses and cash flows items	
	2013	2012
Lizhu (Hong Kong) Co., Limited (麗珠 (香港)有限公司), Ando Development Limited (安滔發展有限公司)	HK\$1= RMB0.79854	HK\$1= RMB0.81078
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	MOP1 = RMB0.7696	MOP1 = RMB0.7845

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

Item	As at the year end			At the beginning of the year		
	Foreign amounts	Exchange Rate	RMB amounts	Foreign amounts	Exchange Rate	RMB amounts
Cash on hand :						
– RMB	–	–	176,402.83	–	–	134,187.07
Bank deposits :			747,677,597.88			1,204,722,004.87
– Renminbi	–	–	694,716,070.22	–	–	1,184,329,952.82
– HK dollar	39,298,550.07	0.78623	30,897,699.02	16,507,820.51	0.81085	13,385,366.26
– U.S. dollar	2,969,157.58	6.0969	18,102,656.85	1,033,704.57	6.2855	6,497,350.07
– Japanese Yen	47,462,411.00	0.057771	2,741,950.95	2,541,145.00	0.073049	185,628.10
– Euro	24,046.87	8.4189	202,448.19	29,435.13	8.3176	244,829.64
– MOP	1,339,974.50	0.7588	1,016,772.65	101,073.78	0.7804	78,877.98
Other cash at bank and on hand :			13,190,134.83			16,476,610.46
– Renminbi	–	–	10,866,986.95	–	–	14,081,836.93
– HK dollar	2,954,794.24	0.78623	2,323,147.88	2,953,411.27	0.81085	2,394,773.53
Total			<u>761,044,135.54</u>			<u>1,221,332,802.40</u>

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

	As at the year end	At the beginning of the year
Deposits under guarantees for letter of credit	1,019,151.39	2,020,501.88
Deposits under bank acceptance bills	9,096,250.84	11,676,000.00
Bank deposits pledged	0.00	29,000,000.00
Total	<u>10,115,402.23</u>	<u>42,696,501.88</u>

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

2. Financial assets held for trading

(1) Classification of financial assets held for trading

Item	Fair value at the year end	Fair value at the beginning of the year
Financial assets at fair value through profit and loss	11,335,125.54	59,319,616.94
Of which: Shares	10,739,901.80	58,780,092.81
Funds	595,223.74	539,524.13

The shares held by the Company were listed and trading on The Stock Exchange of Hong Kong Limited. The funds held by the Company were listed and trading on Shenzhen Stock Exchange. The fair value was determined based on the closing price on the last trading date in the year.

(2) No restrictive financial assets held for trading was realised in the ending balance.

(3) No hedges instruments in the ending balance and no hedges transactions during the year.

3. Bills receivables

(1) Classification of bills receivables

Type	As at the year end	At the beginning of the year
Bank acceptance bills	271,242,129.11	112,482,782.18
Short-term commercial papers	189,620.00	0.00
Total	<u>271,431,749.11</u>	<u>112,482,782.18</u>

(2) At the end of this year, no bills receivables of the Group was pledged.

(3) Amount transferred to accounts receivables from acceptance bills upon the non-performance of the bills issuers and bills not yet mature but already endorsed to other parties

1 Amount transferred to accounts receivables from acceptance bills upon the non-performance of the bills issuers

Nil

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

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

3. Bills receivables (continued)

(3) Amount transferred to accounts receivables from acceptance bills upon the non-performance of the bills issuers and bills not yet mature but already endorsed to other parties (continued)

2 Bills not yet mature but already endorsed to other parties at the end of the year:

Type of bill	Period of maturity	Amount
Bank acceptance bills	1 January 2014 to 30 June 2014	99,870,285.89

Of which, details for the top 5 bills not yet mature but already endorsed to other parties were as follows:

Issuing unit	Date of issue	Maturity days	Amount	Remarks
Harbin Pharmaceutical Group Co., Ltd. General Pharm. (哈藥集團製藥總廠)	30 July 2013	30 January 2014	3,512,066.10	De-recognised
Yuekang Pharmaceutical Group Co., Ltd. (悅康藥業集團有限公司)	18 October 2013	18 April 2014	3,000,000.00	De-recognised
Jiangsu Tiancheng Health Product Co., Ltd. (江蘇天成保健品有限公司)	9 August 2013	9 February 2014	1,500,000.00	De-recognised
Shaoxing Mailaina Biotechnology Co., Ltd. (紹興麥來那生物科技有限公司)	4 December 2013	4 June 2014	1,200,000.00	De-recognised
Nantong Changhai Food Additive Co., Ltd. (南通市常海食品添加劑有限公司)	26 November 2013	21 May 2014	1,140,000.00	De-recognised
Total			<u>10,352,066.10</u>	

3 Note for discounted or pledged short-term commercial acceptance bills

Nil

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

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

4. Accounts receivables

(1) Accounts receivables presented by types

Type	As at the year end			
	Gross amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	1,114,248,231.30	99.95	60,897,804.71	5.47
Accounts receivables that are individually insignificant but impairment provided on an individual basis	566,871.41	0.05	566,871.41	100.00
Total	1,114,815,102.71	100.00	61,464,676.12	5.51
Type	At the beginning of the year			
	Gross amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	819,352,306.31	99.93	45,330,835.43	5.53
Accounts receivables that are individually insignificant but impairment provided on an individual basis	566,871.41	0.07	566,871.41	100.00
Total	819,919,177.72	100.00	45,897,706.84	5.60

According to the credit policies of the Company, the Company usually grants a credit period ranging from 30 to 90 days to its customers.

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

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

4. Accounts receivables *(continued)*

(2) The ageing analysis of accounts receivables (based on dates of recognition of accounts receivables)

Item	As at the year end		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
1 to 90 days	915,319,753.14	82.11	669,279,711.25	81.63
91 to 180 days	118,197,408.04	10.60	94,857,408.76	11.57
181 days to 1 year	42,671,189.41	3.83	32,912,686.71	4.01
1 to 2 years	28,363,181.65	2.54	14,779,414.89	1.80
2 to 3 years	4,774,679.92	0.43	3,023,759.20	0.37
3 to 4 years	1,419,854.38	0.13	1,470,302.24	0.18
4 to 5 years	988,105.44	0.09	1,123,360.26	0.14
Over 5 years	3,080,930.73	0.27	2,472,534.41	0.30
Total	<u>1,114,815,102.71</u>	<u>100.00</u>	<u>819,919,177.72</u>	<u>100.00</u>

(3) Provision for bad debts

1 Accounts receivables for which provision for bad debts has been made using the ageing analysis method in the portfolio

Ageing	As at the year end			At the beginning of the year		
	Gross amount		Provision for bad debts	Gross amount		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	1,076,188,350.59	96.58	53,809,417.54	797,049,806.72	97.28	39,852,490.35
1 to 2 years	28,363,181.65	2.55	1,701,790.90	14,736,404.89	1.80	884,184.30
2 to 3 years	4,731,669.92	0.42	946,333.98	3,023,759.20	0.37	604,751.84
3 to 4 years	1,419,854.38	0.13	993,898.07	1,470,302.24	0.18	1,029,211.71
4 to 5 years	988,105.44	0.09	889,294.90	1,118,360.26	0.13	1,006,524.23
Over 5 years	2,557,069.32	0.23	2,557,069.32	1,953,673.00	0.24	1,953,673.00
Total	<u>1,114,248,231.30</u>	<u>100.00</u>	<u>60,897,804.71</u>	<u>819,352,306.31</u>	<u>100.00</u>	<u>45,330,835.43</u>

2 As at the year end, ageing analysis of accounts receivables that are individually insignificant but impairment provided on an individual basis

Accounts receivables description	Gross amount	Provision for bad debts	Percentage of provision (%)	Reason for provision made
Sales of goods	566,871.41	566,871.41	100.00	Mainly due to the sales of goods over 5 year, which not expected to be recoverable

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

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

4. Accounts receivables *(continued)*

(4) Accounts receivables reversed or recoverable for the year

Nil

(5) In the year, the Company had written off accounts receivables due from non-related parties of RMB808,335.82, an analysis of the major accounts receivables written off is set out as follows

Name of unit	Nature of accounts receivables	Amount written off	Reason for written off	Related party transactions
Nanyang Topcon Group Heng U QUEEN Ltd. (南陽普康集團衡濟有限公司)	Sales of goods	714,000.00	Not recoverable	No

(6) For balances as at the year end, there was no amount due from a shareholder holding 5% (inclusive) or more of voting rights in the Company.

(7) Accounts receivables due from top five customers as at the year end

Name of unit	Relationship with the Company	Amount	Nature or description	Terms	Proportion to total accounts receivables (%)
Harbin Pharm. Group Sanjing Pharmaceutical Co., Ltd. (哈藥集團三精新藥有限責任公司)	Non-related party	31,964,916.00	Sales of goods	Within 1 year	2.87
Biocon Limited	Non-related party	26,333,404.30	Sales of goods	Within 1 year	2.36
Nectar Lifesciences Ltd.	Non-related party	21,113,786.91	Sales of goods	Within 1 year	1.89
Liaoning Hengsong Pharmaceutical Co. Ltd. (遼寧恆松醫藥有限公司)	Non-related party	20,744,232.80	Sales of goods	Within 1 year	1.86
Sinopharm Group Xinjiang Special Drugs Co., Ltd. (國藥集團新疆新特藥業有限公司)	Non-related party	16,120,854.18	Sales of goods	Within 1 year: RMB16,096,100.18, 1 to 2 years: RMB14,210.00, 2 to 3 years: RMB10,544.00	1.45
Total		<u>116,277,194.19</u>			<u>10.43</u>

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

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

4. Accounts receivables *(continued)*

(8) Accounts receivables due from related parties as at the year end

Name of unit	Relationship with the Company	Amount	Proportion to total accounts receivables (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	4,399,251.20	0.39
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the holding company of the Company	39,288.71	0.00
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	A company controlled by the holding company of the Company	508,604.00	0.05
Total		<u>4,947,143.91</u>	<u>0.44</u>

(9) Accounts receivables de-recognised

Nil

(10) For those securitised assets of the underlying accounts receivables, the amount of assets and liabilities were formed by its continuous involvement

Nil

(11) Amount of original currency for foreign accounts receivables and exchange rate was as follows

Item	As at the year end			At the beginning of the year		
	Foreign amount	Exchange rate	Translated to Renminbi	Foreign amount	Exchange rate	Translated to Renminbi
U.S. dollar	16,965,767.38	6.0969	103,438,587.16	10,034,881.17	6.2855	63,074,245.61
Japanese Yen	19,581,836.89	0.057771	1,131,262.30	5,751,057.00	0.073049	420,108.96
MOP	1,005,868.30	0.7588	763,252.87	0.00	0.7804	0.00
Total			<u>105,333,102.33</u>			<u>63,494,354.57</u>

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

5. Prepayments

(1) Ageing analysis of prepayments was as follows

Ageing	As at the year end		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	160,527,663.83	79.30	170,504,919.52	82.30
1 to 2 years	13,588,338.87	6.71	19,092,658.75	9.21
2 to 3 years	11,006,493.60	5.44	16,822,905.65	8.12
Over 3 years	17,315,369.54	8.55	760,305.76	0.37
Total	<u>202,437,865.84</u>	<u>100.00</u>	<u>207,180,789.68</u>	<u>100.00</u>

Prepayments over one year mainly represented prepaid land costs.

(2) Top five prepayment amounts as at the year end

Name of unit	Relationship with the Company	Amount	Terms	Reason
Sichuan Pengzhou Industrial Development Zone Management Committee (四川省彭州市工業開發區管理委員會)	Non-related party	20,425,185.00	2 to 3 years: RMB6,732,904.09, Over 3 years: RMB13,692,280.91	Based on land costs in advance agreed in the contracts
Shanghai Macroprocess Clean Technology Co., Ltd. (上海朗脈潔淨技術股份有限公司)	Non-related party	18,099,937.13	Within 1 year	Based on equipment costs in advance agreed in the contracts
Inner Mongolia Fufeng Biotechnologies Co., Ltd. (內蒙古阜豐生物科技股份有限公司)	Non-related party	10,030,000.00	Within 1 year	Based on cost of raw materials in advance agreed in the contracts
Siemens Medical Diagnostic Products (Shanghai) Co., Ltd. (西門子醫學診斷產品(上海)有限公司)	Non-related party	7,389,864.88	Within 1 year	Based on cost of raw materials in advance agreed in the contracts
Xiamen Ouruijie Biotechnology Co., Ltd. (廈門歐瑞捷生物科技有限公司)	Non-related party	7,000,000.00	Within 1 year	Based on cost of raw materials in advance agreed in the contracts
Total		<u>62,944,987.01</u>		

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***5. Prepayments** *(continued)*

- (3) *For balances as at the year end, there was no amount due from a shareholder holding 5% (inclusive) or more of voting rights in the Company.*
- (4) *Amount of original currency for foreign accounts receivables and exchange rate was as follows*

Item	As at the year end			At the beginning of the year		
	Foreign amount	Exchange rate	Translated to Renminbi	Foreign amount	Exchange rate	Translated to Renminbi
HK dollar	0.00	0.78623	0.00	4,700,000.00	0.81085	3,810,995.00

6. Other receivables

- (1) *Other receivables presented by types*

Type	As at the year end			
	Gross amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	46,494,259.10	97.80	7,016,963.15	15.09
Other receivables that are individually insignificant but impairment provided on an individual basis	1,044,098.56	2.20	1,044,098.56	100.00
Total	47,538,357.66	100.00	8,061,061.71	16.96

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*6. Other receivables *(continued)*(1) Other receivables presented by types *(continued)*

Type	At the beginning of the year			
	Gross amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	58,140,626.54	98.26	5,100,369.41	8.77
Other receivables that are individually insignificant but impairment provided on an individual basis	1,026,860.56	1.74	1,026,860.56	100.00
Total	59,167,487.10	100.00	6,127,229.97	10.36

(2) Ageing analysis of other receivables was as follows

Item	As at the year end		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	33,576,154.11	70.63	46,904,509.66	79.28
1 to 2 years	5,462,586.83	11.49	2,641,311.23	4.46
2 to 3 years	931,677.03	1.96	7,602,432.93	12.85
3 to 4 years	5,862,021.12	12.33	335,086.87	0.57
4 to 5 years	161,699.77	0.34	156,679.84	0.26
Over 5 years	1,544,218.80	3.25	1,527,466.57	2.58
Total	47,538,357.66	100.00	59,167,487.10	100.00

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

6. Other receivables *(continued)*

(3) Provision for bad debts

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

Ageing	As at the year end			At the beginning of the year		
	Gross amount		Provision for bad debts	Gross amount		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	33,576,154.11	72.22	1,678,807.70	46,904,509.66	80.67	2,345,225.48
1 to 2 years	5,462,586.83	11.75	327,755.22	2,641,311.23	4.54	158,478.67
2 to 3 years	931,677.03	2.00	186,335.41	7,352,432.93	12.65	1,470,486.59
3 to 4 years	5,612,021.12	12.07	3,928,414.79	335,086.87	0.58	234,560.81
4 to 5 years	161,699.77	0.35	145,529.79	156,679.84	0.27	141,011.85
Over 5 years	750,120.24	1.61	750,120.24	750,606.01	1.29	750,606.01
Total	46,494,259.10	100.00	7,016,963.15	58,140,626.54	100.00	5,100,369.41

- 2 As at the year end, ageing analysis of other receivables that are individually insignificant but impairment provided on an individual basis

Other receivables description	Gross amount	Provision for bad debts	Percentage of provision (%)	Reason for provision made
Current account	1,044,098.56	1,044,098.56	100.00	Mainly due to current account over 5 year, which not expected to be recoverable

(4) Other receivables reversed or recoverable for the year

Nil

(5) Large sum of other receivables actually written off for the year

Nil

(6) For balances as at the year end, there was no amount due from a shareholder holding 5% (inclusive) or more of voting rights in the Company.

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

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

6. Other receivables (continued)

(7) Other receivables due from top five customers as at the year end

Name of unit	Relationship with the Company	Amount	Nature or description	Terms	Proportion to total other receivables (%)
Tax refunds on exports	Non-related party	6,439,109.12	Tax refunds on exports	Within 1 year	13.55
Guangzhou Galaxy Sunshine Biological Products Co., Ltd. (廣州銀河陽光生物製品有限公司)	Non-related party	5,000,000.00	Borrowings	3 to 4 years	10.52
Guangdong Zhengpeng Biomass Energy Technology Co., Ltd. (廣東正鵬生物質能源科技有限公司)	Non-related party	998,100.00	Current account	1 to 2 years	2.10
Henan Taitong Corporate Development Co., Ltd. – Jiaozuo Branch (河南泰通企業發展有限公司焦作分公司)	Non-related party	898,396.00	Current account	Within 1 year: RMB168,301.00, 1 to 2 years: RMB730,095.00	1.89
Family Planning Service Center of Shenzhen (深圳計劃生育服務中心)	Non-related party	715,500.00	Security deposits	Within 1 year	1.50
Total		<u>14,051,105.12</u>			<u>29.56</u>

(8) Accounts receivables due from related parties as at the year end

Name of unit	Relationship with the Company	Amount	Proportion to total other receivables (%)
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the holding company of the Company	12,994.47	0.03
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the holding company of the Company	16,658.00	0.03
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	A company controlled by the holding company of the Company	210,401.51	0.44
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associates	545,153.86	1.15
Total		<u>785,207.84</u>	<u>1.65</u>

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***6. Other receivables** *(continued)***(9) Other receivables de-recognised**

Nil

(10) For those securitised assets of the underlying other receivables, the amount of assets and liabilities were formed by its continuous involvement

Nil

7. Inventories**(1) Classification of inventories**

Item	As at the year end		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	196,559,681.32	1,470,027.40	195,089,653.92
Packaging materials	31,299,302.52	117,183.54	31,182,118.98
Goods in process	124,153,284.92	1,346,871.96	122,806,412.96
Finished goods	248,509,573.35	12,995,536.35	235,514,037.00
Sub-contracting materials	1,216,056.94	0.00	1,216,056.94
Low-valued consumables	691,757.78	0.00	691,757.78
Goods in transit	0.00	0.00	0.00
Consumable biological assets	30,339,773.90	0.00	30,339,773.90
Proprietary semi-finished goods	25,313,112.93	502,958.56	24,810,154.37
Total	<u>658,082,543.66</u>	<u>16,432,577.81</u>	<u>641,649,965.85</u>
Item	At the beginning of the year		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	208,936,291.88	1,296,162.85	207,640,129.03
Packaging materials	14,252,721.41	78,275.32	14,174,446.09
Goods in process	106,904,120.64	391,869.11	106,512,251.53
Finished goods	172,366,395.81	8,684,390.52	163,682,005.29
Sub-contracting materials	0.00	0.00	0.00
Low-valued consumables	562,067.18	0.00	562,067.18
Goods in transit	0.00	0.00	0.00
Consumable biological assets	29,144,084.11	0.00	29,144,084.11
Proprietary semi-finished goods	27,855,418.10	3,072,401.80	24,783,016.30
Total	<u>560,021,099.13</u>	<u>13,523,099.60</u>	<u>546,497,999.53</u>

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

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*7. Inventories *(continued)*

(2) Movement in provision for diminution in value of inventories

Item	At the beginning of the year	Provision made for the year	Decrease for the year		As at the year end
			Written back	Write-off	
Raw materials	1,296,162.85	4,795,929.42	249,413.18	4,372,651.69	1,470,027.40
Packaging materials	78,275.32	296,302.98	0.00	257,394.76	117,183.54
Finished goods	391,869.11	2,056,601.02	0.00	1,101,598.17	1,346,871.96
Processing materials	8,684,390.52	21,057,686.84	3,421,008.93	13,325,532.08	12,995,536.35
Proprietary semi-finished goods	3,072,401.80	1,899,235.99	0.00	4,468,679.23	502,958.56
Total	<u>13,523,099.60</u>	<u>30,105,756.25</u>	<u>3,670,422.11</u>	<u>23,525,855.93</u>	<u>16,432,577.81</u>

(3) Reason for provision and write-off for diminution in value of inventories

Item	Basis for provision for diminution in value of inventories	Reason for reversal provision for diminution in value of inventories during the year	The amount of the written back percentage of balances of inventories as at the year end (%)
Raw materials	Net realisable value is less than carrying amount	Prices of some products rose, net realisable value of raw materials is higher than carrying amount	0.13
Processing materials	Net realisable value is less than carrying amount	Prices of some products rose	1.38
Other inventories	Net realisable value is less than carrying amount	—	—

8. Available-for-sale financial assets

(1) Status of available-for-sale financial assets

Item	Fair value at the year end	Fair value at the beginning of the year
Available-for-sale equity instruments	10,041,559.76	10,612,859.66
Of which: Shares	10,041,559.76	10,612,859.66

Available-for-sale equity instruments held by the Group were listed and trading on Shanghai Stock Exchange and Shenzhen Stock Exchange, its fair value was determined by the closing price for the last day of dealings in the year.

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***8. Available-for-sale financial assets** *(continued)***(2) Status of long-term debt investments in available-for-sale financial assets**

Nil

9. Long-term equity investments**(1) Classification of long-term equity investments**

Item	At the beginning of the year	Additions for the year	Disposal for the year	As at the year end
Investments in associates	39,908,094.54	2,803,662.91	0.00	42,711,757.45
Other equity investments	102,853,108.84	0.00	0.00	102,853,108.84
Less: Long-term equity investments provision for impairment	21,800,000.00	0.00	0.00	21,800,000.00
Total	<u>120,961,203.38</u>	<u>2,803,662.91</u>	<u>0.00</u>	<u>123,764,866.29</u>

(2) Breakdown of long-term equity investments

Name of investee	Accounting method	Investment cost	At the beginning of the year	Changes	As at the year end
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	Cost method	177,348.84	177,348.84	0.00	177,348.84
Beijing Medical Supplies Joint Operating Corporation (北京醫藥物資聯合經營公司)	Cost method	100,000.00	100,000.00	0.00	100,000.00
Doumen Sanzhou Industrial City Co., Ltd. (斗門三洲工業城股份有限公司)	Cost method	500,000.00	500,000.00	0.00	500,000.00
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	Cost method	95,325,760.00	95,325,760.00	0.00	95,325,760.00
Ruiheng Medical Technology Investment Co., Ltd. (瑞恒醫藥科技投資有限責任公司)	Cost method	6,250,000.00	6,250,000.00	0.00	6,250,000.00
Shanghai Haixin Pharmaceutical Co., Ltd. (上海海欣醫藥有限公司)	Cost method	500,000.00	500,000.00	0.00	500,000.00
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	Equity method	1,200,000.00	1,200,000.00	0.00	1,200,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Equity method	11,227,540.45	33,964,795.70	2,871,321.48	36,836,117.18
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	Equity method	35,000,000.00	4,743,298.84	-67,658.57	4,675,640.27
Total		<u>150,280,649.29</u>	<u>142,761,203.38</u>	<u>2,803,662.91</u>	<u>145,564,866.29</u>

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

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

9. Long-term equity investments *(continued)*

(2) Breakdown of long-term equity investments *(continued)*

Name of investee	Investee percentage of shareholding (%)	Proportion of voting right in the investee (%)	Different description between investee percentage of shareholding and proportion of voting rights	Provision for impairment	Provision for impairment for the year	Cash dividend for the year
Guangdong Development Bank Co., Ltd. (廣發銀行 股份有限公司)	0.0004	0.0004		0.00	0.00	0.00
Beijing Medical Supplies Joint Operating Corporation (北京醫藥物資聯合經營 公司)	0.821	0.821		100,000.00	0.00	0.00
Doumen Sanzhou Industrial City Co., Ltd. (斗門三洲 工業城股份有限公司)	1.60	1.60		500,000.00	0.00	0.00
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行 股份有限公司)	1.5065	1.5065		20,000,000.00	0.00	0.00
Ruiheng Medical Technology Investment Co., Ltd. (瑞恒 醫藥科技投資有限責任 公司)	5.681	5.681		0.00	0.00	343,750.00
Shanghai Haixin Pharmaceutical Co., Ltd. (上海海欣醫藥有限公司)	4.55	4.55		0.00	0.00	0.00
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠) 有限公司)	28.00	28.00		1,200,000.00	0.00	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	35.91	35.91		0.00	0.00	0.00
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一 康是美商業連鎖(深圳) 有限公司)	35.00	35.00		0.00	0.00	0.00
Total				21,800,000.00	0.00	343,750.00

(3) Status of restricted ability for transferring funds to investee

Nil

(4) Details of investment loss not recognised

Nil

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

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

9. Long-term equity investments (continued)

(5) Investments in joint ventures and investments in associates

Name of investee	Type of entity	Place of incorporation	Legal representative	Nature of business	Registered capital	Shareholding Percentage (%)	Proportion of voting right in the investee (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Limited liability (Sino-foreign joint venture)	Qingyuan	An Ning (安寧)	Production and sales of bulk medicines	USD7,530,000	35.91	35.91
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	Limited liability	Zhuhai	Xu Xiaoxian (徐孝先)	Cease of business	RMB3,620,000	28.00	28.00
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	Limited liability	Shenzhen	Huang Qianli (黃千里)	Sales of goods	RMB100,000,000	35.00	35.00

continued:

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	Net assets at the end of the year	Total revenue for the year	Net profit for the year
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	100,424,752.72	4,121,178.41	96,303,574.31	66,227,618.35	9,510,506.34
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	—	—	—	—	—
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	15,026,963.05	1,667,990.84	13,358,972.21	16,785,821.59	-193,310.20
Total	115,451,715.77	5,789,169.25	109,662,546.52	83,013,439.94	9,317,196.14

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*9. Long-term equity investments *(continued)*

(6) Breakdown of long-term equity investments provision for impairment

Item	At the beginning of the year	Additions for the year	Disposal for the year	As at the year end	Reason of provision made
Doumen Sanzhou Industrial City Co., Ltd. (斗門三洲工業城股份有限公司)	500,000.00	0.00	0.00	500,000.00	Net asset less than zero
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	20,000,000.00	0.00	0.00	20,000,000.00	Loss-making
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	1,200,000.00	0.00	0.00	1,200,000.00	Net asset less than zero
Beijing Medical Supplies Joint Operating Corporation (北京醫藥物資聯合經營公司)	100,000.00	0.00	0.00	100,000.00	Business registration revoked
Total	<u>21,800,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>21,800,000.00</u>	

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***10. Fixed assets****(1) Status of fixed assets**

Item	At the beginning of the year	Additions for the year	Disposal for the year	As at the year end
I.Total cost at book:	2,445,480,605.42	1,003,085,399.57	41,093,858.44	3,407,472,146.55
Including:Plant & buildings	1,104,342,763.27	529,772,540.14	164,370.11	1,633,950,933.30
Machinery & equipment	1,095,706,779.30	431,913,523.68	30,319,650.31	1,497,300,652.67
Motor vehicles	41,495,690.07	9,966,282.08	1,246,860.72	50,215,111.43
Electronic devices and others	203,935,372.78	31,433,053.67	9,362,977.30	226,005,449.15
II.Accumulated depreciation:	1,228,112,140.52	149,847,425.36	36,487,508.48	1,341,472,057.40
Including:Plant & buildings	446,752,891.97	49,765,838.63	104,871.34	496,413,859.26
Machinery & equipment	613,968,583.28	80,823,123.93	26,873,770.68	667,917,936.53
Motor vehicles	18,932,318.66	6,130,842.98	1,074,876.60	23,988,285.04
Electronic devices and others	148,458,346.61	13,127,619.82	8,433,989.86	153,151,976.57
III.Total fixed assets net carrying amount:	1,217,368,464.90			2,066,000,089.15
Including:Plant & buildings	657,589,871.30			1,137,537,074.04
Machinery & equipment	487,434,595.34			829,382,716.14
Motor vehicles	22,563,371.41			26,226,826.39
Electronic devices and others	49,780,626.85			72,853,472.58
IV.Total provision for impairment:	90,082,979.53	570,726.35	1,564,390.69	89,089,315.19
Including:Plant & buildings	47,154,210.14	0.00	0.00	47,154,210.14
Machinery & equipment	41,828,416.48	566,383.03	1,500,557.38	40,894,242.13
Motor vehicles	95,560.44	0.00	108.30	95,452.14
Electronic devices and others	1,004,792.47	4,343.32	63,725.01	945,410.78
V. Total fixed assets carrying amount:	1,127,285,485.37			1,976,910,773.96
Including:Plant & buildings	610,435,661.16			1,090,382,863.90
Machinery & equipment	445,606,178.86			788,488,474.01
Motor vehicles	22,467,810.97			26,131,374.25
Electronic devices and others	48,775,834.38			71,908,061.80

During the year, the amount of depreciation was RMB149,847,425.36 (its amount was RMB131,640,099.15 in 2012). During the year, construction in progress was transferred to cost of fixed assets of RMB951,613,337.93 (its cost of RMB129,798,453.94 in 2012).

(2) Status of restricted fixed assets

Nil

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

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

10. Fixed assets *(continued)*

(3) As at the year end, temporarily idled fixed assets

Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amount	Remarks
Plant & buildings	24,115,962.48	9,317,474.56	0.00	14,798,487.92	
Machinery & equipment	51,917,458.69	37,225,577.18	1,320,900.00	13,370,981.51	
Electronic devices and others	7,479,334.69	6,499,713.42	0.00	979,621.27	
Total	<u>83,512,755.86</u>	<u>53,042,765.16</u>	<u>1,320,900.00</u>	<u>29,149,090.70</u>	

(4) Status of fixed assets leased in under finance leases

Nil

(5) Fixed assets leased out under operating leases

Class of assets leased out under operating leases	Carrying amount at the year end	Carrying amount at the beginning of the year
Plant and building	1,708,598.28	1,807,134.80

(6) As at the year end, status of fixed assets held for sale

Nil

(7) As at the year end, fixed assets with pending certificates for ownership were as follows

Item	Reason for pending certificates for ownership	Estimated time for obtaining certificates for ownership	Carrying amount
Plant & buildings	Being in progress	Undetermined	363,965,781.82

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

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

11. Construction in progress

(1) Construction in progress status

Item	As at the year end			At the beginning of the year		
	Gross amount	Provision for impairment	Carrying amount	Gross amount	Provision for impairment	Carrying amount
Construction of new production plants	651,157,334.91	0.00	651,157,334.91	563,825,749.23	0.00	563,825,749.23
Installation of equipment	375,866,583.79	0.00	375,866,583.79	377,069,920.09	0.00	377,069,920.09
Technology upgrade	904,393.80	0.00	904,393.80	1,181,953.85	0.00	1,181,953.85
Workshop modification	54,490,792.38	0.00	54,490,792.38	11,765,670.48	0.00	11,765,670.48
Others	0.00	0.00	0.00	74,925,756.83	0.00	74,925,756.83
Total	1,082,419,104.88	0.00	1,082,419,104.88	1,028,769,050.48	0.00	1,028,769,050.48

(2) Status of changes of significant construction in progress item

Categories of project	Budgeted amount	At the beginning of the year	Additions for the year	Transferred to fixed asset for the year	Other deduction	As at the year end
Construction of new production plants	1,582,207,379.53	563,825,749.23	529,278,623.76	441,947,038.08	0.00	651,157,334.91
Installation of equipment	816,263,443.43	377,069,920.09	390,085,284.14	391,288,620.44	0.00	375,866,583.79
Technology upgrade	11,495,774.25	1,181,953.85	9,127,921.52	9,405,481.57	0.00	904,393.80
Workshop modification	81,960,000.00	11,765,670.48	68,307,705.35	25,582,583.45	0.00	54,490,792.38
Others	0.00	74,925,756.83	8,463,857.56	83,389,614.39	0.00	0.00
Total	2,491,926,597.21	1,028,769,050.48	1,005,263,392.33	951,613,337.93	0.00	1,082,419,104.88

Categories of project	Accumulated amount of the interest capitalised as at the year end	Including: The interest capitalised for the year	The interest capitalised rate for the year (%)	Percentage of cost incurred over budgeted amount (%)	Construction progress	Sources of funds
Construction of new production plants	25,261,748.26	41,223,201.74	4.40	69.09	Completion of some projects	Borrowings and self-funding
Installation of equipment	0.00	0.00	0.00	93.98	Completion of some projects	Self-funding
Technology upgrade	0.00	0.00	0.00	89.68	Completion of some projects	Self-funding
Workshop modification	499,971.58	499,971.58	4.40	97.90	Completion of some projects	Borrowings and self-funding
Others	0.00	0.00	0.00	–	Completion	Self-funding
Total	25,761,719.84	41,723,173.32				

(3) As at the year end, status of the interest capitalised in the projects under construction in progress

Categories of project	At the beginning of the year	Additions for the year	Transferred to fixed asset for the year	Other deduction	As at the year end
Construction of new production plants	12,597,332.22	41,723,173.32	28,558,785.70	0.00	25,761,719.84

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***12. Construction supplies**

Item	At the beginning of the year	Additions for the year	Disposal for the year	Balance at the end of the year
Specialised equipment	1,623,576.06	9,926,099.28	11,068,146.14	481,529.20

13. Intangible assets**(1) Status of intangible assets**

Item	At the beginning of the year	Additions for the year	Disposal for the year	As at the year end
I. Total cost:	356,544,893.72	38,416,520.06	1,904,546.63	393,056,867.15
Land use rights	194,290,361.20	29,970,021.00	0.00	224,260,382.20
Technical know-how	139,043,340.02	5,536,927.55	1,904,546.63	142,675,720.94
Software	23,187,192.50	2,909,571.51	0.00	26,096,764.01
Trademark rights	24,000.00	0.00	0.00	24,000.00
II. Accumulated depreciation:	149,053,373.23	19,029,801.79	1,904,546.63	166,178,628.39
Land use rights	50,122,110.56	4,308,880.57	0.00	54,430,991.13
Technical know-how	87,564,956.43	11,144,311.85	1,904,546.63	96,804,721.65
Software	11,342,306.24	3,576,609.37	0.00	14,918,915.61
Trademark rights	24,000.00	0.00	0.00	24,000.00
III. Total net carrying value of intangible assets :	207,491,520.49			226,878,238.76
Land use rights	144,168,250.64			169,829,391.07
Technical know-how	51,478,383.59			45,870,999.29
Software	11,844,886.26			11,177,848.40
Trademark rights	0.00			0.00
IV. Total provision for impairment:	2,361,826.83	0.00	0.00	2,361,826.83
Land use rights	981,826.94	0.00	0.00	981,826.94
Technical know-how	1,379,999.89	0.00	0.00	1,379,999.89
Software	0.00	0.00	0.00	0.00
Trademark rights	0.00	0.00	0.00	0.00
V. Carrying amount of intangible assets:	205,129,693.66			224,516,411.93
Land use rights	143,186,423.70			168,847,564.13
Technical know-how	50,098,383.70			44,490,999.40
Software	11,844,886.26			11,177,848.40
Trademark rights	0.00			0.00

Amortisation for the year is RMB19,029,801.79 (RMB20,347,091.49 in 2012).

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***13. Intangible assets** *(continued)***(2) Notes to intangible assets**

The Company obtained the State-owned land use rights in accordance with Chinese laws in China, and there will be 50 years of grant term commencing from the date of obtaining the land use rights.

(3) Intangible assets with pending certificates for ownership were as follows:

Item	Reason for pending certificates for ownership	Estimated time for obtaining certificates for ownership	Carrying amount
Land use rights	Being in progress	Undetermined	17,703,341.48

14. Development costs

Item	At the beginning of the year	Additions for the year	Disposal for the year		As at the year end
			Recognised in profit or loss	Recognised as intangible assets	
Capitalised costs	1,510,153.51	0.00	921,798.37	588,355.14	0.00
Expensing costs	0.00	146,058,511.53	146,058,511.53	0.00	0.00
Total	1,510,153.51	146,058,511.53	146,980,309.90	588,355.14	0.00

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

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

15. Goodwill

(1) Breakdown of goodwill

Name of investee or the matter of goodwill arisen	At the beginning of the year	Additions for the year	Disposal for the year	As at the year end	Provision for impairment at the year end
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	47,912,269.66	0.00	0.00	47,912,269.66	0.00
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	13,863,330.24	0.00	0.00	13,863,330.24	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	46,926,155.25	0.00	0.00	46,926,155.25	11,200,000.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	7,271,307.03	7,271,307.03
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	287,756.12	0.00	0.00	287,756.12	287,756.12
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	2,045,990.12	0.00	0.00	2,045,990.12	0.00
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	3,492,752.58	0.00	0.00	3,492,752.58	0.00
Total	121,799,561.00	0.00	0.00	121,799,561.00	18,759,063.15

The breakdown of impairment of goodwill was as follows

Name of investee or the matter of goodwill arisen	At the beginning of the year	Additions for the year	Disposal for the year	As at the year end
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	11,200,000.00	0.00	0.00	11,200,000.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	7,271,307.03
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	287,756.12	0.00	0.00	287,756.12
Total	18,759,063.15	0.00	0.00	18,759,063.15

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

15. Goodwill *(continued)*

(2) Impairment test and provision for impairment on goodwill

Goodwill of the Company arose from its business combination involving enterprises under common control in previous years.

On the balance sheet date, the Company conducted impairment test on goodwill and adopted the asset groups related to goodwill to estimate the present value of the future cash flow when estimating the recoverable amount of the investment cost. Assuming the ongoing operation of the investee, the Company expected that ongoing operation might generate cash flow and determined the cash flow upon discounting at the discounting rate of 12% (12% for the years 2012 to 2013). Upon the test, the management of the Company expects that no provision for impairment on goodwill is required to be made during the year.

Please see Note VI. 18 for the details on impairment test on goodwill.

16. Long-term deferred expenses

Item	At the beginning of the year	Additions for the year	Amortisation for the year	Other decrease	As at the year end	Reason for other decrease
Overhaul costs of fixed assets	4,164,390.66	1,427,592.00	1,786,986.08	0.00	3,804,996.58	
Renovation costs of offices	1,273,675.26	29,157.65	680,581.23	0.00	622,251.68	
Renovation costs of plants	3,166,448.10	0.00	1,908,566.67	0.00	1,257,881.43	
Share of costs for public utilities	140,794.48	0.00	68,376.15	0.00	72,418.33	
Resin	5,927,566.73	2,325,456.02	2,931,077.01	0.00	5,321,945.74	
Others	3,112,995.22	3,443,570.67	3,721,651.55	0.00	2,834,914.34	
Total	<u>17,785,870.45</u>	<u>7,225,776.34</u>	<u>11,097,238.69</u>	<u>0.00</u>	<u>13,914,408.10</u>	

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

17. Deferred tax assets/Deferred tax liabilities

(1) *Deferred tax assets and deferred tax liabilities recognised*

Item	As at the year end	At the beginning of the year
Deferred tax assets:		
Deductible temporary difference arising from provision for impairment	26,323,090.46	24,567,976.14
Deductible temporary difference arising from long-term equity investments not in the scope of combination	3,676,298.43	3,763,451.17
Deductible temporary difference arising from amortisation of intangible assets	14,656.18	60,230.11
Deductible temporary difference arising from accrued expenses	12,138,803.14	6,621,016.91
Deductible temporary difference arising from tax losses carried forward	7,205,052.81	7,517,170.15
Deductible temporary difference arising from deferred income	832,507.50	630,007.50
Total	<u>50,190,408.52</u>	<u>43,159,851.98</u>
Deferred tax liabilities:		
Taxable temporary difference arising from financial assets held for trading	66,783.56	58,428.62
Taxable temporary difference arising from available-for-sale financial assets	1,132,729.35	1,218,424.33
Taxable temporary difference arising from long-term equity investments under in equity method	1,634,623.71	1,299,636.20
Total	<u>2,834,136.62</u>	<u>2,576,489.15</u>

(2) *Breakdown of deferred tax assets not recognised*

Item	As at the year end	At the beginning of the year
Deductible temporary difference	82,821,546.09	22,576,148.07
Deductible loss	110,070,484.29	73,212,119.84
Total	<u>192,892,030.38</u>	<u>95,788,267.91</u>

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

17. Deferred tax assets/Deferred tax liabilities *(continued)*

(3) *Deductible loss of deferred tax assets not recognised will be due next year*

Year	As at the year end	At the beginning of the year	Remarks
2013	0.00	257,563.76	
2014	342,796.94	342,796.94	
2015	8,908,557.85	8,908,557.85	
2016	28,334,063.89	30,775,779.10	
2017	24,866,249.24	26,459,527.43	
2018	38,316,056.73	0.00	
Indefinitely	9,302,759.64	6,467,894.76	
Total	<u>110,070,484.29</u>	<u>73,212,119.84</u>	

(4) *Breakdown of taxable difference and deductible difference item*

Item	As at the year end	At the beginning of the year
Taxable item:		
Taxable temporary difference arising from financial assets held for trading	445,223.74	389,524.13
Taxable temporary difference arising from available-for-sale financial assets	7,551,528.90	8,122,828.80
Taxable temporary difference arising from long-term equity investments under equity method	10,897,491.40	8,664,241.36
Sub-total	<u>18,894,244.04</u>	<u>17,176,594.29</u>
Taxable difference item:		
Deductible temporary difference arising from provision for impairment	167,243,336.41	158,304,307.90
Deductible temporary difference arising from long-term equity investments not in the scope of combination	24,508,656.28	25,079,069.15
Deductible temporary difference arising from amortisation of intangible assets	97,708.67	401,534.67
Deductible temporary difference arising from accrued expenses	80,925,354.31	44,140,112.75
Deductible temporary difference arising from tax losses carried forward	48,033,685.41	50,114,467.69
Deductible temporary difference arising from deferred income	5,550,050.00	4,200,050.00
Sub-total	<u>326,358,791.08</u>	<u>282,239,542.16</u>

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***18. Breakdown of assets provision for impairment**

Item	At the beginning of the year	Provision made for the year	Decrease for the year		As at the year end
			Write back	Write-off	
Provision for bad debts	52,024,936.81	18,319,202.20	0.00	818,401.18	69,525,737.83
Inventories provision for diminution in value	13,523,099.60	30,105,756.25	3,670,422.11	23,525,855.93	16,432,577.81
Long-term equity investments provision for impairment	21,800,000.00	0.00	0.00	0.00	21,800,000.00
Fixed assets provision for impairment	90,082,979.53	570,726.35	0.00	1,564,390.69	89,089,315.19
Intangible assets provision for impairment	2,361,826.83	0.00	0.00	0.00	2,361,826.83
Goodwill provision for impairment	18,759,063.15	0.00	0.00	0.00	18,759,063.15
Total	<u>198,551,905.92</u>	<u>48,995,684.80</u>	<u>3,670,422.11</u>	<u>25,908,647.80</u>	<u>217,968,520.81</u>

Write-off provision for bad debts includes the bad debts written offs provision for diminution in value of inventories, provision for impairment of fixed assets include scrap, disposal or write-off of assets.

19. Assets with restrictions in ownership or use rights

Item	As at the year end	Reason for restriction
Assets pledged:		
Other cash at bank and on hand	1,019,151.39	Deposits under guarantees for letter of credit
Other cash at bank and on hand	<u>9,096,250.84</u>	Deposits under bank acceptance bills
Total	<u>10,115,402.23</u>	

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

20. Short-term loans

(1) Classification of short-term loans

Item	As at the year end	At the beginning of the year
Loans on credit	362,142,733.79	495,627,002.91
Guarantee loans	128,941,720.00	12,162,750.00
Pledge loans	0.00	28,379,750.00
Total	<u>491,084,453.79</u>	<u>536,169,502.91</u>

Notes to classifications of short-term loans

Guarantee loans: The Company provided guarantee to Zhuhai China Resources Bank (珠海華潤銀行) for a loan of HK\$54,000,000 granted to Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠). In addition, the Company also provided counter-guarantee to Agricultural Bank of China, Zhuhai Branch (中國農業銀行股份有限公司珠海分行) for a corporate guarantee granted by Agricultural Bank of China, Zhuhai Branch (中國農業銀行股份有限公司珠海分行) for a loan of HK\$110,000,000 granted to Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) borrowed from Mega International Commercial Bank (兆豐國際商業銀行). The Company provided guarantee to Zhuhai China Resources Bank (珠海華潤銀行) for a loan of HK\$15,000,000 granted to Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), a subsidiary of the Company, which was released due to the repayment of the loan in the year.

Pledge loans: The Company pledged fixed deposits of RMB29,000,000 in the previous year and additional fixed deposits of RMB4,000,000 in the year to China Everbright Bank, Zhuhai Branch (中國光大銀行珠海分行) for a loan of HK\$35,000,000.00, which was released due to the repayment of the loan in the year.

(2) There was no past due short-term loans that were unpaid in the ending balance.

21. Bills payables

Type	As at the year end	At the beginning of the year
Bank acceptance bills	<u>375,775,891.08</u>	<u>283,581,118.89</u>

(1) The amount of RMB375,775,891.08 will be due for the next accounting period.

(2) For balances as at the year end, there was no amount of bills due to a shareholder holding 5% (inclusive) or more of voting rights in the Company.

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

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

22. Accounts payables

(1) Breakdown of accounts payables (an ageing analysis is based on dates of recognition of account payables)

Item	As at the year end	At the beginning of the year
1 to 90 days	332,078,144.46	252,023,766.64
91 to 180 days	22,789,943.67	30,820,007.51
181 days to 1 year	41,623,708.26	4,735,905.84
1 to 2 years	30,018,248.59	13,987,566.61
Over 2 years	9,456,047.74	10,246,813.81
Total	435,966,092.72	311,814,060.41

(2) For balances as at the year end, there were amounts due to a shareholder or related parties holding 5% (inclusive) or more of voting rights in the Company. Please see note VIII. 6 Amounts due from/to related parties for the details of amounts.

(3) Notes to large sum of accounts payables over one year

Name of creditors	Amount	Reason for outstanding payment	Repay after the reporting date
Shanghai Techwell Biopharmaceutical Co., Ltd. (上海天偉生物製藥有限公司)	12,269,128.20	Holdback	No
Industrial Green Building Technology Co., Ltd. of Zhuhai (珠海興業綠色建築科技有限公司)	6,934,409.42	Holdback	No
Ningxia Tianjing Longding Electric Power Co., Ltd. (寧夏天淨隆鼎電力有限公司)	1,750,000.00	Holdback	No
Shandong Jingjin Environmental Protection Equipment Co., Ltd. (山東景津環保設備有限公司)	1,184,000.00	Holdback	No
Total	22,137,537.62		

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***22. Accounts payables** *(continued)***(4) As at the year end, status of accounts payables from top five units**

Name of unit	Amount	Nature or description	Terms	Proportion to total accounts payables (%)
Shanghai Techwell Biopharmaceutical Co., Ltd. (上海天偉生物製藥有限公司)	65,379,263.85	Sales of goods	Within 1 year: RMB53,110,135.65, 1 to 2 years: RMB12,269,128.20	15.00
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	55,703,992.40	Sales of goods	Within 1 year	12.78
Jiangsu Yangzhou Jianggong Construction Group Co., Ltd. (江蘇揚州建工建設集團有限公司)	15,353,333.86	Equipment, project costs	Within 1 year	3.52
Daqo Group Co., Ltd. (大全集團有限公司)	13,096,717.89	Project costs	Within 1 year	3.00
Shandong Xinquan Pharmaceutical Co., Ltd. (山東鑫泉醫藥有限公司)	10,314,500.00	Sales of goods	Within 1 year	2.37
Total	<u>159,847,808.00</u>			<u>36.67</u>

(5) Accounts payables (including foreign currency balances) were as follows:

Item	As at the year end			At the beginning of the year		
	Foreign amount	Exchange rate	Translated to Renminbi	Foreign amount	Exchange rate	Translated to Renminbi
U.S. dollar	<u>399,298.05</u>	<u>6.0969</u>	<u>2,434,480.31</u>	<u>0.00</u>	<u>6.2855</u>	<u>0.00</u>

23. Receipts in advance**(1) Breakdown of receipts in advance**

Item	As at the year end	At the beginning of the year
Within 1 year	<u>46,866,539.32</u>	25,949,403.61
Over 1 year	<u>14,913,653.82</u>	12,000,636.81
Total	<u>61,780,193.14</u>	<u>37,950,040.42</u>

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

23. Receipts in advance *(continued)*

(2) For balances as at the year end, there was no amount of receipts in advance from a shareholder holding 5% (inclusive) or more of voting rights in the Company.

(3) Notes to large sum of receipts in advance over one year

Name of creditors	Amount	Reason for not being charged
Yunnan Province Center for Disease Prevention and Control (雲南省疾病預防控制中心)	7,294,438.63	The customer has not required the delivery of goods
The Committee Office of AIDS Control and Prevention of Shanxi Province (山西省防治艾滋病工作委員會辦公室)	1,019,963.00	The customer has not required the delivery of goods
Yunnan Province Maternal and Child Health Care Hospital (雲南省婦幼保健院)	881,739.00	The customer has not required the delivery of goods
Heilongjiang Province Center for Disease Control and Prevention (黑龍江省疾病控制中心)	585,266.50	The customer has not required the delivery of goods
Liangshan Prefecture Center for Disease Control and Prevention (涼山州疾病預防控制中心)	505,622.80	The customer has not required the delivery of goods
Total	<u>10,287,029.93</u>	

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***23. Receipts in advance** *(continued)***(4) As at the year end, status of receipts in advance from top five units**

Name of unit	Amount	Nature or description	Terms	Proportion to total receipts in advance (%)
Yunnan Province Center for Disease Prevention and Control (雲南省疾病預防控制中心)	7,467,681.91	Sales of goods	Within 1 year: RMB173,243.28, 1 to 2years: RMB7,166,506.63, Over 2years: RMB27,932.00	12.09
Family Planning Service Center of Shenzhen (深圳市計劃生育服務中心)	5,757,260.80	Sales of goods	Within 1 year	9.32
Guangdong Province Center for Disease Control and Prevention (廣東省疾病預防控制中心)	3,929,778.41	Sales of goods	Within 1 year	6.36
The Health Department of Hunan Province (湖南省衛生廳)	2,440,998.38	Sales of goods	Within 1 year	3.95
The Health Department of Henan Province (河南省衛生廳)	1,699,200.00	Sales of goods	Within 1 year	2.75
Total	<u>21,294,919.50</u>			<u>34.47</u>

(5) Receipts in advance (including foreign currency balances) were as follows:

Item	As at the year end			At the beginning of the year		
	Foreign amount	Exchange rate	Translated to Renminbi	Foreign amount	Exchange rate	Translated to Renminbi
U.S. dollar	<u>125,576.59</u>	<u>6.0969</u>	<u>765,627.91</u>	<u>55,380.94</u>	<u>6.2855</u>	<u>348,096.89</u>

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***24. Employee benefits payables**

Item	At the beginning of the year	Accruals for the year	Decrease for the year	As at the year end
Salaries, bonuses, allowances and subsidies	69,965,631.18	318,229,188.13	300,957,714.06	87,237,105.25
Employee welfare	379,589.40	15,890,963.04	15,549,864.84	720,687.60
Social insurance	168,924.05	43,402,371.11	43,471,611.96	99,683.20
Of which: Medical insurances	51,274.61	11,709,701.57	11,731,973.35	29,002.83
Basic pension insurances	89,416.18	26,882,615.95	26,923,606.59	48,425.54
Unemployment insurances	20,251.70	2,924,658.40	2,928,349.64	16,560.46
Work-related injury insurances	2,573.70	1,137,884.50	1,138,754.48	1,703.72
Maternity insurances	5,407.86	747,510.69	748,927.90	3,990.65
Housing funds	628,774.82	11,661,931.76	11,392,736.12	897,970.46
Labour union fees and employee education fees	230,382.52	1,249,024.83	1,228,497.96	250,909.39
Severance welfare	0.00	1,140,645.28	1,013,550.28	127,095.00
Performance-linked bonuses of subsidiaries	2,748,184.90	0.00	1,928,904.71	819,280.19
Others	341,025.15	1,442,293.46	1,442,293.46	341,025.15
Total	<u>74,462,512.02</u>	<u>393,016,417.61</u>	<u>376,985,173.39</u>	<u>90,493,756.24</u>

All of employee benefits payables were of short-term, and which is overdue employee benefit that amounting to RMB0.00.

There is the amount of RMB250,909.39 for labour union fees and employee education fees, the amount of RMB0.00 for non-monetary benefits, and the amount of RMB127,095.00 for severance welfare.

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***25. Taxes payables**

Item	As at the year end	At the beginning of the year
Value added tax payable	-14,725,130.73	27,045,774.62
Business tax payable	4,297.75	4,406.31
Urban maintenance and construction tax payable	2,664,270.63	5,807,640.79
Enterprise income tax payable	87,180,525.14	54,609,738.48
Property tax payable	952,728.41	1,205,108.90
Land use tax payable	545,794.94	367,516.29
Individual income tax payable	10,114,792.80	2,020,320.48
Stamp duty payable	278,475.17	924,464.10
Education surcharges payable	2,098,296.85	4,215,701.89
Flood prevention fee payable	233,590.80	349,356.19
Others	67,121.55	108,282.31
Total	<u>89,414,763.31</u>	<u>96,658,310.36</u>

Taxes payables represent that, local tax authorities agreed that taxable income for each branch and plant may be adjusted mutually, and the tax calculating processes should be explained.

Nil

26. Interest payables

Item	As at the year end	At the beginning of the year
Interest payables for short-term financing bills	0.00	8,146,146.10
Interest for medium-term financing bills	11,823,945.23	0.00
Interest payables for short-term loans	3,611,034.42	2,307,858.76
Total	<u>15,434,979.65</u>	<u>10,454,004.86</u>

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

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

27. Dividends payables

Name of unit	As at the year end	At the beginning of the year	Reason for outstanding over 1 year
Dividends on ordinary shares	20,174.46	20,174.46	Not yet paid
Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	1,200,710.00	1,200,710.00	Not yet paid
Other legal persons and individual shares of subsidiaries	1,051,300.00	1,051,300.00	Not yet paid
Staff shares of subsidiaries	259,800.00	259,800.00	Not yet paid
Total	<u>2,531,984.46</u>	<u>2,531,984.46</u>	

28. Other payables

(1) Breakdown of other payables

Item	As at the year end	At the beginning of the year
Within 1 year	693,604,025.31	596,204,141.64
Over 1 year	<u>73,194,831.99</u>	<u>25,960,061.48</u>
Total	<u>766,798,857.30</u>	<u>622,164,203.12</u>

- (2) For balances as at the year end, there were amounts due to a shareholder or related parties holding 5% (inclusive) or more of voting rights in the Company. Please see note VIII. 6 Amounts due from/to related parties for the details of amounts.

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***28. Other payables** *(continued)***(3)** The breakdown of accruals included in balances was as follows

Item	As at the year end	At the beginning of the year	Reason for outstanding
Utilities expenses	3,735,773.85	2,985,641.37	Not yet paid
Research expenses	2,399,315.36	4,655,388.79	Not yet paid
Business promotion expenses	457,054,765.57	348,654,690.71	Not yet paid
Advertising expenses	9,171,399.21	230,588.19	Not yet paid
Business meeting expenses	19,474,029.71	18,561,351.49	Not yet paid
Auditing and information disclosure expenses	1,849,876.74	1,290,812.30	Not yet paid
Segment operating expenses	6,708,382.69	9,050,113.71	Not yet paid
Others	34,726,464.68	7,869,030.84	Not yet paid
Total	535,120,007.81	393,297,617.40	

29. Non-current liabilities due within one year**(1) Long-term liabilities due within one year breakdown**

Item	As at the year end	At the beginning of the year
Long-term loans due within one year	400,000.00	400,000.00

(2) Long-term loans due within one year**1 Long-term loans due within one year breakdown**

Item	As at the year end	At the beginning of the year
Loans on credit	400,000.00	400,000.00

Long-term loans due within one year was attributable to overdue loans and will be extended, which amounts to RMB0.00.

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

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

29. Non-current liabilities due within one year *(continued)*

(2) Long-term loans due within one year *(continued)*

2 The amount of long-term loans due within one year from top five customers

Name of lender	Starting date of loans	Termination date of loans	Interest rates (%)	Currency	As at the year end		At the beginning of the year	
					Foreign amount	Local currency amount	Foreign amount	Local currency amount
Fujian Overseas Chinese Trust & Investment Corp. (福建省華僑信託投資公司)	Indefinite	Indefinite	Interest-free	RMB	-	400,000.00	-	400,000.00

Overdue loans for long-term loans due within one year: Nil

30. Other current liabilities

Item	Description	As at the year end	At the beginning of the year
Short-term financing bills	Short-term financing bills	<u>0.00</u>	<u>400,000,000.00</u>

The Company issued the first tranche of 2012 short-term financing bills amounted to RMB400,000,000.00 on 6 July 2012 targeting at the institutional investors of the national inter-bank bond market (save as those purchasers as prohibited by the laws and regulations of China), which were due for settlement on 9 July 2013.

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***31. Long-term loans****(1) Classification of long-term loans***1 Classification of long-term loans*

Item	As at the year end	At the beginning of the year
Loans on credit	700,000.00	700,000.00
Guarantee loans	149,200,000.00	0.00
Total	149,900,000.00	700,000.00

As at 31 December 2013, there is no overdue long-term loans that were unpaid.

2 The amount of long-term loans from top five customers

Name of lender	Starting date of loans	Termination date of loans	Currency	Interest rates (%)	As at the year end		At the beginning of the year	
					Foreign amount	Local currency amount	Foreign amount	Local currency amount
Agricultural Bank of China, Shaoguan Branch Wujiang Sub-branch	2013.1.18	2016.1.31	RMB	6.15 Interest-free	-	149,200,000.00	-	0.00
Fuzhou Bureau of Finance	Indefinite	Indefinite	RMB		-	700,000.00	-	700,000.00
Total					-	149,900,000.00	-	700,000.00

Long-term loans of RMB149,200,000.00 will be repaid after the third year of the reporting date.

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

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

32. Notes payables

Name of bond	Nominal amount	Date of issue	Term of bond	Issue amount	Interest payables at the beginning of the year	Interest payables for the year	Interest paid for the year	Interest payables at the year end	Balances at the year end
13 Livzon MTN1	400,000,000.00	29 May 2013	3 years	400,000,000.00	0.00	11,823,945.23	0.00	11,823,945.23	400,000,000.00

On 14 December 2012, the “Proposal for the Company to Apply for the Issue of Medium-term Financing Bills” was considered and approved in the Second Extraordinary General Meeting of the Company in 2012. The Company was approved to apply for registration of a quota not more than RMB800 million (inclusive) from the Inter-bank Market Dealers Association of China. On 29 May 2013, the Company issued the “2013 First Tranche of Medium-term Financing Bills for Livzon Pharmaceutical Group Inc.” at an amount of RMB400 million with a nominal interest rate of 5.03%.

The payable bills would repay RMB400,000,000.00 on the third year after the reporting date.

33. Other non-current liabilities

Item	Description	As at the year end	At the beginning of the year
Deferred income	Government grant	<u>79,071,532.72</u>	<u>74,172,485.90</u>

Breakdown of deferred income was as follow:

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	14,021,571.42	50,000.00	1,740,196.48	0.00	12,331,374.94	Related to assets
	8,963,466.64	50,000.00	1,107,933.36	0.00	7,905,533.28	Related to income
Team for research, development and commercialisation of protein drugs (2012) under the scientific research team for introduction of innovation technologies in Guangdong Province (廣東省引進創新科研團隊(2012)蛋白質藥物研究開發及產業化團隊)	19,098,115.98	0.00	956,444.94	0.00	18,141,671.04	Related to assets
	1,519,508.30	15,000,000.00	13,976,699.97	2,000,000.00	542,808.33	Related to income

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

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

33. Other non-current liabilities (continued)

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
MAB for Class I treatment of necrosis factor in human tumour from human source (I類治療用人源化抗人腫瘤壞死因子單克隆抗體)	1,270,621.84	200,000.00	998,568.64	0.00	472,053.20	Related to assets
	0.00	400,000.00	400,000.00	0.00	0.00	Related to income
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	6,893,166.66	0.00	701,000.04	0.00	6,192,166.62	Related to assets
Subsidy for the tender of technology upgrade project for PVC soft bag supported by provincial finance departments (省財政支持技改招標項目補助金PVC軟袋)	3,109,851.80	0.00	145,774.34	0.00	2,964,077.46	Related to assets
Sustained-release famciclovir capsule 0302 Project (泛昔洛韋緩釋膠囊0302項目)	2,994,863.03	0.00	2,994,863.03	0.00	0.00	Related to income
Demonstration projects of high concentration organic wastewater treatment technology (高濃度有機廢水治理技術示範項目)	1,577,579.00	0.00	394,404.00	0.00	1,183,175.00	Related to assets
Shenqi Fuzheng Injection (參芪扶正注射液)	1,203,000.00	0.00	0.00	0.00	1,203,000.00	Related to assets
	1,017,592.10	0.00	53,521.91	0.00	964,070.19	Related to income
Financial grant for the quality control technologies of Shenqi (參芪質量控制技術財政撥款)	1,250,000.00	0.00	0.00	0.00	1,250,000.00	Related to assets
	2,066,666.66	0.00	1,441,666.66	0.00	625,000.00	Related to income
Construction of production facilities for the GAP commercialisation of astragalus at Hunyuan in Shanxi (山西渾源黃芪GAP產業化生產基地建設)	2,000,000.00	4,000,000.00	0.00	0.00	6,000,000.00	Related to assets
Leuprolide microspheres and injections (亮丙瑞林微球及注射劑)	120,000.00	0.00	120,000.00	0.00	0.00	Related to assets
Toxin-clearing and kidney soothing capsule (清毒安腎膠囊)	301,411.64	0.00	301,411.64	0.00	0.00	Related to assets
	491,776.89	0.00	491,776.89	0.00	0.00	Related to income

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*33. Other non-current liabilities *(continued)*

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Triple pollen injection medicine (注射用三花粉針)	44,976.51	0.00	44,976.51	0.00	0.00	Related to income
First batch of science and technology R&D funding from trade and industry sub-branch in the district branch in 2010 (區科工貿支2010年第一批科技研發經費)	1,000,000.00	0.00	0.00	0.00	1,000,000.00	Related to income
Grant for the quality control of traditional Chinese medicine injections (中藥注射劑質控撥款)	1,000,000.00	0.00	708,333.35	0.00	291,666.65	Related to income
Guidance project for the development of high-tech industrial development zone (Yue Cai Gong No. 319) special funds (粵財工319號省高新技術產業開發區發展引導專項資金)	850,000.00	0.00	0.00	0.00	850,000.00	Related to income
Projects for strategic and emerging industry in 2012 – commercialisation and research of tigecycline for injection to human body (2012年戰略性新興產業專項–注射用替加環素產業化研究)	45,731.88	0.00	45,731.88	0.00	0.00	Related to income
First batch of funding for integrating and guiding projects in production sciences from provincial departments in 2011 (2011年省部產學研結合引導項目第一批資金)	400,000.00	0.00	0.00	0.00	400,000.00	Related to income
2012 Zhuhai Strategic Emerging Industries Special Funds (2012年珠海市戰略性新興產業專項資金)	500,000.00	0.00	0.00	0.00	500,000.00	Related to income
Construction of hi-tech facilities for innovation and commercialisation of modern traditional Chinese medicines (現代中藥高技術創新產業化基地建設)	300,004.00	0.00	74,997.00	0.00	225,007.00	Related to assets

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

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

33. Other non-current liabilities (continued)

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Power-saving of lighting pump fan and air-conditioning system (照明水泵風機及空調系統節電)	210,004.00	0.00	52,497.00	0.00	157,507.00	Related to assets
R&D and production transformation of gemifloxacin tablets (吉米沙星片的研發及生產轉化)	212,527.55	0.00	0.00	0.00	212,527.55	Related to assets
Project funding for technology centres for municipal level enterprises in Zhuhai (珠海市市級企業技術中心工程項目經費)	300,000.00	0.00	0.00	0.00	300,000.00	Related to income
Supplementary funding from the Scientific and Technology Departments of the State and the Provinces in 2012 (2012年國家省科技計劃配套資金)	250,000.00	0.00	0.00	0.00	250,000.00	Related to income
Grant to the project of three rapid testing technologies for melamine illegally added in food (食品中非法添加物三聚氰胺三種快速檢測技術項目經費)	188,600.00	0.00	0.00	0.00	188,600.00	Related to income
Research in the technologies critical to the intelligent monitoring system for bottled infusion workshop (瓶裝輸液車間智能監控管理系統關鍵技術研究)	55,000.00	0.00	0.00	0.00	55,000.00	Related to assets
	95,000.00	0.00	47,499.99	0.00	47,500.01	Related to income
Grant to the project in development of precise and rapid testing technologies and equipment for the presence of substantial toxic substances in food (食品中重要有害物殘留精準快速檢測技術與設備項目經費)	141,450.00	0.00	0.00	0.00	141,450.00	Related to income
Research and development of sugar and electrolyte mixed injections (混合糖電解質注射液的研製開發)	30,000.00	0.00	0.00	0.00	30,000.00	Related to assets
	80,000.00	0.00	24,444.44	0.00	55,555.56	Related to income
Research of technologies for the inspection of toxic substances from high-throughput aquatic products in Guangdong Province (廣東省水產品中有害物質高通量檢測技術研究)	80,000.00	0.00	0.00	0.00	80,000.00	Related to income

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

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

33. Other non-current liabilities (continued)

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Innovation Special Rolling Funds in Guangdong Province (廣東省省建創新滾動切塊資金)	490,000.00	0.00	0.00	0.00	490,000.00	Related to income
Financial interest subsidy for the industrialisation of traditional Chinese medicine injections technological transformation projects (中藥注射劑產業化技術改造工程財政貼息款)	0.00	910,000.00	422,131.11	0.00	487,868.89	Related to income
Technology innovation ability construction (antibody drugs laboratory) (技術中心創新能力建設(抗體藥物實驗室))	0.00	3,066,400.00	0.00	0.00	3,066,400.00	Related to assets
Optimisation of interest subsidy (優化扶強貼息資金)	0.00	1,161,700.00	1,161,700.00	0.00	0.00	Related to income
Research and development for the preparation of Jindele (金得樂製劑研發)	0.00	50,000.00	50,000.00	0.00	0.00	Related to income
Special funds for the research in the technology standard of Chinese medicine drinking tablets (中藥飲片炮製技術規範研究專項經費)	0.00	200,000.00	82,480.00	0.00	117,520.00	Related to income
Second batch of science and technology R&D funding in 2012 (2012年第二批科技研發經費)	0.00	1,000,000.00	0.00	0.00	1,000,000.00	Related to income
2013 Strategic Emerging Industries Special Funds (2013年戰略性產業專項資金)	0.00	200,000.00	0.00	0.00	200,000.00	Related to income

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***33. Other non-current liabilities** *(continued)*

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Projects 863 funding cooperation from First Affiliated Hospital of Third Military Medical University (中國人民解放軍第三軍醫大學第一附屬醫院863項目課題經費合作款)	0.00	150,000.00	0.00	0.00	150,000.00	Related to income
2012 Zhuhai Enterprises Research and Development Subsidy Funds (2012年度珠海市企業研究開發費補助資金)	0.00	297,500.00	297,500.00	0.00	0.00	Related to income
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	0.00	9,000,000.00	0.00	0.00	9,000,000.00	Related to assets
Others	0.00	195,857.00	195,857.00	0.00	0.00	Related to income
Total	<u>74,172,485.90</u>	<u>35,931,457.00</u>	<u>29,032,410.18</u>	<u>2,000,000.00</u>	<u>79,071,532.72</u>	

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

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

34. Share capital

2013

Item	At the beginning of the year		Movement for the year					As at the year end	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Other domestic shares	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
<i>Of which: Domestic legal person shares</i>	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
<i>Domestic natural person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Of which: Overseas legal person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Overseas natural person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	177,669,070	60.08	0.00	0.00	0.00	0.00	0.00	177,669,070	60.08
2. Domestically listed foreign shares (B-share)	111,993,354	37.87	0.00	0.00	0.00	0.00	0.00	111,993,354	37.87
3. Overseas listed foreign shares (H-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares not subject to selling restrictions in aggregate	289,662,424	97.95	0.00	0.00	0.00	0.00	0.00	289,662,424	97.95
III. Total number of shares	<u>295,721,852</u>	<u>100.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>295,721,852</u>	<u>100.00</u>

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

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

34. Share capital (continued)

2012

Item	At the beginning of the year		Movement for the year					As at the year end	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Other domestic shares	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
Of which: Domestic legal person shares	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
Domestic natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: Overseas legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overseas natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	177,669,070	60.08	0.00	0.00	0.00	0.00	0.00	177,669,070	60.08
2. Domestically listed foreign shares (B-share)	111,993,354	37.87	0.00	0.00	0.00	0.00	0.00	111,993,354	37.87
3. Overseas listed foreign shares (H-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares not subject to selling restrictions in aggregate	289,662,424	97.95	0.00	0.00	0.00	0.00	0.00	289,662,424	97.95
III. Total number of shares	295,721,852	100.00	0.00	0.00	0.00	0.00	0.00	295,721,852	100.00

35. Capital reserve

2013

Item	At the beginning of the year	Increase for the year	Decrease for the year	As at the year end
Capital premiums	191,724,618.44	0.00	260,172.00	191,464,446.44
Other capital reserve	27,385,587.24	0.00	485,604.92	26,899,982.32
Total	219,110,205.68	0.00	745,776.92	218,364,428.76

The decrease of share premium in the year was attributable to the difference between the transfer price under the acquisition of the non-controlling interests in Longxi Livzon Shenyan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司) by Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠) and the carrying amount of the corresponding non-controlling interests; and the decrease of the other capital reserve was attributable to the changes in fair value of available-for-sale financial assets.

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***35. Capital reserve** *(continued)***2012**

Item	At the beginning of the year	Increase for the year	Decrease for the year	As at the year end
Capital premiums	320,792,441.78	0.00	129,067,823.34	191,724,618.44
Other capital reserve	<u>27,300,694.63</u>	<u>1,167,961.50</u>	<u>1,083,068.89</u>	<u>27,385,587.24</u>
Total	<u>348,093,136.41</u>	<u>1,167,961.50</u>	<u>130,150,892.23</u>	<u>219,110,205.68</u>

The increase of capital reserve in the year was attributable to the changes in fair value of available-for-sale financial assets.

The decrease of capital reserve in 2012 was attributable to (i) the acquisition of 11.91% non-controlling interests in Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠) by the Company at a consideration of RMB151,532,596.80. The difference of RMB129,067,823.34 between the transfer price and the corresponding carrying amount of non-controlling interests of RMB22,464,773.46 was adjusted in capital reserve and (ii) pursuant to the equity interest transfer agreement entered into by the Company and Ding Gongcai (丁公才) on 24 July 2009, Ding Gongcai (丁公才) accepted the transfer of 49% equity interests in Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) at a consideration of RMB40,449,894.58. Until the year, the Company received RMB19,884,600.00 from Ding Gongcai (丁公才) for the transfer of equity interests and accounted for 49% of the transfer price above, which was recognised as the transfer of 24.01% equity interests (49%*49%) in Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司). The difference of RMB1,083,068.89 between the transfer price and the corresponding interests of RMB20,967,668.89 was adjusted in capital reserve.

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***36. Surplus reserve****2013**

Item	At the beginning of the year	Increase for the year	Decrease for the year	As at the year end
Statutory surplus reserve	322,730,716.50	10,877,910.07	0.00	333,608,626.57
Discretionary surplus reserve	63,796,201.34	0.00	0.00	63,796,201.34
Reserve funds	82,108,376.71	0.00	0.00	82,108,376.71
Enterprise development funds	21,683,742.35	0.00	0.00	21,683,742.35
Total	<u>490,319,036.90</u>	<u>10,877,910.07</u>	<u>0.00</u>	<u>501,196,946.97</u>

2012

Item	At the beginning of the year	Increase for the year	Decrease for the year	As at the year end
Statutory surplus reserve	311,623,096.79	11,107,619.71	0.00	322,730,716.50
Discretionary surplus reserve	63,796,201.34	0.00	0.00	63,796,201.34
Reserve funds	82,108,376.71	0.00	0.00	82,108,376.71
Enterprise development funds	21,683,742.35	0.00	0.00	21,683,742.35
Total	<u>479,211,417.19</u>	<u>11,107,619.71</u>	<u>0.00</u>	<u>490,319,036.90</u>

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

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

37. Retained earnings

(1) Movement in retained earnings

Item	For the year	For the previous year	Allocation or appropriation proportion
Retained earnings for the previous year before adjustment	2,023,348,842.58	1,740,645,868.60	
Add: Adjusted retained earnings at the beginning of the year	0.00	0.00	
Retained earnings at the beginning of the year after adjustment	2,023,348,842.58	1,740,645,868.60	
Add: Net earnings attributable to the shareholders of the parent company for the year	487,502,351.80	441,671,519.69	
Less: Appropriation to statutory surplus reserve	10,877,910.07	11,107,619.71	10%
Appropriation to discretionary surplus reserve	0.00	0.00	
Dividends payable to ordinary shares	147,860,926.00	147,860,926.00	
Dividends of ordinary shares capitalised	0.00	0.00	
Retained earnings at the year end	<u>2,352,112,358.31</u>	<u>2,023,348,842.58</u>	

Breakdown of adjustments to the retained earnings as at the beginning of the year:

- 1 The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and their new related requirements on the retained earnings as at the beginning of the year amounted to RMB0.00.
- 2 The effect of changes in accounting policies on the retained earnings as at the beginning of the year amounted to RMB0.00.
- 3 The effect of corrections of significant accounting errors on the retained earnings as at the beginning of the year amounted to RMB0.00.
- 4 The effect of the change of the scope of combination under common control on the retained earnings as at the beginning of the year amounted to RMB0.00.
- 5 The effect of other adjustments on the retained earnings as at the beginning of the year amounted to RMB0.00.

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

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

37. Retained earnings

(2) Notes to appropriation of profits

Item	For the year	Unit: RMB'000	
		For the	previous year
Dividends:			
Final dividends in respect of the year 2012			
paid during the year (Note 2)	147,860.93		—
Final dividends in respect of the year 2011			
paid during the year (Note 3)	—	147,860.93	
Dividends proposed after the balance sheet date:			
Final dividends proposed for the year 2013			
(Note 1)	147,860.93		—
Final dividends proposed for the year 2012			
(Note 2)	—	147,860.93	

Note 1: On 24 March 2014, the Company held the Twenty-eighth Meeting of the Seventh Board, which passed the resolution of 2013 annual profit distribution plan to declare a final dividend of RMB147,860,930 (RMB0.5 per share (tax inclusive)) to all shareholders with reference to the total number of 295,721,852 shares of the Company at the end of the year. Such profit distribution plan was submitted to the 2013 shareholders' meeting for consideration.

Note 2: On 7 March 2013, the Company held the Fifteenth Meeting of the Seventh Board, which passed the resolution of 2013 annual profit distribution plan to declare a final dividend of RMB147,860,930 (RMB0.5 per share (tax inclusive)) to all shareholders with reference to the total number of 295,721,852 shares of the Company at the end of the year. Such profit distribution plan was approved in the shareholders' meeting on 21 June 2013 and the dividends were paid to shareholders in July 2013.

Note 3: On 22 March 2012, the Company held the Sixth Meeting of the Seventh Board, which passed the resolution of 2011 annual profit distribution plan to declare a final dividend of RMB147,860,930 (RMB0.5 per share (tax inclusive)) to all shareholders with reference to the total number of 295,721,852 shares of the Company at the end of the year. Such profit distribution plan was approved in the shareholders' meeting on 13 April 2012 and the dividends were paid to shareholders in June 2012.

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

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

38. Non-controlling interests

Name of company	Non-controlling interests	At the beginning of the year	Change in the year			As at the year end
		Net profit of subsidiary	Shareholding percentage of non-controlling shareholders	Profit or Loss attributable to non-controlling shareholders	Other changes	Non-controlling interests
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	84,226,365.07	68,335,643.67	49.00%	33,447,705.05	-16,870.45	117,657,199.67
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	205,609.03	1,144,093.19	49.00%	560,605.66	0.00	766,214.69
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	15,965,254.96	21,277,412.39	7.86%	1,672,404.61	0.00	17,637,659.57
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	160,210.17	-253,957.70	7.50%	-19,046.83	0.00	141,163.34
Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司)	264,547.59	-732,612.86	0.00%	-64,719.59	-199,828.00	0.00
Zhuhai Baiameng Biological Materials Co., Ltd. (珠海麗珠一拜阿蒙生物材料有限公司)	1,111,467.95	0.00	18.00%	0.00	0.00	1,111,467.95
Zhuhai Livzon MAB Biological Technology Co., Ltd. (珠海市麗珠單抗生物技術有限公司)	39,027,957.67	-12,547,712.66	49.00%	-6,148,379.20	49,000,000.00	81,879,578.47
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	6,394,687.69	-13,849,836.31	16.15%	-2,236,748.56	0.00	4,157,939.13
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	20,967,668.89	16,773,440.70	24.01%	0.00	0.00	20,967,668.89
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司)	0.00	-569,961.46	43.01%	-142,490.37	2,500,000.00	2,357,509.63
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	3,779,670.99	19,213,949.11	49.00%	9,414,835.06	0.00	13,194,506.05
Total	172,103,440.01	98,790,458.07		36,484,165.83	51,283,301.55	259,870,907.39

The increase in other changes of non-controlling interests in the year represented the capital invested by non-controlling shareholders and the decrease was mainly due to the acquisition of non-controlling interest in Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司) by Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), which resulted in movement in non-controlling interests.

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

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

39. Operating income, operating cost

(1) Operating income, operating cost

Item	For the year	For the previous year
Income from principal activities	4,569,387,988.66	3,923,496,825.00
Income from non-principal activities	49,292,052.20	20,028,480.20
Operating income in aggregate	4,618,680,040.86	3,943,525,305.20
Cost of principal activities	1,653,344,112.06	1,549,903,898.38
Cost of non-principal activities	41,270,996.94	19,784,217.07
Operating cost in aggregate	1,694,615,109.00	1,569,688,115.45

(2) Principal activities (by products)

Name of products	For the year		For the previous year	
	Operating income	Operating cost	Operating income	Operating cost
I. Drug preparation products				
1. Western drug preparation products	1,702,525,709.40	428,006,194.96	1,364,447,949.77	382,822,472.48
Of which: Gastrointestinal drugs	358,678,027.99	41,087,643.48	300,654,654.88	39,974,429.38
Cardio-cerebralvascular drugs	148,085,906.50	35,331,396.31	142,778,622.93	33,197,437.21
Antibiotic drugs (including imported drugs)	279,197,291.07	71,937,103.73	276,292,475.33	88,143,775.99
Gonadotropic hormones	605,501,360.68	204,285,858.64	458,128,077.44	158,953,042.70
Blood and hemopoietic system drugs	30,596,426.21	31,084,154.27	24,741,422.04	24,103,890.48
Others	280,466,696.95	44,280,038.53	161,852,697.15	38,449,896.72
2. Chinese drug preparation products	1,658,923,222.87	331,573,643.29	1,383,249,300.22	296,754,005.65
Sub-total of drug preparation products:	3,361,448,932.27	759,579,838.25	2,747,697,249.99	679,576,478.13
II. Bulk medicines and intermediates	798,576,223.52	713,205,195.01	834,638,276.57	711,885,932.47
III. Diagnostic reagents and equipment	368,732,853.87	162,882,180.14	341,161,298.44	158,441,487.78
IV. Others	40,629,979.00	17,676,898.66	0.00	0.00
Total	4,569,387,988.66	1,653,344,112.06	3,923,496,825.00	1,549,903,898.38

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***39. Operating income, operating cost** *(continued)***(3) Principal activities (by geographical regions)**

Name of geographical regions	For the year		For the previous year	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	4,227,365,211.44	1,374,235,382.17	3,576,612,422.97	1,296,208,890.00
Overseas	342,022,777.22	279,108,729.89	346,884,402.03	253,695,008.38
Total	<u>4,569,387,988.66</u>	<u>1,653,344,112.06</u>	<u>3,923,496,825.00</u>	<u>1,549,903,898.38</u>

(4) Status of operating income from the top 5 customers

During the period	Operating income from the top 5 customers in aggregate	Percentage of operating income during the same period (%)
2013	349,397,620.63	7.56
2012	<u>313,052,709.82</u>	<u>7.94</u>

The Company operates in a single operating segment in the PRC, i.e. the manufacture of pharmaceuticals. Accordingly, no operating segment for geographical information of the Company are presented.

40. Business taxes and surcharges

Item	For the year	For the previous year
Urban maintenance and construction tax payable	31,662,997.86	29,778,859.67
Education surcharges payable	24,476,705.48	22,633,341.30
Flood prevention fee payable	2,007,783.14	1,882,826.26
Business tax payable	82,581.51	55,247.25
Others	<u>292,036.25</u>	<u>195,131.50</u>
Total	<u>58,522,104.24</u>	<u>54,545,405.98</u>

The basis of calculations for various business taxes and surcharges taxes are disclosed in note V. Taxation.

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***41. Selling expenses**

Item	For the year	For the previous year
Marketing and promotional expenses	1,638,620,348.28	1,281,273,205.92
Staff salaries	67,331,679.65	58,999,384.17
Transportation costs	31,798,233.15	28,852,256.11
Travelling expenses and entertainment	22,293,178.57	22,041,317.17
Business meeting expenses	20,057,766.72	20,069,730.37
Others	30,646,170.23	30,418,349.06
Total	<u>1,810,747,376.60</u>	<u>1,441,654,242.80</u>

42. Administrative expenses

Item	For the year	For the previous year
Research and development costs	146,980,309.90	124,039,763.02
Staff salaries	98,381,615.01	85,821,023.02
Depreciation and amortisation	34,404,652.84	31,253,388.54
Loss on suspension of operations	25,842,220.64	19,348,322.15
Tax expenses	14,807,350.24	12,871,061.00
Others	116,876,916.94	77,697,670.85
Total	<u>437,293,065.57</u>	<u>351,031,228.58</u>

43. Financial expenses

Item	For the year	For the previous year
Interest expenses	9,063,185.39	17,182,224.10
Less: Interest income	21,881,776.71	40,137,267.55
Exchange (gains)/losses	-6,752,751.75	188,818.88
Bank charges	4,494,646.17	5,644,113.81
Total	<u>-15,076,696.90</u>	<u>-17,122,110.76</u>

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

44. Impairment loss

Item	For the year	For the previous year
Provision for bad debts	18,319,202.20	12,495,812.30
Provision for diminution in value of inventories	26,435,334.14	18,035,034.43
Provision for impairment of fixed assets	570,726.35	14,963,017.35
Total	45,325,262.69	45,493,864.08

45. Gains from changes in fair value

Sources of gains from changes in fair value	For the year	For the previous year
Financial assets held for trading	-1,236,410.63	16,381,681.02
Of which: Shares	-1,292,110.24	16,365,634.08
Funds	55,699.61	16,046.94

46. Investment Income

(1) Breakdown of investment income item

Item	For the year	For the previous year
Long-term equity investments income under cost method	343,750.00	0.00
Long-term equity investments income under equity method	2,803,662.91	2,432,195.47
Investment income generated from disposal of long-term equity investments	0.00	0.00
Investment income generated during the year from financial assets held for trading	183,403.88	996,332.31
Investment income generated during the year from held-to-maturity investments	0.00	0.00
Investment income generated during the year from available-for-sale financial assets	364,365.36	151,818.90
Investment income from disposal of financial assets held for trading	844,328.90	556,210.12
Investment income from disposal of held-to-maturity investments	0.00	0.00
Investment income from disposal of available-for-sale financial assets	0.00	0.00
Others	0.00	0.00
Total	4,539,511.05	4,136,556.80

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

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

46. Investment Income (continued)

(2) Long-term equity investments income under cost method

Name of investee	For the year	For the previous year	The reason for changes in the year as compared to the previous year
Ruiheng Medical Technology Investment Co., Ltd. (瑞恒醫藥科技投資有限責任公司)	343,750.00	0.00	Dividends to investee

(3) Long-term equity investments income under equity method

Name of investee	For the year	For the previous year	The reason for changed in the year as compared to the previous year
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	2,871,321.48	3,518,098.34	Changes in income of investee
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	-67,658.57	-1,085,902.87	Changes in income of investee
Total	2,803,662.91	2,432,195.47	

Notes to investment income, if there are significant restrictions to repatriation of investment income, a description is needed, and if there are no such significant restrictions, a description is also needed.

Nil

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

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

47. Non-operating income

Item	For the year	For the previous year	Recognised as extraordinary gains or losses for the year
Gains on disposal of non-current assets in aggregate	359,811.57	1,012,443.94	359,811.57
Of which: Gains on disposal of fixed assets	359,811.57	1,012,443.94	359,811.57
Income from scraps	953,579.28	540,441.33	953,579.28
Government grants (More details, please see the table below: Table for breakdown of government grants)	38,842,657.52	42,064,456.38	38,842,657.52
Compensation income	902,665.59	0.50	902,665.59
Waiver of payables	1,106,716.51	200,090.00	1,106,716.51
Others	943,004.44	450,421.91	943,004.44
Total	<u>43,108,434.91</u>	<u>44,267,854.06</u>	<u>43,108,434.91</u>

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

47. Non-operating income (continued)

Of which, breakdown of government grants:

Item	For the year	For the previous year	Related to assets/ Related to income	Approval documents
Funding for the team for research, development and commercialisation of protein drugs (2012) under the scientific research team for introduction of innovation technologies in Guangdong Province (廣東省引進創新科研團隊(2012)蛋白質藥物研究開發及產業化團隊資金)	956,444.94 13,976,699.97	301,884.02 9,080,491.70	Related to assets Related to income	Yue Cai Jiao [2012] No. 319 (粵財教[2012]319號)
Research of core technologies for the strategic and emerging industries in Guangdong Province (2011) funding for the research of new medicines with MAB for Class I treatment of necrosis factor in human tumour from human source (廣東省戰略新興產業核心技術攻關(2011)類治療用人源化抗人腫瘤壞死因子α單克隆抗體新藥的研製資金)	998,568.64 400,000.00	349,378.16 7,580,000.00	Related to assets Related to income	Yue Ke Gui Hua Zi [2011] No. 167/ Zhu Ke Gong Mao Xin Ji [2012] No. 19 (粵科規劃字[2011]167號/ 珠科工貿信計[2012]19號)
NDRC Ilaprazole Project (發改委艾普拉唑項目)	1,740,196.48 1,107,933.36	1,690,196.48 1,057,933.36	Related to assets Related to income	Yue Fa Gai Gao [2008] No. 1282 Fa Gai Ban Gao Ji [2008] No. 2223 Yue Cai Gong [2010] No.445 (粵發改高[2008]1282號) (發改辦高技[2008]2223號) (粵財工[2010]445號)
2012 Zhuhai Strategic Emerging Industries Special Funds-Bio-medicine, Medical equipment and R&D quota subsidies (2012年珠海市戰略性新興產業專項資金—生物醫藥、醫療器械類研發定額補助資金)	0.00	2,000,000.00	Related to income	Zhu Ke Gong Mao Xin Ji [2012] No. 13 (珠科工貿信計[2012]13號)
Funding for the clinical research in blonanserine, a new type of medicine for the treatment of schizophrenia (新型抗精神分裂癥藥物布南色林的臨床研究資金)	0.00 0.00	270,000.00 1,530,000.00	Related to assets Related to income	Zhu Cai Gong [2012] No. 049 (珠財工[2012]049號)
Funding for the research, development and commercialisation of fluvoxamine, a new type of anti-depressant (新型抗抑鬱藥氟伏沙明的研發及產業化資金)	0.00	1,500,000.00	Related to income	Zhu Cai [2010] No. 93 (珠財[2010]93號)

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

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

47. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income	Approval documents
Funds for little giant training enterprise (小巨人培育企業撥款)	200,000.00	1,400,000.00	Related to income	Hu Ke [2010] No. 047 (滬科[2010]407號)
Funding for the construction of public service platform for foreign trading in Guangdong Province (廣東省外貿公共服務平台建設資金)	0.00	1,225,300.00	Related to income	Yue Cai Wai No. 56 (粵財外56號)
Funding for the research, development and commercialisation of purified inactivate vaccine for the adsorption of Japanese encephalitis (吸附乙型腦炎純化滅活疫苗的研發與產業化資金)	0.00	1,000,000.00	Related to income	Zhu Ke Gong Mao Xin Ji [2011] No. 16 (珠科工貿信計[2011]16號)
Liposome technology innovation project (脂質體技術創新項目)	0.00	944,812.90	Related to income	–
Grant to enterprises manufacturing bright acrylic microspheres and its injection (亮丙微球及注射劑企業撥款)	120,000.00	880,000.00	Related to assets	Hu Ke [2011] No. 71 (滬科[2011]71號)
Subsidy for daptomycin project (達托黴素項目補貼款)	0.00	800,000.00	Related to income	Min Cai (Jiao) Zhi [2012] No. 73 (閩財(教)指[2012]73號)
The 13th China Patent Award and Zhuhai Patent Award (第十三屆中國專利獎和珠海市專利獎)	0.00	800,000.00	Related to income	–
Projects for strategic and emerging industry in 2012 – commercialisation and research of tigecycline for injection to human body (2012年戰略性新興產業專項– 注身用替加環素產業化研究)	45,731.88	754,268.12	Related to income	–
Funding for expansion from organic growth and upgrade of facilities granted by provincial finance department in 2009 (2009年省財政挖潛改造資金)	0.00	700,000.00	Related to income	–
Triple pollen injection medicine (注射用三花粉針)	44,976.51	640,064.88	Related to income	–
Rebate on the incentives for enterprises to secure the employment of disabled people (殘疾人就業保障金企業獎勵金返還)	419,347.31	624,073.02	Related to income	–
Special subsidy funds for two new products (兩新產品專項資金經費)	0.00	600,000.00	Related to income	Yue Cai Wai No. 134 (粵財外134號)

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

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

47. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income	Approval documents
Subsidy from industrial energy saving and recycling economy projects of Fuzhou in 2012 (2012年度福州工業節能與循環經濟項目補助款)	600,000.00	0.00	Related to income	Rong Cai Qi (Zhi) [2013] (No. 3 榕財企(指)[2013]3號)
Funds for quality control programme on Chinese injection medicines from Finance Bureau of Shaoguan (韶關市財政局中藥注射劑質控撥款)	708,333.35	0.00	Related to income	—
Financial interest subsidy for the industrialisation of traditional Chinese medicine injections technological transformation projects (中藥注射劑產業化技術改造工程財政貼息款)	422,131.11	0.00	Related to income	—
5-aminosalicylic acid zinc (5-氨基水楊酸辛)	0.00	537,938.10	Related to income	—
Deferred income carried forward from astragalus GAP projects (結轉黃芪GAP項目遞延收益)	0.00	500,000.00	Related to income	Gong Xin Xiao Fei Han [2012] No. 138 (工信消費函[2012]138號)
Enterprise Incentive Funds (企業獎勵基金)	500,000.00	0.00	Related to income	Ping Dang Fa [2013] No.24 (平黨發[2013]24號)
Oral bifidobacteria viable preparations (口服雙歧桿菌活菌製劑)	0.00	466,205.15	Related to income	Yue Fu [2009] No. 62 (粵府[2009]62號)
Research on commercialisation of potassium citrate sustained release tablets (枸橼酸鉀緩釋片產業化研究)	0.00	76,605.76	Related to assets	Yue Ke Gui Hua Zi [2009] No. 159
	0.00	374,016.36	Related to income	Zhu Cai [2010] No. 93 (粵科規劃字[2009]159號)
				(珠財[2010]93號)
Toxin-clearing and kidney soothing capsule project (消毒安腎膠囊項目)	301,411.64	0.00	Related to assets	Yue Ke Ji Zi [2007] No. 172
	491,776.89	0.00	Related to income	(粵科技字[2007]172號)
Demonstration projects of high concentration organic wastewater treatment technology (高濃度有機廢水治理技術示範項目)	394,404.00	394,404.00	Related to assets	—
Subsidy for technology research and development (技術研究與開發補助款)	300,000.00	0.00	Related to income	Rong Cai Qi (Zhi) [2013] No. 20 (榕財企(指)[2013]20號)
Special fund on renewable energy in 2012 (2012年度可再生能源專項資金)	300,000.00	0.00	Related to income	Zhu Gui Jian Zhi [2013] No. 4 (珠規建質[2013]4號)
Pudong new area vocational training financial subsidy (浦東新區職業培訓財政補貼撥款)	0.00	299,362.22	Related to income	Pu Cai Jiao [2011] No. 9 (浦財教[2011]9號)

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

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

47. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income	Approval documents
Funding for scientific research and funding in 2010 (2010年科技研發經費)	0.00	250,000.00	Related to income	Zhu Xiang Ke Gong Mao Xin Zi [2010] No. 98 (珠香科工貿信字[2010] 98號)
Subsidy to the research in the method for the selection of fermentation techniques and quality control of products regarding etanercept (恩拉發醇工藝優選及產品質量控制方法研究補助)	0.00	240,000.00	Related to income	—
Interest discount funds for promoting imports (進口貼息資金)	412,252.00	0.00	Related to income	—
2011 export credit insurance special funds (2011出口信用保險專項資金)	0.00	215,697.44	Related to income	Qing Cai Wai [2012] No. 24 (清財外[2012]24號)
Patent Technology Support Funds (專利技術扶持資金)	0.00	200,000.00	Related to income	Zhu Zhi [2012] No. 32 (珠知[2012]32號)
Research for enhancing the quality standards of anti-viral granules (抗病毒顆粒質量標準提升研究)	200,000.00	0.00	Related to income	—
Non-PVC bag improvement project (非PVC袋裝改造項目)	145,774.34	194,365.80	Related to assets	Yue Ke Ji Zi [2007] No. 172 (粵科技字[2007]172號)
First batch of energy saving and recycling economy financial incentive projects of Fujian Province (福建省第一批節能循環經濟財政獎勵項目)	190,000.00	0.00	Related to income	Gu Cai Qi [2012] No. 46 (古財企[2012]46號)
Amount granted from Science and Technology Bureau of Shaoguan for quality control research of Shenqi Fuzheng Injection (韶關市科技局轉參扶正注射液質量控制研究撥款)	1,441,666.66	183,333.34	Related to income	Shao Guan Cai Jiao [2011] No. 79(韶關財教[2011]79號)
Improved synthesis of valaciclovir hydrochloride (鹽酸伐昔洛韋合成工藝改進)	0.00	25,770.98	Related to assets	—
Research and application of UHPLC fingerprint for injections to treat thrombus (血栓通注射液UHPLC指紋圖譜的研究與應用)	0.00	146,035.52	Related to income	—
Research and application of UHPLC fingerprint for injections to treat thrombus (血栓通注射液UHPLC指紋圖譜的研究與應用)	0.00	170,000.00	Related to income	—
Dan-phenolic acid (丹酚酸)	0.00	140,757.40	Related to income	—
Subsidy for the demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目補助)	701,000.04	133,662.99	Related to assets	—

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

47. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income	Approval documents
Electricity Incentive Funds (用電獎勵資金)	187,720.00	104,070.00	Related to income	Min Jing Mao Yun Xing [2012] No. 323 (閩經貿運行[2012]323號)
Bonus funds for top ten private enterprises in the municipality for 2010-2011 (2010-2011年度市十強民營企業獎金資金)	0.00	100,000.00	Related to income	Zhu Ke Gong Mao Xin Ji [2012] No. 22 (珠科工貿信計[2012] 22號)
Incentive funds for famous brand names and trademarks of Zhuhai in 2012 (2012年珠海市名牌名標獎勵資金)	0.00	100,000.00	Related to income	Ke Gong Mao 2012 (科工貿2012)
Shanghai Jinqiao Export Processing Zone Management Committee review incentives for high-tech related enterprises (上海金橋出口加工區管理委員會關於高新企業複審獎勵)	0.00	100,000.00	Related to income	Hu Jin Guan [2011] No.57 (滙金管[2011]57號)
Fuzhou Bureau of Finance Hightech Enterprise Fund Award (收福州市財政局撥款高新技術企業認定獎)	0.00	100,000.00	Related to income	Rong Ke [2012] No.35 (榕科[2012]35號)
Subsidies for overseas patent application for xueshuantong (血柱通國外專利資助款)	0.00	100,000.00	Related to income	—
Special funds for protection of intellectual property rights (Guangdong Province Patent Award) (知識產權保護專項經費 (廣東省專利獎))	0.00	100,000.00	Related to income	Yue Cai Jiao No.522 (粵財教522號)
Construction of hi-tech facilities for innovation and commercialisation of modern traditional Chinese medicines (現代中藥高技術創新產業化基地建設)	74,997.00	99,996.00	Related to assets	Shao Cai Gong [2010] No.170 (韶財工[2010]170號)
Shanghai Jinqiao Export Processing Zone Management Committee Financial Support Funds (tax rebates) (上海金橋出口加工區管理委員會財政扶持款(稅收返還))	0.00	91,000.00	Related to income	Hu Jin Guan [2011] No.57 (滙金管[2011]57號)
Export credit insurance subsidies (出口信保補貼)	522,962.00	83,457.00	Related to income	—
Power-saving of lighting pump fan and air-conditioning system (照明水泵風機及空調系統節電)	52,497.00	69,996.00	Related to assets	Shao Cai Gong [2010]No.179 (韶財工[2010]179號)
Power consumption rewards (用電獎勵)	314,700.00	68,910.00	Related to income	Gu Zheng Wen [2012] No.276 (古政文[2012]276號)
Energy consumption subsidies (能耗補貼款)	150,000.00	63,976.00	Related to income	Zhu Bao [2012] No.16 (珠保[2012]16號)
Energy consumption subsidies (能耗補貼款)	8,700.00	0.00	Related to income	—

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

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

47. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income	Approval documents
Development funds for SMEs international market (中小企業國際市場開拓資金)	35,110.00	59,183.00	Related to income	–
Experimental study of anti-viral granules for anti-avian influenza (抗病毒顆粒的抗禽流感實驗研究)	0.00	58,829.14	Related to income	–
Subsidies from Medicines and Health Products Importer and Exporter Association of China (醫藥保健品進出口商會補貼)	0.00	170,342.00	Related to income	–
2011 Qingyuan Patent Incentive Funds (2011清遠市專利獎勵資金)	0.00	50,000.00	Related to income	Qing Cai Jiao [2012] No.14 (清財教[2012]14號)
Development funds for SMEs international market (中小企業國際市場開拓資金)	12,108.00	47,530.00	Related to income	Yue Cai Wai [2010] No.194 (粵財外[2010]194號)
Supplementary funds in rewarding scientific and technology achievements by the State and Guangdong Province in 2010 (2010年度國家和廣東省科技獎勵配套資金)	0.00	40,000.00	Related to income	–
Special funds for marketing projects from the Science and Trade Bureau of Zhuhai (珠海科貿局開拓市場專項資金)	0.00	33,900.00	Related to income	–
2011 Qingyuan Science and Technology Progress Award (2011年度清遠市科學技術進步獎)	0.00	30,000.00	Related to income	Qing Fu [2012] No.16 (清府[2012]16號)
Sustained-release famciclovir capsule 0302 project (泛昔洛韋緩釋膠囊 0302項目)	2,994,863.03	0.00	Related to income	–
Foreign Patent Applications Subsidy Funds (國外專利申請資助經費)	0.00	20,000.00	Related to income	–
Toxin-clearing and kidney soothing capsule (清毒安腎膠囊)	0.00	15,667.11	Related to income	Yue Ke Chan Xue Yan Zi [2009] No.197 (粵科產學研字[2009]197號), Zhu Ke Gong Mao Xin Ji Zi [2010] No.5(珠科工貿信計字[2010]5號)
Shenqi Fuzheng Injection (參芪扶正注射液)	53,521.91	14,407.90	Related to income	–
Medicines and Health Products Importer and Exporter Association of China Funds for SMEs in 2010 CPHI South America Expo (中國醫保商會撥付2010年CPHI南美展中小企業資金)	21,500.00	0.00	Related to income	Notice for Payment of Expansion Fund Regarding International Raw Materials Exhibition in South America in 2010 (《撥付2010年南美國際原料展會開拓資金通知》)

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

47. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income	Approval documents
Social security subsidies and post allowance (社保補貼和崗位補貼)	0.00	13,229.53	Related to income	Cheng Wei Fa [2009]No.26 (成委發[2009]26號)
Environmental protection on-line monitoring compensation (環保在線監測補償金)	0.00	13,000.00	Related to income	—
2012 import discount capital for Guangdong enterprises promotion (2012年廣東省促進企業進口貼息資金)	0.00	12,755.00	Related to income	Yue Cai Wai [2012] No. 100 (粵財外[2012]100號)
Development Fund from Medicines and Health Products Importer and Exporter Association of China for SMEs International Market in 2010 International Pharmaceutical Raw Materials Exhibition in India (中國醫保商會撥付2010年印度國際醫藥原料展覽會中小企業國際市場開拓資金)	30,200.00	0.00	Related to income	Notice of Development Funds for 2010 International Raw Materials Exhibition in India (《撥付2010年印度國際原料展覽會開拓資金通知》)
2012 central funding of special funds to foreign patent applications (2012年中央資助向國外申請專利專項資金)	732,000.00	0.00	Related to income	—
Incentives of the Bonded Zone (保稅區獎勵)	194,800.00	0.00	Related to income	—
Dato industrial technology development project funding (達托產業化技術開發項目撥款)	500,000.00	0.00	Related to income	Rong Ke [2012] No. 54 (榕科[2012]54號)
Gutian County Economic and Trade Bureau Double Tax Levy Incentive Award (古田縣經貿局兩稅即徵即獎獎勵資金)	556,259.00	0.00	Related to income	Gu Zheng Wen [2013] No.104 (古政文[2013]104號)
Special national patent grants (國家申請專利專項補助款)	113,600.00	0.00	Related to income	Yue Cai Jiao [2012] No.500 (粵財教[2012]500號)
2012 Zhuhai special matching funds to expand imports (2012年珠海市擴大進口專項配套資金)	100,000.00	0.00	Related to income	—
Qingyuan Municipal Finance Bureau grant for special funding to small and medium enterprises to develop in 2013(清遠市財政局撥2013中小企業發展專項資金)	225,000.00	0.00	Related to income	Yue Zhong Xiao Qi [2013] No.18 (粵中小企[2013]18號)
Zhuhai Discount Interest Funds for Favoring High-quality Products and Good Enterprises in 2013 (2013年珠海市扶優扶強貼息資金)	1,161,700.00	0.00	Related to income	Zhu Ke Gong Mao Xin [2013] No.929 (珠科工貿信[2013]929號)
Incentive funding for patent application advanced units in Zhuhai in 2012 (2012年度珠海市專利申請工作先進單位獎勵資金)	100,000.00	0.00	Related to income	—

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

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

47. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income	Approval documents
Research and development of Jindele Preparations (金得樂制劑研發)	50,000.00	0.00	Related to income	Yue Zhi Gui [2012] No.254 (粵知規[2012]254號)
Special funds for expanding overseas by enterprises in Zhuhai in 2013 (2013年度珠海市「走出去」專項資金)	50,000.00	0.00	Related to income	—
Encouraging enterprises to transition to expand production at the provincial level awards (鼓勵企業轉型省級擴大生產獎勵)	80,000.00	0.00	Related to income	—
Zhuhai Science and Technology Awards Incentive (珠海市科學技術獎獎勵金)	600,000.00	0.00	Related to income	—
Enterprise Development Reward Funds in 2013 (2013年企業發展獎勵資金)	154,780.00	0.00	Related to income	—
2012 Annual Patent Awards Funds by Zhuhai Finance Bureau (珠海市財政局2012年度珠海市專利獎資金)	100,000.00	0.00	Related to income	—
Special funds for provincial intellectual property rights in 2013 (2013省級知識產權專項資金)	230,000.00	0.00	Related to income	—
2013 subsidy funds for patent application in Zhuhai (2013年珠海市專利申請資助資金)	78,550.00	0.00	Related to income	—
Fuzhou land use tax and property tax subsidy (福州土地使用稅、房產稅補貼)	185,965.78	0.00	Related to income	Rong Zheng Ban [2013] No.86 (榕政辦[2013]86號)
Selected Good faith enterprise Funds by Fuzhou Finance Bureau (福清財政局評選誠信企業獎勵經費)	10,000.00	0.00	Related to income	Rong Ren She Jiu [2013] No.91 (融人社就[2013]91號)
Funds with two types of taxes levied, then granting awards of funds by Gutian County Economic and Trade Bureau (古田縣經貿局兩稅即徵即獎獎勵資金)	221,500.00	0.00	Related to income	Gu Zheng Ban [2013] No.104 (古政辦[2013]104號)
Research and development Fee Subsidy Funds (研究開發費補助資金)	786,100.00	0.00	Related to income	—
Continuous high vacuum concentrated equipment antiviral particles concentrated extract process improvement projects (連續式高濃度真空濃縮設備改進抗病毒顆粒濃縮收膏工藝項目)	50,000.00	0.00	Related to income	Cheng Cai Qi [2012] No.154 (成財企[2012]154號)

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

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

47. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income	Approval documents
Pudong New Area Finance Bureau Science and Technology Development Fund subsidy (浦東新區財政局科技發展基金補助款)	400,000.00	0.00	Related to income	–
Research in the technologies critical to the intelligent monitoring system for bottled infusion workshop (瓶裝輸液車間智能監控管理系統關鍵技術研究)	47,499.99	0.00	Related to income	–
Research and development of sugar and electrolyte mixed injections (混合糖電解質注射液的研製開發)	24,444.44	0.00	Related to income	–
Others	512,930.25	27,650.00	Related to income	–
Total	<u>38,842,657.52</u>	<u>42,064,456.38</u>		

48. Non-operating expenses

Item	For the year	For the previous year	Recognised as extraordinary gains or losses for the year
Losses on disposal of non-current assets	179,663.39	1,081,686.28	179,663.39
Of which: Losses on disposal of fixed assets	179,663.39	1,081,686.28	179,663.39
Write-off of fixed assets	2,257,170.00	1,361,457.76	2,257,170.00
Charity donation expenses	2,126,092.56	186,564.83	2,126,092.56
Others	161,975.34	78,202.94	161,975.34
Total	<u>4,724,901.29</u>	<u>2,707,911.81</u>	<u>4,724,901.29</u>

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

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

49. Income tax expenses

(1) Breakdown of income tax expenses

Item	For the year	For the previous year
Current income tax calculated according to tax laws and relevant rules	111,641,150.16	91,786,506.53
Include: Income tax on domestic enterprises	110,948,465.11	91,729,286.71
Income tax on Hong Kong and Macau enterprises	692,685.05	57,219.82
Adjustment of deferred income tax	-6,687,214.09	-6,696,866.35
Total	104,953,936.07	85,089,640.18

(2) The relationships between income tax expenses and total profit are as follows

Item	For the year	For the previous year
Profit before tax	628,940,453.70	560,312,739.14
Income tax calculated at statutory tax rates	157,235,113.43	140,078,184.79
Tax effect of different rates applicable to subsidiaries	678,758.33	-3,409,446.75
Effect of tax deduction	-76,372,494.55	-60,163,021.54
Effect of non-deductible expenses	2,099,603.18	1,545,866.77
Credit (charge) on temporary differences on which deferred tax assets are not recognised for the year	9,071,931.33	265,412.31
Deductible losses of deferred tax assets that are not recognised for the year	10,336,882.08	5,916,481.24
Use of deductible losses of deferred tax assets that are not recognised in the previous year	-673,122.56	-2,732,982.56
Others	2,577,264.83	3,589,145.92
Total	104,953,936.07	85,089,640.18

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

50. Basic earnings per share and diluted earnings per share

Basic earnings per share are calculated based on the net profit for the year attributable to the shareholders of ordinary shares of the Company divided by weighted average number of ordinary shares issued and outstanding. The newly issued ordinary shares are calculated and recognised based on the terms of issue contracts from the due date of the consideration (normally the stock issue date).

Numerator of diluted earnings per share is determined based on the net profit for the year attributable to the shareholders of ordinary shares of the Company adjusted by the following factors: (1) the interest of the diluted potential ordinary shares already recognised as costs in the current period; (2) the income or costs to arise from the conversion of the diluted potential ordinary shares; and (3) effect of income tax related to the above adjustment.

Denominator of diluted earnings per share is the sum of (1) weighted average number of the ordinary shares issued by the parent in basic earnings per share; and (2) weighted average number of additional ordinary shares arising from the conversion of assumed diluted potential ordinary shares to ordinary shares.

When calculating the weighted average number of additional ordinary shares arising from the conversion of assumed diluted potential ordinary shares to ordinary shares, the diluted potential ordinary shares issued in prior periods are assumed to be converted at the beginning of the year; the diluted potential ordinary shares issued in the year are assumed to be converted on the issue date.

(1) The basic earnings per share and diluted earnings per share for each period are shown below

	For the year		For the previous year	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Profit for the year				
Net profit attributable to shareholders of ordinary shares	1.65	1.65	1.49	1.49
Net profit attributable to shareholders of ordinary shares after extraordinary gains or losses	1.56	1.56	1.34	1.34

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

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

50. Basic earnings per share and diluted earnings per share *(continued)*

(2) The calculation of the basic earnings per share and diluted earnings per share

Item	Serial number	For the year	For the previous year
Net profit attributable to shareholders of ordinary shares	A	487,502,351.80	441,671,519.69
Extraordinary gains or losses	B	25,343,166.07	45,481,265.18
Net profit attributable to shareholders of ordinary shares after extraordinary gains or losses	C=A-B	462,159,185.73	396,190,254.51
Total number of shares at the beginning of the period	D	295,721,852	295,721,852
Increases of shares due to transfer from capital reserve or share dividend during the Reporting Period	E	0.00	0.00
Increases of shares due to issue of new shares or conversion of debts into shares during the Reporting Period	F	0.00	0.00
Accumulated number of months with increase in number of shares from the next month of the increase to the end of the Reporting Period	G	0.00	0.00
Decreases of shares due to shares repurchase during the Reporting Period	H	0.00	0.00
Accumulated number of months with decrease in number of shares from the next month of the decrease to the end of the Reporting Period	I	0.00	0.00
Decreases of shares due to shares consolidation during the Reporting Period	J	0.00	0.00
Amount of months during the Reporting Period	K	12	12
Weighted average number of ordinary shares issued and outstanding	L=D+E+F* G/K-H*I/K-J	295,721,852	295,721,852
Basic earnings per share	M=A/L	1.65	1.49
Basic earnings per share after extraordinary gains or losses	N=C/L	1.56	1.34

During the Reporting Period, there was no potential dilutive ordinary share. Therefore diluted earnings per share is equal to basic earnings per share.

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***51. Other comprehensive income****(1) Breakdown of other comprehensive income**

Item	For the year	For the previous year
1 Gains (losses) on available-for-sale financial assets	-571,299.90	1,374,072.36
Less: Effect of income tax arising from available-for-sale financial assets	-85,694.98	206,110.86
Net amount recognised in other comprehensive income in previous period transferred to profit or loss for the period	0.00	0.00
Sub-total	-485,604.92	1,167,961.50
2 Share of other comprehensive income in investees by equity method	0.00	0.00
Less: Effect of income tax arising from share of other comprehensive income in investees by equity method	0.00	0.00
Net amount recognised in other comprehensive income in previous period transferred to profit or loss for the period	0.00	0.00
Sub-total	0.00	0.00
3 Gains (losses) on cash flow hedges financial instrument	0.00	0.00
Less: Effect of income tax arising from cash flow hedges financial instrument	0.00	0.00
Net amount recognised in other comprehensive income in previous period transferred to profit or loss for the period	0.00	0.00
Amount as adjusted upon initial recognition of items being hedged	0.00	0.00
Sub-total	0.00	0.00

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*51. Other comprehensive income *(continued)*(1) Breakdown of other comprehensive income *(continued)*

Item	For the year	For the previous year
4 Differences from translation of financial statements denominated in foreign currencies	-2,279,751.47	17,010.24
Less: Net amount transferred to profit or loss upon disposal of overseas operations for the period	0.00	0.00
Sub-total	-2,279,751.47	17,010.24
5 Others	0.00	-1,083,068.89
Less: Effect of income tax arising from others items recognised in other comprehensive income	0.00	0.00
Net amount recognised in other comprehensive income in prior period transferred to profit or loss for the period	0.00	0.00
Sub-total	0.00	-1,083,068.89
Total	-2,765,356.39	101,902.85

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

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

51. Other comprehensive income (continued)

(2) Movement in other comprehensive income item

Item	For the year	For the previous year
Balances at the beginning of the period	-14,664,222.17	-14,766,125.02
Including: Capital reserve-Other capital reserve (Available-for-sale financial assets)	6,904,404.48	5,736,442.98
Capital reserve-Other Capital reserve (disposal of equity interests without losing control)	-1,083,068.89	0.00
Differences from translation of financial statements denominated in foreign currencies	-20,485,557.76	-20,502,568.00
Add: Movement for the period	-2,765,356.39	101,902.85
Including: Capital reserve-Other capital reserve (Available-for-sale financial assets)	-485,604.92	1,167,961.50
Capital reserve-Other capital reserve (disposal of equity interests without losing control)	0.00	-1,083,068.89
Differences from translation of financial statements denominated in foreign currencies	-2,279,751.47	17,010.24
Balances at the end of the period	-17,429,578.56	-14,664,222.17
Including: Capital reserve-Other capital reserve (Available-for-sale financial assets)	6,418,799.56	6,904,404.48
Capital reserve-Other capital reserve (disposal of equity interests without losing control)	-1,083,068.89	-1,083,068.89
Differences from translation of financial statements denominated in foreign currencies	<u>-22,765,309.23</u>	<u>-20,485,557.76</u>

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***52. Supplemental information to income statement**

Item	For the year	For the previous year
Profit before tax deductions:		
Materials expenses	1,185,898,427.87	1,160,504,770.38
Labor costs	391,742,182.81	336,478,146.84
Depreciation	149,847,425.36	131,640,099.15
Amortisation of intangible assets	19,029,801.79	20,347,091.49
Amortisation of long-term deferred expenses	11,097,238.69	7,964,467.60
Energy and power	166,048,034.20	163,689,383.95
Other manufacturing expenses	221,671,132.73	170,197,784.95
Marketing and promotional expenses	1,633,089,658.05	1,275,791,015.93
Transportation costs	31,798,233.15	27,893,219.94
Other research and development expenses	32,193,687.83	25,973,740.70
Written-off of provision for diminution in value of inventories	-23,525,855.93	-14,677,797.60
Movement in inventories	-98,061,444.53	-125,432,395.01
Entertainment and travelling expenses	46,977,585.62	47,540,371.67
Business meeting expenses	21,723,598.74	29,827,283.81
Taxation	73,329,454.48	67,416,466.98
Net expenses of financial expenses	-15,076,696.90	-17,122,110.76
Impairment loss	45,325,262.69	45,493,864.08
Others	143,043,395.84	94,473,253.84
Total	<u>4,036,151,122.49</u>	<u>3,447,998,657.94</u>

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***53. Notes to cash flow statement item****(1) Cash received relating to other operating activities**

Item	For the year	For the previous year
Government grants	45,741,704.34	51,783,654.36
Interest income	21,881,776.71	40,137,267.55
Damages and penalty income	1,028,008.09	15,700.00
Income from scraps	953,579.28	540,441.33
Deposits under guarantees for letter of credit	27,346,115.40	2,317,760.92
Movements of capital and others	42,645,468.50	75,383,926.47
Total	<u>139,596,652.32</u>	<u>170,178,750.63</u>

(2) Cash paid relating to other operating activities

Item	For the year	For the previous year
Office expenses	20,156,420.12	18,019,865.34
Travelling expenses	29,051,645.00	25,376,164.37
Entertainment expenses	26,259,707.20	20,374,701.38
Transportation fees	44,314,920.19	41,304,690.87
Advertising expenses	12,836,653.77	11,751,073.80
Business meeting expenses	42,799,570.79	27,601,590.38
Auditing and information disclosure fees	5,038,125.91	2,874,219.19
Consultancy fees	21,101,742.61	2,295,852.53
Research and development costs	60,711,925.91	43,506,598.49
Bank charges	4,494,646.17	5,644,113.81
Reserves	14,427,004.26	40,159,446.52
Business promotion expenses	1,501,760,577.35	1,095,658,880.09
Deposits under guarantees for letter of credit and bank acceptance bills	21,213,571.03	13,696,501.88
Other expenses paid and current account	73,385,182.64	107,776,213.64
Total	<u>1,877,551,692.95</u>	<u>1,456,039,912.29</u>

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

53. Notes to cash flow statement item *(continued)*

(3) Cash received relating to other investing activities

Item	For the year	For the previous year
Deposits under guarantees for letter of credit	<u>6,849,946.69</u>	<u>0.00</u>

(4) Cash paid relating to other investing activities

Item	For the year	For the previous year
Deposits under guarantees for letter of credit	<u>8,563,590.71</u>	<u>0.00</u>

(5) Cash received relating to other financing activities

Item	For the year	For the previous year
Release of pledged deposits	33,000,000.00	13,250,000.00
Dividend withheld for personal income tax	<u>7,666,343.14</u>	<u>0.00</u>
Total	<u>40,666,343.14</u>	<u>13,250,000.00</u>

(6) Cash paid relating to other financing activities

Item	For the year	For the previous year
Financing bills issuance costs	0.00	1,850,000.00
Pledged deposits	<u>4,000,000.00</u>	<u>29,000,000.00</u>
Total	<u>4,000,000.00</u>	<u>30,850,000.00</u>

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

54. Supplemental information to cash flow statement

(1) Information about reconciliation of net profit to cash flow from operating activities

Item	For the year	For the previous year
1 Reconciliation of net profit to cash flow from operating activities:		
Net profit for the year	523,986,517.63	475,223,098.96
Add: Provision for impairment of assets	45,325,262.69	45,493,864.08
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	149,847,425.36	131,640,099.15
Amortisation of intangible assets	19,029,801.79	20,347,091.49
Amortisation of long-term expense	11,097,238.69	7,964,467.60
Losses on disposal of fixed assets, intangible assets and other long-term assets ([-] represents gains)	-180,148.18	69,242.34
Losses on write-off of fixed assets	2,257,170.00	1,361,457.76
Losses from changes in fair value ([-] represents gains/income)	1,236,410.63	-16,381,681.02
Financial expenses ([-] represents gains/income)	315,413.95	16,401,356.41
Investments losses ([-] represents gains)	-4,539,511.05	-4,136,556.80
Decrease in deferred tax assets ([-] represents increase)	-7,030,556.54	-7,165,739.77
Increase in deferred tax liabilities ([-] represents decrease)	343,342.45	468,873.42
Decrease in inventories ([-] represents increase)	-135,325,706.47	-140,110,192.61
Decrease in trade receivables ([-] represents increase)	-941,065,453.15	-288,247,037.53
Increase in trade payables ([-] represents decrease)	774,689,317.89	351,036,320.82
Others	0.00	0.00
Net cash flows from operating activities	439,986,525.69	593,964,664.30

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*54. Supplemental information to cash flow statement *(continued)*(1) Information about reconciliation of net profit to cash flow from operating activities *(continued)*

Item	For the year	For the previous year
2 Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into capital	0.00	0.00
Convertible bonds due within one year	0.00	0.00
Fixed assets acquired under finance leases	0.00	0.00
3 Net movement in cash and cash equivalents:		
Cash at the end of the year	750,928,733.31	1,178,636,300.52
Less: Cash at the beginning of the year	1,178,636,300.52	1,432,175,794.78
Add: Cash equivalents at the end of the year	0.00	0.00
Less: Cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	<u>-427,707,567.21</u>	<u>-253,539,494.26</u>

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

VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***54. Supplemental information to cash flow statement** *(continued)***(2) Relevant information with respect to acquisition or disposal of subsidiaries and other operating units during the year**

Nil

(3) The composition of cash and cash equivalents

Item	As at the year end	At the beginning of the year
1 Cash	750,928,733.31	1,178,636,300.52
Of which: Cash on hand	176,402.83	134,187.07
Bank deposits that are readily available for payment	747,677,597.88	1,175,722,004.87
Other cash at bank and on hand that are readily available for payment	3,074,732.60	2,780,108.58
2 Cash equivalents	0.00	0.00
Of which: Bond investments due within three months	0.00	0.00
3 Cash and cash equivalents at the end of the year	<u>750,928,733.31</u>	<u>1,178,636,300.52</u>

Cash and cash equivalents excluded restricted cash and cash equivalents used by the Company.

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Status of parent company of the Company

Name of parent company	Related party relationship	Type of entity	Place of incorporation	Legal representative	Nature of business
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Joint stock companies with Limited liabilities (listed)	Shenzhen	Zhu Baoguo	Production of oral liquid, drugs and healthcare food
Name of parent company	Registered capital	Percentage of the Company's shareholding held by the parent company (%)	Percentage of the Company's voting rights held by the parent company (%)	The ultimate controlling party of the Company	Organisation code
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	1,545,835,892	26.2105	26.2105	Zhu Baoguo	61887436-7

Notes to the parent company of the Company

As of 31 December 2013, the Company's parent company and its subsidiaries held a total of 140,122,590 shares in the Company, representing 47.3832% of the total share capital of the Company. Among the shares of the Company held by Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司), of which 6,059,428 legal person shares were held in the name of Guangzhou Begol Trading Corporation (廣州保科力貿易公司) and the transfer procedures for these shares were not completed. The transfer procedures for other shares were completed.

2. The Company's subsidiaries

Please refer to note VI.1. for details of the Company's subsidiaries.

3. Joint ventures and associates of the Company

Please refer to note VII.9.(5) for details of investments in joint ventures and investments in associates.

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***4. Other related parties of the Company**

Name of other related parties	Relationship with the Company	Organisation code
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	A company controlled by the holding company of the Company	61885517-4
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	A company controlled by the holding company of the Company	77512952-0
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the holding company of the Company	75788087-1
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the holding company of the Company	61749891-0
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	A company controlled by the holding company of the Company	74121715-1
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	A company controlled by the holding company of the Company	73308333-3

5. Related party transactions**(1) Related party transactions relating to purchase of goods/receipt of services**

Related party	Related party transaction description	Pricing basis and decision making procedures of the related party transactions	For the year		For the previous year	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Raw materials	The market price	2,207,741.30	0.13	5,695,958.79	0.28
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	17,075,517.51	1.03	4,845,110.15	0.24
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	Low-valued consumables	The market price	85,470.09	0.01	159,418.82	0.01
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished goods	The market price	0.00	0.00	160,957.27	0.01
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	131,888,406.20	7.98	79,468,360.65	3.96
Total			151,257,135.10	9.15	90,329,805.68	4.50

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

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*5. Related party transactions *(continued)*

(2) Related party transactions relating to sales of goods/provision of services

Related party	Related party transaction description	Pricing principles and decision making procedures of the related party transactions	For the year		For the previous year	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Finished goods	The market price	11,790.98	0.00	284,443.66	0.01
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	27,267,027.26	0.60	25,914,485.75	0.66
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	477,786.16	0.01	3,076.92	0.00
Sales of goods in aggregate			27,756,604.40	0.61	26,202,006.33	0.67
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Electricity and power	The market price	5,653,490.52	97.63	5,492,412.56	91.15
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Electricity and power	The market price	114,372.01	1.97	0.00	0.00
Provision of services in aggregate			5,767,862.53	99.60	5,492,412.56	91.15

(3) Related party leases

1 The Company as lessor

Name of lessor	Name of lessee	Class of leased assets	Commencement date of the lease	Expiry date of the lease	Determination basis for lease income	Lease income recognised for the year
The Company	Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings	January 2013	December 2013	The market price	436,577.46
The Company	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	March 2011	December 2013	The market price	99,948.00

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(3) Related party leases** *(continued)***2 The Company as lessee**

Name of lessor	Name of lessee	Class of leased assets	Commencement date of the lease	Expiry date of the lease	Determination basis for Leasing expenses	Leasing expenses recognised for the year
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	The Company	Plant & buildings	February 2013	February 2014	The market price	658,944.00

(4) Related party guarantees

During the Reporting Period, the details on the bank loans of subsidiaries guaranteed by the Company were set out as follow:

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balances at the end of the period	Actual guaranteed amount	Guaranteed amount	Type of guarantee	Period of guarantee
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑有限公司)	2013.3.12	0.00	0.00	4,000.00	Joint liability	2013.3.12-2016.3.12 Bank of China, Zhuhai Branch (珠海中行)
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑有限公司)	2013.3.22	0.00	0.00	2,438.76 (USD400.00)	Joint liability	2013.3.22-2016.3.21 Standard Chartered Bank, Zhuhai Branch (渣打銀行珠海分行)
Zhuhai Livzon Pharmaceutical Trade Co., Ltd. (珠海麗珠醫藥貿易有限公司)	2012.7.2	0.00	0.00	1,000.00	Joint liability	2012.7.2-2015.7.2 Bank of Communication, Zhuhai Branch (珠海交行)
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	2012.4.17	14,920.00	15,000.00	15,000.00	Joint liability	2012.4.17-2015.4.16 China Agricultural Bank, Shaoguan Wujian Sub-branch (農業銀行韶關曲江支行)
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	2012.6.7	0.00	0.00	3,000.00	Joint liability	2012.6.7-2014.6.7 Zhuhai China Resources Bank (珠海華潤銀行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2013.7.12	8,648.53	8,648.53 (HKD11,000.00)	20,000.00	Joint liability	2013.7.12-2016.7.12 Agricultural Bank of China, Zhuhai Branch (珠海農行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2013.6.28	0.00	0.00	2,438.76 (USD400.00)	Joint liability	2013.6.28-2014.6.27 Xiamen International Bank, Zhuhai Branch (廈門國際銀行珠海分行)

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

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*5. Related party transactions *(continued)*(4) Related party guarantees *(continued)*

Name of guaranteed party	Actual date of event (Signing date of the Agreement)	Balances at the end of the period	Actual guaranteed amount	Guaranteed amount	Type of guarantee	Period of guarantee
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2010.12.23	0.00	0.00	32,000.00	Joint liability	2010.12.14-2018.12.14 Bank of Communication, Zhuhai Branch (珠海交行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2009.10.15	0.00	0.00	13,000.00	Joint liability	2009.10.15-2017.12.31 Bank of China, Zhuhai Branch (珠海中行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2013.6.6	0.00	0.00	10,000.00	Joint liability	2013.6.6-2016.6.6 Bank of China, Zhuhai Branch (珠海中行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2010.5.13	0.00	0.00	7,862.30 (HKD10,000.00)	Joint liability	2010.7.20-2013.7.20 Nanyang Commercial Bank, Shenzhen Branch (南洋商業銀行深圳分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2012.7.31	0.00	0.00	3,962.99 (USD650.00)	Joint liability	2012.7-31-2015.7.31 Societe Generale, Guangzhou Branch (法國興業銀行廣州分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2012.6.7	4,245.64	5,424.99 (HKD6,900.00)	9,000.00	Joint liability	2012.6.7-2014.6.7 Zhuhai China Resources Bank (珠海華潤銀行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2013.12.24			15,000.00	Joint liability	2013.12.24-2014.6.7 Zhuhai China Resources Bank (珠海華潤銀行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2011.8.4	0.00	0.00	4,324.27 (HKD5,500.00)	Joint liability	2011.8.4-2014.8.4 Wing Lung Bank, Macau Branch (永隆銀行澳門分行)
Total actual amount guaranteed for loans of subsidiaries during the Reporting Period				29,073.52		
Balance of total amount guaranteed for loans of subsidiaries during the end of the Reporting Period				27,814.17		

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

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(5) Remuneration of key management personnel**

1 Directors' and supervisors' remuneration were disclosed as follows

2013

Unit: RMB'0,000

	Fees	Salaries, allowances and benefits in kind	Social insurance, pensions and others	Total in 2013
Directors				
Zhu Baoguo (朱保國)	9.00	0.00	0.00	9.00
Liu Guangxia (劉廣霞)	7.20	0.00	0.00	7.20
An Ning (安寧)	7.20	83.21	10.61	101.02
Tao Desheng (陶德勝)	7.20	68.64	9.61	85.45
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	7.20
Zhong Shan (鍾山)	7.20	0.00	0.00	7.20
Independent Directors				
Wang Junyan (王俊彥)	4.00	0.00	0.00	4.00
Luo Xiaosong (羅曉松)	9.60	0.00	0.00	9.60
Yang Bin (楊斌)	9.60	0.00	0.00	9.60
Guo Guoqing (郭國慶)	5.60	0.00	0.00	5.60
Wang Xiaojun (王小軍)	2.40	0.00	0.00	2.40
Yu Xiong (俞雄)	2.40	0.00	0.00	2.40
Supervisors				
Cao Pingwei (曹平偉)	1.75	0.00	0.00	1.75
Wang Maolin (汪卯林)	3.60	24.86	6.58	35.04
Pang Datong (龐大同)	1.50	0.00	0.00	1.50
Yuan Huasheng (袁華生)	2.45	0.00	0.00	2.45
Huang Huamin (黃華敏)	2.10	0.00	0.00	2.10
Total	90.00	176.71	26.80	293.51

Mr. Guo Guoqing (郭國慶先生) was appointed on 7 June 2013; Mr. Wang Xiaojun (王小軍先生) and Mr. Yu Xiong (俞雄先生) were appointed on 16 September 2013; Mr. Yuan Huasheng (袁華生先生) and Mr. Huang Huamin (黃華敏先生) were appointed on 7 June 2013.

Mr. Cao Pingwei (曹平偉先生) and Mr. Pang Datong (龐大同先生) resigned on 7 June 2013; Mr. Wang Junyan (王俊彥先生) resigned on 7 June 2013.

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

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(5) Remuneration of key management personnel** *(continued)*1 Directors' and supervisors' remuneration were disclosed as follows *(continued)*

2012

Unit: RMB'0,000

	Fees	Salaries, allowances and benefits in kind	Social insurance, pensions and others	Total in 2012
Directors				
Zhu Baoguo (朱保國)	9.00	0.00	0.00	9.00
Liu Guangxia (劉廣霞)	7.20	0.00	0.00	7.20
An Ning (安寧)	7.20	109.91	10.10	127.21
Tao Desheng (陶德勝)	7.20	88.94	9.10	105.24
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	7.20
Zhong Shan (鍾山)	7.20	0.00	0.00	7.20
Independent Directors				
Wang Junyan (王俊彥)	9.60	0.00	0.00	9.60
Luo Xiaosong (羅曉松)	9.60	0.00	0.00	9.60
Yang Bin (楊斌)	9.60	0.00	0.00	9.60
Supervisors				
Cao Pingwei (曹平偉)	4.20	0.00	0.00	4.20
Wang Maolin (汪卯林)	3.60	25.65	6.06	35.31
Pang Datong (龐大同)	3.60	0.00	0.00	3.60
Total	<u>85.20</u>	<u>224.50</u>	<u>25.26</u>	<u>334.96</u>

During the Reporting Period, no remuneration was paid by the Company to any director and supervisor as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which any director and supervisor waived any remuneration.

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(5) Remuneration of key management personnel** *(continued)***2 Individuals with highest emoluments**

The emoluments of two and two of the five highest paid individuals were directors of the Company for the year 2012 and 2013, respectively. Their remuneration were already disclosed in note. VIII 5(5) Remuneration of key management personnel. The aggregate emoluments of the remaining (three and three for 2012 and 2013, respectively) were disclosed as follows:

Unit: RMB'0,000

	Total in 2013	Total in 2012
Salaries and allowances	192.68	263.66
Social insurance, pensions and others	25.22	24.19
Total	217.90	287.85

Of which: Number of individuals whose emoluments fell within RMB1,000,000

3 2

Number of individuals whose emoluments fell within the range of RMB1,000,000 to RMB2,000,000

0 1

During the year, no remuneration was paid by the Company to the above mentioned personnel as an inducement to join or upon joining the Company or as compensation for loss of office.

(6) Other affiliated transactions

On 3 June 2013, it was resolved in the First Extraordinary General Meeting in 2013 of Zhuhai Livzon MAB Biological Technology Co., Ltd. that its registered capital would be increased to RMB300 million, for which the first instalment of contribution amounting to RMB100 million should be paid before 30 June 2013 and the remaining balance shall be paid up within 36 months after 30 June 2013. The capital increase was resolved and approved in the Second Extraordinary General Meeting of the Company in 2013 on 7 June 2013.

As at 9 June 2013, the Company and Joicare Pharmaceutical Industry Group Co., Ltd. had contributed RMB51 million and RMB49 million respectively with a total of RMB100 million subscribed. The proportion of contribution remained the same.

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

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

6. Amounts due from/to related parties

(1) Amounts due from related parties and prepayments

Item	Related parties	As at the year end		At the beginning of the year	
		Gross amount	Provision for bad debts	Gross amount	Provision for bad debts
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	4,399,251.20	219,962.56	8,724,846.80	436,242.34
Accounts receivables	Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	39,288.71	1,964.44	19,928.25	996.41
Accounts receivables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	508,604.00	25,430.20	0.00	0.00
Sub-total		<u>4,947,143.91</u>	<u>247,357.20</u>	<u>8,744,775.05</u>	<u>437,238.75</u>
Other receivables	Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	12,994.47	649.72	26,386.99	1,319.35
Other receivables	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	16,658.00	832.90	0.00	0.00
Other receivables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	210,401.51	10,520.08	0.00	0.00
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	545,153.86	27,257.69	942,888.96	47,144.45
Sub-total		<u>785,207.84</u>	<u>39,260.39</u>	<u>969,275.95</u>	<u>48,463.80</u>

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***6. Amounts due from/to related parties** *(continued)***(2) Amounts due to related parties and receipts in advance**

Item	Related parties	As at the year end	At the beginning of the year
Accounts payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	4,380.00	275.00
Accounts payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	6,269,102.56	4,065,860.00
Accounts payables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	55,703,992.40	25,289,950.00
Sub-total		<u>61,977,474.96</u>	<u>29,356,085.00</u>
Other payables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	12,482.17	7,261.05
Other payables	Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團 股份有限公司)	1,537,536.00	878,592.00
Sub-total		<u>1,550,018.17</u>	<u>885,853.05</u>

IX. CONTINGENCIES

As at 31 December 2013, there was no significant contingencies that required to be disclosed by the Group.

X. COMMITMENTS**1. Significant commitments****(1) Capital commitments**

Item	As at the year end	At the beginning of the year
Contracted but not recognised in the financial statements – Commitments in relation to acquisition of long-term assets	<u>276,172,853.42</u>	<u>362,450,746.47</u>
Total	<u>276,172,853.42</u>	<u>362,450,746.47</u>

X. COMMITMENTS *(continued)***1. Significant commitments** *(continued)***(2) Operating lease commitments**

As at the balance sheet date, the Company signed the non-cancellable operating leases as follows:

Item	As at the year end	At the beginning of the year
Minimum lease payments under non-cancellable operating leases payable:		
Within 1 year	4,379,985.00	4,860,879.00
1 to 2 years	2,474,882.50	24,639.80
2 to 3 years	187,856.40	0.00
Over 3 years	8,404.20	0.00
Total	<u>7,051,128.10</u>	<u>4,885,518.80</u>

(3) Other commitments

- The Company entered into a patent licencing agreement with IL-Yang Pharmaceutical Co. Ltd. of Korea. It was agreed that the Company would be solely entitled to the irrevocable use of patent in PPI (proton pump inhibitor) compounds, as well as the production, processing and sales in China (including Hong Kong and Macau) on an exclusive basis regarding the patent of IL-Yang. It was agreed that an entry fee of USD2,500,000 was payable. As at 31 December 2008, such amount was fully settled. The Company agreed to pay a commission of 10% on the sales of goods to IL-Yang since the sales of products begin for three years and a commission of 8% on the sales of goods for five years after the first three years, and to pay a commission of 6% on the sales from thereafter to 22 July 2014, i.e. the expiry date of the agreement. Commission were paid according to the agreement since sales commenced in 2009.

X. COMMITMENTS *(continued)***1. Significant commitments** *(continued)***(3) Other commitments** *(continued)*

- 2 In 2005, the Company entered into a licencing and supply agreement with LG Life Science Ltd. of Korea (hereinafter referred to as "LG Life Science") regarding the relevant licence on the intellectual property rights of Gemifloxacin Mesylate, payment for the licences of injection and tablets for mesylate gemifloxacin at USD1,000,000 each. As at 31 December 2006, such amounts were settled in full. It was provided in the agreement that:

Within the first five business years upon the agreement became effective, if the net sales volume of the above tablet products of the Company reached 1,500,000 packets (3 tablets in each packet), LG Life Science shall pay a rebate to the Company of USD500,000 (net of tax) within two months after the Company submitted its net sales certificate to LG Life Science. At the same time, within the valid period of the agreement (as of the end of 2015), the Company shall pay licence fee to LG Life Science of 1.5% on the net sales amount (net of tax) within 30 days after the end of each quarter. Licence fee was paid according to the provisions of the agreement since the sales began in 2008.

Within the first five business years upon the agreement became effective, the Company shall pay licence fee of the above injection products to LG Life Science of 10% on the net sales amount (net of tax) within 30 days after the end of each quarter. From the sixth business year until the expiry of the agreement (as of the end of 2019), the Company shall pay licence fee to LG Life Science of 6% on the net sales amount (net of tax) within 30 days after the end of each quarter.

2. Performance of previous commitments

The Company has duly performed the capital expenditure commitments and the operating lease commitments dated as at 31 December 2012 and the other commitments.

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

XI. POST BALANCE SHEET DATE EVENTS

On 24 March 2014, the Company held the Twenty-eighth Meeting of the Seventh Board and passed the resolution of 2013 annual profit distribution plan, under which the parent's undistributed profit available for distribution to shareholders in 2013 was RMB515,462,518.82 with reference to the net profit of RMB108,779,100.70 realised by the parent in 2013 less the statutory reserve fund of RMB10,877,910.07 set aside at 10% as per applicable regulations, plus the opening undistributed profit of RMB565,422,254.19 and further minus the dividends of RMB147,860,926.00 paid under 2012 annual profit distribution plan.

Considering the capital demands due to its operations, the Company drafted 2013 profit distribution plan: To distribute cash dividend of RMB5 to all shareholders of the Company for every 10 shares held with the Company's total equity of 295,721,852 shares as at 31 December 2013 as the base. The Company is expected to use approximately RMB147,860,926.00 for profit distribution and the remaining undistributed profit is to be carried forward to the next financial year. No distribution of bonus shares and no transfer of capital reserve into share capital will be undertaken in this financial year.

The above mentioned profit distribution plan shall be submitted to the annual general meeting of 2013 for examination and approval.

As at the date of this report, there is no other non-adjusting post balance sheet event that should be disclosed by the Company.

XII. OTHER SIGNIFICANT MATTERS

1. Assets and liabilities measured at fair value

Unit: RMB'000

Item	Balances at the beginning of the year	Change in fair value for the year	Accumulated change in fair value in equity	Provision of impairment for the year	Balances at the end of the year
Financial assets					
Financial assets at fair value through profit or loss (excluding derivative financial assets)	59,319.62	-1,236.41	0.00	0.00	11,335.13
Derivative financial assets	0.00	0.00	0.00	0.00	0.00
Available-for-sale financial assets	10,612.86	0.00	-571.30	0.00	10,041.56
Sub-total for financial assets	69,932.48	-1,236.41	-571.30	0.00	21,376.69
Investment properties	0.00	0.00	0.00	0.00	0.00
Productive biological assets	0.00	0.00	0.00	0.00	0.00
Others	0.00	0.00	0.00	0.00	0.00
The above total	69,932.48	-1,236.41	-571.30	0.00	21,376.69
Financial liabilities	0.00	0.00	0.00	0.00	0.00

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

XII. OTHER SIGNIFICANT MATTERS *(continued)***2. Financial assets and liabilities in foreign currencies**

Unit: RMB'000

Item	Balances at the beginning of the year	Change in fair value for the year	Accumulated change in fair value in equity	Provision of impairment for the year	Balances at the end of the year
Financial assets					
Financial assets at fair value through profit or loss (excluding derivative financial assets)	58,780.09	-1,292.11	0.00	0.00	10,739.90
Derivative financial assets	0.00	0.00	0.00	0.00	0.00
Loans and receivables	64,130.63	0.00	0.00	2,108.58	100,108.91
Available-for-sale financial assets	0.00	0.00	0.00	0.00	0.00
Held-to-maturity investments	0.00	0.00	0.00	0.00	0.00
Sub-total for financial assets	<u>122,910.72</u>	<u>-1,292.11</u>	<u>0.00</u>	<u>2,108.58</u>	<u>110,848.81</u>
Financial liabilities	248,730.85	0.00	0.00	0.00	245,537.94

XII. OTHER SIGNIFICANT MATTERS *(continued)***3. Management objectives and policies of financial risks**

The operation activities of the Company are subject to various financial risks: market risks (mainly including foreign exchange risks and interest rate risks), credit risks and liquidity risks. The Company formulates an overall risk management plan with respect to the unforseeability of the financial market in order to minimise the potential adverse impacts on the financial performance of the Company.

(1) Foreign exchange risks

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Company still has certain imports and exports businesses regarding bulk medicines and diagnostic reagents and equipment, for which they are settled in U.S. dollar and Japanese Yen. The Company's businesses outside China (mainly in Hong Kong) are settled in Hong Kong dollars. In addition, the Company had loans denominated in Hong Kong dollars. As at the end of the year, the balance of loans in Hong Kong dollars amounted to HK\$306.6335 million. In respect of the above, the Company still exposes to certain foreign exchange risks. Taking into account the foreign exchange risks acceptable by the Company, the Company does not use derivatives to hedge foreign exchange risks. However, as to the foreign exchange risk in loans, the Company shall closely monitor the trend on the exchange rate of Renminbi, and timely adjust the extent of borrowings, so as to reduce its risks to the minimum.

Financial assets and liabilities in foreign currencies held by the Company expressed in Renminbi are stated below:

1 31 December 2013

Unit: RMB'000

Item	Hong Kong dollars items	U.S. dollars items	Euro items	Japanese Yen items	Macau dollars items
Financial assets in foreign currencies–					
Cash at bank and on hand	33,220.85	18,102.66	202.45	2,741.95	1,016.77
Accounts receivables	0.00	103,438.59	0.00	1,131.26	763.25
Prepayments	0.00	0.00	0.00	0.00	0.00
Other receivables	324.02	0.00	0.00	0.00	0.00
Sub-total :	<u>33,544.87</u>	<u>121,541.25</u>	<u>202.45</u>	<u>3,873.21</u>	<u>1,780.02</u>
Financial liabilities in foreign currencies–					
Short-term loans	241,084.45	0.00	0.00	0.00	0.00
Accounts payables	0.00	2,434.48	0.00	0.00	0.00
Receipts in advance	0.00	765.63	0.00	0.00	0.00
Interest payables	1,131.24	0.00	0.00	0.00	0.00
Other payables	121.29	0.00	0.00	0.00	0.85
Sub-total :	<u>242,336.98</u>	<u>3,200.11</u>	<u>0.00</u>	<u>0.00</u>	<u>0.85</u>

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

XII. OTHER SIGNIFICANT MATTERS *(continued)***3. Management objectives and policies of financial risks** *(continued)***(1) Foreign exchange risks** *(continued)*

2 31 December 2012

Unit: RMB'000

Item	Hong Kong dollars items	U.S. dollars items	Euro items	Japanese Yen items	Macau dollars items
Financial assets in foreign currencies–					
Cash at bank and on hand	15,780.14	6,497.35	244.83	185.63	78.88
Accounts receivables	0.00	63,074.25	0.00	420.11	0.00
Prepayments	3,811.00	0.00	0.00	0.00	0.00
Other receivables	264.91	0.00	0.00	0.00	0.00
Sub-total :	<u>19,856.05</u>	<u>69,571.60</u>	<u>244.83</u>	<u>605.74</u>	<u>78.88</u>
Financial liabilities in foreign currencies–					
Short-term loans	246,169.50	0.00	0.00	0.00	0.00
Accounts payables	0.00	0.00	0.00	0.00	0.00
Receipts in advance	0.00	348.10	0.00	0.00	0.00
Interest payables	2,086.28	0.00	0.00	0.00	0.00
Other payables	126.97	0.00	0.00	0.00	0.00
Sub-total :	<u>248,382.75</u>	<u>348.10</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

As at 31 December 2013, in respect of Group's financial assets and liabilities denominated in Hong Kong dollar, U.S. dollar, Euro, Japanese Yen, Macau dollar, should the value of RMB appreciate or depreciate by 5% against the Hong Kong dollar, U.S. dollar, Euro, Japanese Yen, Macau dollar, and other factors remain unchanged, the Group would be subject to an increase or decrease in profit of RMB4.22981 million (2012: RMB7.91869 million).

(2) Interest rate risk

The Company's exposures in interest rate risk are mainly arising from bank borrowings. The bank lending rates are affected by the macro monetary policies of China, so that the Company is facing the risks arising from fluctuation of interest rates in future.

The finance department of the head office of the Company continues to monitor the interest rate level of the Company. The rise in the interest rate will increase the cost of additional interest bearing liability and the interest expense of the Company's outstanding interest bearing liability of which the interest is calculated at floating rate and impose material adverse impact on the financial results of the Company. The management will timely make adjustment based on the updated market conditions. The directors of the Company considers that the future changes in the interest rate will have no material adverse impact on the operating results of the Company.

XII. OTHER SIGNIFICANT MATTERS *(continued)***3. Management objectives and policies of financial risks** *(continued)***(3) Credit risk**

Credit risk is primarily attributable to cash and cash equivalents, restricted cash at bank, accounts receivables and other receivables. In respect of cash at banks, they were placed at several banks with good reputations, for which the credit risk was limited. In respect of accounts receivables, the Company shall assess the credit limit granted to customers for credit purpose. Moreover, as the customer base is large, the credit risk on accounts receivables is not concentrated. In respect of the settlement of bills receivables, a lot of bills receivables are used to settle external payments, which significantly limit the balance of bills receivables. Moreover, the balance of bills receivables are quality bills having maturity within three months. Therefore, there should not be any significant credit risk. In addition, the provision made on accounts receivables and other receivables are adequate to manage the credit risk.

(4) Liquidity risk

The Company adopts a prudent liquidity risk management, so as to ensure the sufficiency of the sources of monetary funds and liquidity by maintaining adequate monetary funds and reserve of banking facilities so that we can secure credit loans from banks. Apart from indirect financing from banks, a number of financing channels were opened, such as direct financing by inter-bank market including short-term financing bills and medium-term financing bills, corporate bonds etc. These instruments can appropriately reduce the effects arising from the scale of financing by inter-bank market and the macro monetary policies of China, which shall secure adequate funds in a flexible manner.

4. On 16 January 2014, the Company was approved by the Stock Exchange of Hong Kong Limited to list and trade 111,993,354 domestically listed foreign shares (B share) in the share capital of the Company on the Main Board of the Stock Exchange of Hong Kong Limited.

XIII. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES**1. Net current assets**

Item	As at the year end	At the beginning of the year
Current assets	2,980,726,564.42	2,973,875,718.74
Less: Current liabilities	2,329,680,971.69	2,376,185,737.45
Net current assets	<u>651,045,592.73</u>	<u>597,689,981.29</u>

2. Total assets less current liabilities

Total assets	6,566,006,124.91	5,633,753,961.14
Less: Current liabilities	2,329,680,971.69	2,376,185,737.45
Total assets less current liabilities	<u>4,236,325,153.22</u>	<u>3,257,568,223.69</u>

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

1. Accounts receivables

(1) Accounts receivables presented by types

Type	As at the year end			
	Gross amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	569,946,046.41	100.00	30,509,881.30	5.35
Accounts receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00
Total	<u>569,946,046.41</u>	<u>100.00</u>	<u>30,509,881.30</u>	<u>5.35</u>
Type	At the beginning of the year			
	Gross amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00
Accounts receivables assessed for impairment collectively	377,303,477.50	100.00	20,359,295.33	5.40
Accounts receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00
Total	<u>377,303,477.50</u>	<u>100.00</u>	<u>20,359,295.33</u>	<u>5.40</u>

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*1. Accounts receivables *(continued)*(2) *The ageing analysis of accounts receivables*

Item	As at the year end		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	560,624,817.56	98.37	370,544,400.26	98.21
1 to 2 years	4,774,385.48	0.84	4,525,851.18	1.20
2 to 3 years	2,691,011.67	0.47	536,357.54	0.14
3 to 4 years	518,046.08	0.09	677,709.05	0.18
4 to 5 years	464,429.25	0.08	403,032.26	0.11
Over 5 years	873,356.37	0.15	616,127.21	0.16
Total	569,946,046.41	100.00	377,303,477.50	100.00

(3) *Status of provision for bad debts*

Accounts receivables for which provisions for bad debts has been made using the ageing analysis method in the portfolio

Ageing	As at the year end			At the beginning of the year		
	Gross amount		Provision for bad debts	Gross amount		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	560,624,817.56	98.37	28,031,240.88	370,544,400.26	98.21	18,527,220.02
1 to 2 years	4,774,385.48	0.84	286,463.13	4,525,851.18	1.20	271,551.08
2 to 3 years	2,691,011.67	0.47	538,202.33	536,357.54	0.14	107,271.51
3 to 4 years	518,046.08	0.09	362,632.26	677,709.05	0.18	474,396.48
4 to 5 years	464,429.25	0.08	417,986.33	403,032.26	0.11	362,729.03
Over 5 years	873,356.37	0.15	873,356.37	616,127.21	0.16	616,127.21
Total	569,946,046.41	100.00	30,509,881.30	377,303,477.50	100.00	20,359,295.33

(4) *Status of accounts receivables reversed or recoverable for the year*

Nil

(5) *Status of large sum of accounts receivables actually written off during the Reporting Period*

Nil

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***1. Accounts receivables** *(continued)*

(6) There was no amount due from a shareholder holding 5% (inclusive) or more of voting rights in the Company for balances at the year end.

(7) Status of accounts receivables due from top five customers at the year end

Name of unit	Relationship with the Company	Amount	Nature or description	Term	Proportion to total accounts receivables (%)
Harbin Pharmaceutical Group Sanjing New Drug LLC (哈藥集團三精新藥有限責任公司)	Non-related party	31,951,488.00	Sales of goods	Within 1 year	5.61
Liao Ning Hengsong Pharmaceutical Co., Ltd. (遼寧恆松醫藥有限公司)	Non-related party	20,744,232.80	Sales of goods	Within 1 year	3.64
Guangdong Midea Kang Taiguang Aventis Pharmaceutical Co., Ltd. (廣東美康大光萬特醫藥有限公司)	Non-related party	15,436,958.00	Sales of goods	Within 1 year	2.71
Sinopharm Group Xinjiang Special Drugs Co., Ltd. (國藥集團新疆新特藥業有限公司)	Non-related party	14,905,945.64	Sales of goods	Within 1 year: RMB14,881,191.64, 1 to 2 years: RMB14,210.00, 2 to 3 years: RMB10,544.00	2.61
Shanghai Pharmaceutical Co., Ltd. (上海醫藥分銷控股有限公司)	Non-related party	12,664,638.40	Sales of goods	Within 1 year	2.22
Total		<u>95,703,262.84</u>			<u>16.79</u>

(8) Status of accounts receivables due from related parties

Nil

(9) Status of accounts receivables de-recognised

Nil

(10) For those securitised assets of the underlying accounts receivables, the amount of assets and liabilities were formed by its continuous involvement

Nil

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

2. Other receivables

(1) Other receivables presented by types

Type	As at the year end			
	Gross amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	13,093,335.11	1.00	4,614,815.34	35.25
Receivables from each company in the scope of combination	1,302,413,838.81	99.00	0.00	0.00
Other receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00
Total	<u>1,315,507,173.92</u>	<u>100.00</u>	<u>4,614,815.34</u>	<u>0.35</u>
Type	At the beginning of the year			
	Gross amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00
Other receivables that are assessed for impairment collectively	13,993,483.90	2.07	1,868,360.55	13.35
Receivables from each company in the scope of combination	660,749,892.24	97.93	0.00	0.00
Other receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00
Total	<u>674,743,376.14</u>	<u>100.00</u>	<u>1,868,360.55</u>	<u>0.28</u>

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***2. Other receivables** *(continued)***(2) Ageing analysis of other receivables was as follows**

Item	As at the year end		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	1,307,278,655.38	99.38	666,970,091.25	98.85
1 to 2 years	1,634,216.87	0.12	1,657,323.91	0.25
2 to 3 years	813,087.83	0.06	5,691,933.94	0.84
3 to 4 years	5,514,199.78	0.42	310,499.77	0.05
4 to 5 years	160,499.77	0.01	113,527.27	0.01
Over 5 years	106,514.29	0.01	0.00	0.00
Total	1,315,507,173.92	100.00	674,743,376.14	100.00

(3) Status of provision for bad debts

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

Ageing	As at the year end			At the beginning of the year		
	Gross amount		Provision for bad debts	Gross amount		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	4,864,816.57	37.16	243,240.83	6,220,199.01	44.45	311,009.95
1 to 2 years	1,634,216.87	12.48	98,053.01	1,657,323.91	11.84	99,439.43
2 to 3 years	813,087.83	6.21	162,617.57	5,691,933.94	40.68	1,138,386.79
3 to 4 years	5,514,199.78	42.11	3,859,939.85	310,499.77	2.22	217,349.84
4 to 5 years	160,499.77	1.23	144,449.79	113,527.27	0.81	102,174.54
Over 5 years	106,514.29	0.81	106,514.29	0.00	0.00	0.00
Total	13,093,335.11	100.00	4,614,815.34	13,993,483.90	100.00	1,868,360.55

2 Receivables from each company in the scope of combination

Other receivables description	Carrying amount	Provision for bad debts	Percentage of provision (%)	Reason
Current account	1,302,413,838.81	0.00	0.00	The debtor is a subsidiary of the Company and there is no risk in the collection.

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*2. Other receivables *(continued)*

(4) Status of other receivables reversed or recoverable for the year

Nil

(5) Status of large sum of other receivables actually written off during the Reporting Period

Nil

(6) For balances at the year end, there was no amount due from a shareholder holding 5% (inclusive) or more of voting rights in the Company.

(7) Status of other receivables due from top five customers

Name of unit	Relationship with the Company	Amount	Nature or description	Term	Proportion to total other receivables (%)
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Subsidiary	334,067,760.92	Current account	Within 1 year	25.40
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Subsidiary	294,552,537.93	Current account	Within 1 year	22.39
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Subsidiary	267,754,929.58	Current account	Within 1 year	20.35
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	154,597,689.70	Current account	Within 1 year	11.75
Ando Development Limited (安滔發展有限公司)	Subsidiary	123,857,335.92	Current account	Within 1 year	9.42
Total		<u>1,174,830,254.05</u>			<u>89.31</u>

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

2. Other receivables (continued)

(8) Status of amount due from related parties

Name of unit	Relationship with the Company	Amount	Proportion to total other receivables (%)
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Subsidiary	334,067,760.92	25.40
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Subsidiary	294,552,537.93	22.39
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Subsidiary	267,754,929.58	20.35
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	154,597,689.70	11.75
Ando Development Limited (安滔發展有限公司)	Subsidiary	123,857,335.92	9.42
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	65,200,786.69	4.95
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Subsidiary	32,522,749.93	2.47
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Subsidiary	23,000,000.00	1.75
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	Subsidiary	2,437,394.53	0.18
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Subsidiary	2,015,303.67	0.15
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Subsidiary	1,417,022.44	0.11
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Subsidiary	990,327.50	0.08
Total		<u>1,302,413,838.81</u>	<u>99.00</u>

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***2. Other receivables** *(continued)***(9) Status of other receivables de-recognised**

Nil

(10) For those securitised assets of the underlying other receivables, the amount of assets and liabilities were formed by its continuous involvement

Nil

3. Long-term equity investments**(1) Classification of long-term equity investments**

Item	At the beginning of the year	Additions for the year	Disposal for the year	As at the year end
Investments in subsidiaries	1,584,523,366.22	51,900,000.00	0.00	1,636,423,366.22
Investments in associates	13,491,031.22	570,412.87	0.00	14,061,444.09
Others equity investments	102,353,108.84	0.00	0.00	102,353,108.84
Less: Long-term equity investments provision for impairment	40,271,307.03	0.00	0.00	40,271,307.03
Total	<u>1,660,096,199.25</u>	<u>52,470,412.87</u>	<u>0.00</u>	<u>1,712,566,612.12</u>

(2) Breakdown of long-term equity investments

Name of investee	Accounting method	Investment cost	At the beginning of the year	Changes	As at the year end
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	Cost method	177,348.84	177,348.84	0.00	177,348.84
Beijing Medical Supplies Joint Operating Corporation (北京醫藥物資聯合經營公司)	Cost method	100,000.00	100,000.00	0.00	100,000.00
Doumen Sanzhou Industrial City Co., Ltd. (斗門三洲工業城股份有限公司)	Cost method	500,000.00	500,000.00	0.00	500,000.00
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	Cost method	95,325,760.00	95,325,760.00	0.00	95,325,760.00
Ruiheng Medical Technology Investment Co., Ltd. (瑞恒醫藥科技投資有限責任公司)	Cost method	6,250,000.00	6,250,000.00	0.00	6,250,000.00
Zhuhai Livzon Baiameng Biological Materials Co., Ltd. (珠海麗珠-拜阿蒙生物材料有限公司)	Cost method	3,934,721.95	3,934,721.95	0.00	3,934,721.95

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***3. Long-term equity investments** *(continued)***(2) Breakdown of long-term equity investments** *(continued)*

Name of investee	Accounting method	Investment cost	At the beginning of the year	Changes	As at the year end
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	Cost method	800,000.00	800,000.00	0.00	800,000.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Cost method	353,169,752.98	353,169,752.98	0.00	353,169,752.98
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Cost method	170,872,457.35	170,872,457.35	0.00	170,872,457.35
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Cost method	53,261,896.11	53,261,896.11	0.00	53,261,896.11
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	Cost method	4,539,975.00	4,539,975.00	0.00	4,539,975.00
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	Cost method	6,004,000.00	6,004,000.00	0.00	6,004,000.00
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	Cost method	64,770,100.00	64,770,100.01	0.00	64,770,100.01
Ando Development Limited (安滔發展有限公司)	Cost method	534,050.00	534,050.00	0.00	534,050.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Cost method	116,446,982.80	116,446,982.80	0.00	116,446,982.80
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Cost method	2,021,378.68	2,896,800.00	0.00	2,896,800.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Cost method	12,008,000.00	12,008,000.00	0.00	12,008,000.00
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Cost method	184,301,219.52	184,301,219.52	0.00	184,301,219.52
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	Cost method	40,020,000.00	40,020,000.00	0.00	40,020,000.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Cost method	190,075,938.00	280,769,410.50	0.00	280,769,410.50
Zhuhai Livzon MAB Biological Technology Co., Ltd. (珠海市麗珠單抗生物技術有限公司)	Cost method	102,000,000.00	51,000,000.00	51,000,000.00	102,000,000.00

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*3. Long-term equity investments *(continued)*(2) Breakdown of long-term equity investments *(continued)*

Name of investee	Accounting method	Investment cost	At the beginning of the year	Changes	As at the year end
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Cost method	54,500,000.00	54,500,000.00	0.00	54,500,000.00
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Cost method	90,000,000.00	90,000,000.00	0.00	90,000,000.00
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Cost method	90,000,000.00	90,000,000.00	0.00	90,000,000.00
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Cost method	4,694,000.00	4,694,000.00	0.00	4,694,000.00
Zhuhai Livzon Pharmaceutical Enterprise Management Co., Ltd. (珠海市麗珠醫藥企業管理有限公司)	Cost method	900,000.00	0.00	900,000.00	900,000.00
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	Equity method	1,200,000.00	1,200,000.00	0.00	1,200,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Equity method	2,462,407.50	7,547,732.38	638,071.44	8,185,803.82
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	Equity method	35,000,000.00	4,743,298.84	-67,658.57	4,675,640.27
Total		1,685,869,988.73	1,700,367,506.28	52,470,412.87	1,752,837,919.15

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*3. Long-term equity investments *(continued)*(2) Breakdown of long-term equity investments *(continued)*

Name of investee	Investee percentage of shareholding (%)	Proportion of voting right in the investee (%)	Different description between investee percentage of shareholding and proportion of voting rights	Provision for impairment	Provision for impairment for the year	Cash dividend for the year
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	0.0004	0.0004		0.00	0.00	0.00
Beijing Medical Supplies Joint Operating Corporation (北京醫藥物資聯合經營公司)	0.821	0.821		100,000.00	0.00	0.00
Doumen Sanzhou Industrial City Co., Ltd. (斗門三洲工業城股份有限公司)	1.60	1.60		500,000.00	0.00	0.00
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	1.5065	1.5065		20,000,000.00	0.00	0.00
Ruiheng Medical Technology Investment Co., Ltd. (瑞恒醫藥科技投資有限責任公司)	5.681	5.681		0.00	0.00	343,750.00
Zhuhai Livzon Baiameng Biological Materials Co., Ltd. (珠海麗珠-拜阿蒙生物材料有限公司)	82.00	82.00		0.00	0.00	0.00
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	100.00	100.00		0.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	74.99	74.99		0.00	0.00	0.00
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	57.41	57.41		0.00	0.00	0.00
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	60.99	60.99		0.00	0.00	0.00
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	75.00	75.00		0.00	0.00	0.00
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	60.04	60.04		0.00	0.00	0.00
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	100.00	100.00		0.00	0.00	0.00
Ando Development Limited (安滔發展有限公司)	100.00	100.00		0.00	0.00	0.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	92.14	92.14		7,271,307.03	0.00	0.00

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*3. Long-term equity investments *(continued)*(2) Breakdown of long-term equity investments *(continued)*

Name of investee	Investee percentage of shareholding (%)	Proportion of voting right in the investee (%)	Different description between investee percentage of shareholding and proportion of voting rights	Provision for impairment	Provision for impairment for the year	Cash dividend for the year
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	51.00	51.00		0.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	60.04	60.04		0.00	0.00	0.00
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	65.10	65.10		0.00	0.00	0.00
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	66.70	66.70		0.00	0.00	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	75.00	75.00		11,200,000.00	0.00	0.00
Zhuhai Livzon MAB Biological Technology Co., Ltd. (珠海市麗珠單抗生物技術有限公司)	51.00	51.00		0.00	0.00	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	83.85	83.85		0.00	0.00	0.00
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	90.00	90.00		0.00	0.00	0.00
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	90.00	90.00		0.00	0.00	0.00
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	51.00	51.00		0.00	0.00	0.00
Zhuhai Livzon Pharmaceutical Enterprise Management Co., Ltd. (珠海市麗珠醫藥企業管理有限公司)	90.00	90.00		0.00	0.00	0.00
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	28.00	28.00		1,200,000.00	0.00	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	8.50	8.50		0.00	0.00	0.00
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	35.00	35.00		0.00	0.00	0.00
Total				40,271,307.03	0.00	343,750.00

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***3. Long-term equity investments** *(continued)***(3) Status of restricted ability for transferring funds to investee**

Nil

(4) Breakdown of long-term equity investments provision for impairment

Item	At the beginning of the year	Additions for the year	Disposal for the year	As at the year end	Reason for provision made
Doumen Sanzhou Industrial City Co., Ltd. (斗門三洲工業城股份有限公司)	500,000.00	0.00	0.00	500,000.00	Net asset less than zero
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	20,000,000.00	0.00	0.00	20,000,000.00	Loss-making
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	1,200,000.00	0.00	0.00	1,200,000.00	Net asset less than zero
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	11,200,000.00	0.00	0.00	11,200,000.00	Already impaired
Beijing Medical Supplies Joint Operating Corporation (北京醫藥物資聯合經營公司)	100,000.00	0.00	0.00	100,000.00	Business registration revoked
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	7,271,307.03	Operating loss
Total	40,271,307.03	0.00	0.00	40,271,307.03	

4. Operating income, operating cost**(1) Operating income, operating cost**

Item	For the year	For the previous year
Income from principal activities	2,187,143,788.97	1,791,955,150.41
Income from non-principal activities	2,341,632.72	2,330,871.71
Operating income in aggregate	2,189,485,421.69	1,794,286,022.12
Cost of principal activities	847,817,770.43	815,305,789.48
Cost of non-principal activities	118,647.84	124,955.98
Operating cost in aggregate	847,936,418.27	815,430,745.46

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*4. Operating income, operating cost *(continued)*

(2) Principal activities (by products)

Name of products	For the year		For the previous year	
	Operating income	Operating cost	Operating income	Operating cost
Western drug preparation products	853,510,684.21	419,685,335.89	708,389,113.34	475,414,889.20
Of which: Gastrointestinal drugs	292,991,763.66	151,755,329.84	267,156,911.63	190,459,204.98
Cardio-cerebralvascular drugs	80,187,032.25	37,414,188.76	75,658,430.10	53,288,981.00
Antibiotic drugs (including imported drugs)	239,684,062.17	158,029,789.26	229,004,202.15	166,078,467.75
Gonadotropic hormones	3,993,009.40	3,156,819.00	2,151,871.91	1,616,457.09
Others	236,654,816.74	69,329,209.03	134,417,697.55	63,971,778.38
Chinese drug preparation products	1,333,633,104.75	428,132,434.54	1,083,566,037.07	339,890,900.28
Total	2,187,143,788.97	847,817,770.43	1,791,955,150.41	815,305,789.48

(3) Principal activities (by geographical regions)

Name of geographical regions	For the year		For the previous year	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	2,180,483,972.28	843,504,205.63	1,788,293,808.67	813,089,692.65
Overseas	6,659,816.69	4,313,564.80	3,661,341.74	2,216,096.83
Total	2,187,143,788.97	847,817,770.43	1,791,955,150.41	815,305,789.48

(4) Status of operating income from the top 5 customers

During the period	Operating income from the top 5 customers in aggregate	Percentage of operating income during the same period (%)
2013	263,372,607.26	12.03
2012	224,883,570.66	12.53

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)***5. Business taxes and surcharges**

Item	Tax rate	For the year	For the previous year
Urban maintenance and construction tax payable	7%	14,980,759.57	11,671,835.40
Education surcharges payable	5%	10,696,686.97	8,337,025.28
Flood prevention fee payable	0.07%	655,498.05	536,995.60
Total		<u>26,332,944.59</u>	<u>20,545,856.28</u>

6. Investment income**(1) Breakdown of investment income item**

Name of investee	For the year	For the previous year
Long-term equity investments income under cost method	343,750.00	64,865,596.80
Long-term equity investments income under equity method	570,412.87	-304,103.24
Investment income generated from disposal of long-term equity investments	0.00	-1,083,068.89
Investment income generated during the year from financial assets held for trading	0.00	0.00
Investment income generated during the year from held-to-maturity investments	0.00	0.00
Investment income generated during the year from available-for-sale financial assets	364,365.36	151,818.90
Investment income from disposal of financial assets held for trading	0.00	0.00
Investment income from disposal of held-to-maturity investments	0.00	0.00
Investment income from disposal of available-for-sale financial assets	0.00	0.00
Others	0.00	0.00
Total	<u>1,278,528.23</u>	<u>63,630,243.57</u>

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*6. Investment income *(continued)*

(2) Long-term equity investments income under cost method

Name of investee	For the year	For the previous year	The reason for changes in the year as compared to the previous year
Ruiheng Medical Technology Investment Co., Ltd. (瑞恒醫藥科技投資有限責任公司)	343,750.00	0.00	Dividends to investee
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	0.00	41,915,596.80	No dividends to subsidiaries for the year
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	0.00	22,950,000.00	No dividends to subsidiaries for the year
Total	<u>343,750.00</u>	<u>64,865,596.80</u>	

(3) Long-term equity investments income under equity method

Name of investee	For the year	For the previous year	The reason for changed in the year as compared to the previous year
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	638,071.44	781,799.63	Changes in income for investee
Tongyikangshimei Chain (Shenzhen) Co., Ltd. 統一康是美商業連鎖(深圳)有限公司	-67,658.57	-1,085,902.87	Changes in income for investee
Total	<u>570,412.87</u>	<u>-304,103.24</u>	

Notes to investment income, if there are significant restrictions to repatriation of investment income, a description is needed, and if there are no such significant restrictions, a description is also needed.

Nil

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

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

7. Supplemental information to income statement

Item	For the year	For the previous year
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	108,779,100.70	111,076,197.05
Add: Provision for impairment of assets	22,026,725.22	17,758,281.32
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	15,036,059.11	12,708,131.14
Amortisation of intangible assets	8,598,690.03	10,100,630.79
Amortisation of long-term expense	0.00	0.00
Losses on disposal of fixed assets, intangible assets and other long-term assets ([–] represents gains/income)	–106,626.61	–101,517.10
Losses on write-off of fixed assets	935.00	21,806.66
Losses from changes in fair value ([–] represents gains/income)	0.00	0.00
Financial expenses([–] represents gains/income)	33,085,242.70	10,858,078.96
Investments losses ([–] represents gains/income)	–1,278,528.23	–63,630,243.57
Decrease in deferred tax assets ([–] represents increase)	–2,793,422.18	–1,530,211.57
Increase in deferred tax liabilities ([–] represents decrease)	0.00	0.00
Decrease in inventories ([–] represents increase)	–21,633,009.59	24,150,987.33
Decrease in trade receivables ([–] represents increase)	–302,379,010.79	–263,863,212.47
Increase in trade payables ([–] represents decrease)	46,429,746.72	219,387,741.85
Others	0.00	0.00
Net cash flows from operating activities	–94,234,097.92	76,936,670.39
2 Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into capital	0.00	0.00
Convertible bonds due within one year	0.00	0.00
Fixed assets acquired under finance leases	0.00	0.00
3 Net movement in cash and cash equivalents:		
Cash at the end of the year	605,176,378.73	1,099,218,893.89
Less: Cash at the beginning of the year	1,099,218,893.89	1,306,877,982.24
Add: Cash equivalents at the end of the year	0.00	0.00
Less: Cash equivalents at the beginning of the year	0.00	0.00
Net increase in cash and cash equivalents	–494,042,515.16	–207,659,088.35

XV. SUPPLEMENTAL INFORMATION

1. Breakdown of extraordinary gains or losses

Item	For the year	For the previous year
Gains or losses from the disposal of non-current assets	180,148.18	-69,242.34
Ultra vires or without official approval documents, or incidental tax rebate or relief	362,000.00	0.00
Government grants included in the profit or loss for the period, save as those government grants closely associated to the normal operation of the Group, complying with the policies and regulations of China, being entitled at a certain standard amount or certain level	38,842,657.52	42,064,456.38
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period	0.00	0.00
The gain from the excess of the fair value of identifiable net assets attributable to the investee at acquisition over the investment costs of the Group for its subsidiaries, associates and joint ventures	0.00	0.00
Gains or losses from the exchange of non-monetary assets	0.00	0.00
Gains or losses from investments on trust or asset management	0.00	0.00
Provision for impairment as a result of force majeure factors, such as natural disasters	0.00	0.00
Gains or losses from debt restructuring	0.00	0.00
Corporate reorganisation expenses, such as expenditures for staff dormitory, and business combination expenses	0.00	0.00
Gains or losses from transaction with transaction price not at fair value over the part at fair value	0.00	0.00
Net gains or losses of subsidiaries arising from business combination under common control from the beginning of the period to the date of combination	0.00	0.00
Gains or losses arising from contingent matters not related to the normal operation of the Group	0.00	0.00
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the hedging activities of the normal operation of the Group)	499,437.51	18,086,042.35
Reversal of impairment of receivables on individual basis	0.00	636,406.43
Gains or losses from external entrusted loans	0.00	0.00

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

XV. SUPPLEMENTAL INFORMATION *(continued)***1. Breakdown of extraordinary gains or losses** *(continued)*

Item	For the year	For the previous year
Gains or losses from changes in fair value on investment properties under the fair value model	0.00	0.00
One-off adjustment in profit or loss for the period according to the laws and regulations regarding taxation and accounting	0.00	0.00
Entrust fee income from entrusted operation	0.00	0.00
Other non-operating income and expenditures apart from the above	-1,001,272.08	-435,271.79
Items of gains or losses as defined meeting the definition of extraordinary gains or losses	0.00	0.00
Sub-total	38,882,971.13	60,282,391.03
Effect of income tax	7,150,619.26	8,151,476.68
Effect of non-controlling interests (after tax)	6,389,185.80	6,649,649.17
Total	25,343,166.07	45,481,265.18

Note: Figures “+” in the extraordinary gains or losses represents by revenue and income, while “-” represents loss or expenses.

According to the “Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No. 1 – Extraordinary Gains or Losses” (CSRC Notice [2008] No. 43), the Company shall be governed by its provisions and recognised the extraordinary gains or losses.

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

XV. SUPPLEMENTAL INFORMATION *(continued)***2. Rate of return on net assets and earnings per share****2013**

Profit for the Reporting Period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares	15.34%	1.65	1.65
Net profit attributable to shareholders of ordinary shares before extraordinary gains or losses	14.54%	1.56	1.56

2012

Profit for the Reporting Period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares	15.17%	1.49	1.49
Net profit attributable to shareholders of ordinary shares before extraordinary gains or losses	13.61%	1.34	1.34

Please see note VII.51 for the calculation basic earnings per share and diluted earnings per share.

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

XV. SUPPLEMENTAL INFORMATION *(continued)***3. Abnormal situations and reason for the key components of the consolidated financial statements of the Company**

Statements	Balances at the year end or amounts for the year	Balances at the beginning of the year end or amounts for the previous year	Change	Reason for changes
Balance Sheet Items:				
Cash at bank and on hand	761,044,135.54	1,221,332,802.40	-37.69%	Mainly attributable to constructions of new plants and the increase in acquisition of equipments for the year
Financial assets held for trading	11,335,125.54	59,319,616.94	-80.89%	Mainly attributable to the partial disposal of shares held for the year
Bills receivables	271,431,749.11	112,482,782.18	141.31%	Mainly attributable to the increase in receivables on sales of goods settled by bank acceptance bills for the year
Accounts receivables	1,053,350,426.59	774,021,470.88	36.09%	Mainly attributable to the growth in sales for the year that resulted in a corresponding increase in accounts receivables; working to integrate the distribution channels, strengthening the cooperation with distributors, decreasing cash customers; and slightly slow recovery of receivables from the downstream operations, which resulted in longer receivable turnover of the Company
Fixed assets	1,976,910,773.96	1,127,285,485.37	75.37%	Mainly attributable to conversion of construction projects to assets for the year
Construction supplies	481,529.20	1,623,576.06	-70.34%	Mainly attributable to the increase in construction supplies for use for the year
Development costs	0.00	1,510,153.51	-100.00%	Mainly attributable to qualifying capitalised development costs transferred into intangible assets, and disqualifying capitalised development costs transferred into intangible assets charged to profit or loss
Bills payables	375,775,891.08	283,581,118.89	32.51%	Mainly attributable to the increase of settlement of account payables by way of endorsement of bills

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

XV. SUPPLEMENTAL INFORMATION *(continued)***3. Abnormal situations and reason for the key components of the consolidated financial statements of the Company** *(continued)*

Statements	Balances at the year end or amounts for the year	Balances at the beginning of the year end or amounts for the previous year	Change	Reason for changes
Accounts payables	435,966,092.72	311,814,060.41	39.82%	Mainly attributable to the growth in sales, the increase in purchase and the increase of settlement with suppliers by bills for the year
Receipts in advance	61,780,193.14	37,950,040.42	62.79%	Mainly attributable to the increase in customer diagnostic reagents products ordered in advance for the year
Interest payables	15,434,979.65	10,454,004.86	47.65%	Mainly attributable to increased interest in medium-term financing bills
Other current liabilities	0.00	400,000,000.00	-100.00%	Mainly attributable to short-term financing bills at an amount of RMB400 million were due for settlement on 9 July 2013
Long-term loans	149,900,000.00	700,000.00	21,314.29%	Mainly attributable to the increase in long-term financing so as to satisfy capital needs of construction projects and technological advancement projects
Notes payables	400,000,000.00	0.00		On 29 May 2013, the Company issued medium-term financing bills at an amount of RMB400 million
Non-controlling interests	259,870,907.39	172,103,440.01	51.00%	Mainly attributable to the increase in non-controlling capital for the year
Income Statement and Cash Flow Statement Items:				
Gains from changes in fair value	-1,236,410.63	16,381,681.02	-107.55%	Mainly attributable to the partial disposal of shares held for the year, and the decrease in the market price of shares held at the year end
Non-operating expenses	4,724,901.29	2,707,911.81	74.49%	Mainly attributable to the increase in charity donation expenses for the year

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

XV. SUPPLEMENTAL INFORMATION *(continued)***3. Abnormal situations and reason for the key components of the consolidated financial statements of the Company** *(continued)*

Statements	Balances at the year end or amounts for the year	Balances at the beginning of the year end or amounts for the previous year	Change	Reason for changes
Other comprehensive income	-2,765,356.39	101,902.85	-2,813.72%	Mainly attributable to changes in market price of available-for-sale financial assets and translation differences of financial statements denominated in foreign currency
Net cash flow from financing activities	7,766,397.47	47,205,075.55	-83.55%	Mainly attributable to the increase in repayment of loans for the year

- I. They include the financial statements which is signed and sealed by the legal representative, person-in-charge of the accounting affairs and head of the accounting department of the Company.
- II. They include the original copy of the auditors' report which is sealed by the accounting firm and signed and sealed by the certified public accountant.
- III. They include the original copies of all of the documents and announcements of the Company which have been disclosed in the designated newspaper as approved by China Securities Regulatory Commission during the Reporting Period.

Livzon Pharmaceutical Group Inc.

Zhu Baoguo

Chairman

24 March 2014