



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)



Interim Report 2014

* For identification purpose only

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 interim report (the “Report”) does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents.

The Report has been considered and approved at the second meeting of the Eighth Session of the Board. All Directors have attended the second meeting of the Eighth Session of the Board.

The Group has prepared a financial report in accordance with China Accounting Standards for Business Enterprises. The 2014 interim financial statements and notes thereof (collectively the “Financial Report”) prepared by the Group according to China Accounting Standards for Business Enterprises have not been audited.

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

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

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

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

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

"Company"	麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.*, a joint stock limited liability company incorporated in accordance with the PRC's law, whose H Shares and A Shares are listed on the Main Board of the Hong Kong Stock Exchange and Shenzhen Stock Exchange, respectively;
"Group"	the Company and its subsidiaries;
"Board"	the board of directors of the Company;
"Director(s)"	director(s) of the Company;
"Supervisory Committee"	the supervisory committee of the Company;
"Supervisor(s)"	supervisor(s) of the Company;
"Shareholder(s)"	shareholder(s) of the Company;
"A Share(s)"	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Shenzhen Stock Exchange;
"A Shareholder(s)"	holder(s) of A Shares of the Company;
"H Share(s)"	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Hong Kong Stock Exchange;
"H Shareholder(s)"	holder(s) of H Shares of the Company;
"Reporting Period" or "Current Period"	the six months from 1 January to 30 June 2014;
"Same Period Last Year" or "Previous Period"	the six months from 1 January to 30 June 2013;
"End of Last Year" or "Beginning of the Period"	31 December 2013;
"End of the Reporting Period" or "End of the Period"	30 June 2014;

* For identification purpose only

4 DEFINITIONS

"China Accounting Standards for Business Enterprises"	Accounting Standards for Business Enterprises – Basic Standard and 38 specific accounting standards issued by the Ministry of Finance of the PRC on 15 February 2006 and the Application Guidance to Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other related requirements subsequently issued;
"CSRC"	the China Securities Regulatory Commission;
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Hong Kong Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules;
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"Shenzhen Stock Exchange"	深圳證券交易所 (the Shenzhen Stock Exchange);
"Shenzhen Listing Rules"	《深圳證券交易所股票上市規則》(the Stock Listing Rules of the Shenzhen Stock Exchange);
"China" or "PRC"	the People's Republic of China;
"Hong Kong"	Hong Kong Special Administrative Region of China;
"HK\$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong;
"RMB"	Renminbi, the lawful currency of China;
"US\$"	United States dollars, the lawful currency of the United States of America; and
"Joincare"	健康元藥業集團股份有限公司 Joincare Pharmaceutical Industry Group Co., Ltd.*

* For identification purpose only

1.1 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	
Company's website	www.livzon.com.cn	
E-mail	LIVZON_GROUP@livzon.com.cn	

Note 1: On 16 January 2014, the Company's domestically listed foreign shares ("B Shares") were converted into overseas listed foreign shares (H Shares), and H Shares were listed and traded on the Main Board of the Hong Kong Stock Exchange by way of introduction. The stock code of the 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 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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1.2 CONTACT PERSONS AND CONTACT DETAILS

	Secretary to the Board	Representative of securities affairs
Name	Yang Liang	Wang Shuguang
Telephone	(0756)8135888	(0756)8135888
Fax	(0756)8886002	(0756)8886002
E-mail	yangliang2014@livzon.com.cn	wangshuguang2008@livzon.com.cn
Address	Livzon Building, 132 Guihua North Road, Gongbei, Zhuhai, Guangdong Province, China	

1.3 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

1.4 INFORMATION DISCLOSURE AND PLACE WHERE COPIES OF THIS REPORT ARE AVAILABLE

Designated newspapers for information disclosure:	A Shares: China Securities Journal and Securities Times
Websites for publishing this Report:	A Shares: www.cninfo.com.cn H Shares: www.hkexnews.hk
Place where copies of this Report are available:	Secretariat of the Board

1.5 OTHER RELEVANT INFORMATION

Auditors	Ruihua Certified Public Accountants (LLP)
Authorised Representatives	Tao Desheng Yang Liang
Company Secretary	Yang Liang
Assistant Company Secretary and Alternate to Authorised Representatives	Cheng Pik Yuk
H Share Compliance Advisor	Guosen Securities (HK) Capital Company Limited
H Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

2.1 CHANGES OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF ACCOUNTING ERRORS

During the Reporting Period, the Company retrospectively adjusted the accounting information for the previous years due to changes in accounting policies. According to the provisions in the Notice on Issuing the Revised "Accounting Standards for Business Enterprises No.2 – Long-term Equity Investment" (Cai Kuai [2014] No. 14) and the Notice on Issuing the "Accounting Standards for Business Enterprises No. 41 – Disclosure of Interests in Other Entities" (Cai Kuai [2014] No. 16), overseas listed companies are encouraged to early adopt the above newly issued or revised accounting standards before they become effective. As such, the Company began the early adoption of the above two accounting standards from 1 January 2014 onwards according to the resolution passed at the second meeting for the Eighth Session of the Board.

The major effects of changes of accounting policies on the financial statements this year as a result of the adoption of the above standards are as follows:

(1) Consolidated statement

Amount denominated: RMB

January to June 2014	Opening balance/incurred during the Current Period before adoption	Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long- term Equity Investment)	Opening balance/incurred during the Current Period after adoption
Available-for-sale financial assets	10,041,559.76	82,253,108.84	92,294,668.60
Long-term equity investment	123,764,866.29	-82,253,108.84	41,511,757.45
January to June 2013	Opening balance/incurred during the current period before adoption	Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long- term Equity Investment)	Opening balance/incurred during the current period after adoption
Available-for-sale financial assets	10,612,859.66	82,253,108.84	92,865,968.50
Long-term equity investment	120,961,203.38	-82,253,108.84	38,708,094.54

(2) Statement of parent company

Amount denominated: RMB

		Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long- term Equity Investment)	
January to June 2014	Opening balance/incurred during the Current Period before adoption		Opening balance/incurred during the Current Period after adoption
Available-for-sale financial assets	10,041,559.76	81,753,108.84	91,794,668.60
Long-term equity investment	1,712,566,612.12	-81,753,108.84	1,630,813,503.28
		Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long- term Equity Investment)	
January to June 2013	Opening balance/incurred during the current period before adoption		Opening balance/incurred during the current period after adoption
Available-for-sale financial assets	10,612,859.66	81,753,108.84	92,365,968.50
Long-term equity investment	1,660,096,199.25	-81,753,108.84	1,578,343,090.41

Apart from the above adjustments, there are no other financial data that have been adjusted due to the changes of accounting policies during the Reporting Period.

2.2 SIGNIFICANT ACCOUNTING INFORMATION PREPARED IN ACCORDANCE WITH THE CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Amount denominated: RMB

Items	Reporting Period (January to June 2014)	Same period last year (January to June 2013)	Change compared with the same period last year (%)
Operating income	2,628,474,326.38	2,162,261,822.40	21.56%
Operating profit	344,869,755.57	308,523,239.34	11.78%
Profit before tax	367,217,199.76	322,099,611.15	14.01%
Income tax expenses	56,080,132.00	52,423,967.25	6.97%
Net profit for the period	311,137,067.76	269,675,643.90	15.37%
Net profit attributable to shareholders of the Company	290,934,056.78	259,310,414.64	12.20%
Non-controlling interests	20,203,010.98	10,365,229.26	94.91%
Total comprehensive income	308,126,205.89	267,625,496.80	15.13%
Total comprehensive income attributable to shareholders of the Company	287,901,040.90	257,265,409.40	11.91%
Share capital	295,721,852	295,721,852	0.00%
Net cash from operating activities	203,575,208.54	185,831,023.54	9.55%

Amount denominated: RMB

Items	At the end of the Reporting Period (30 June 2014)	At the end of last year (31 December 2013)	Change compared with the end of last year (%)
Total current assets	3,230,665,841.46	2,980,726,564.42	8.39%
Total non-current assets	3,914,359,076.51	3,585,279,560.49	9.18%
Total assets	7,145,024,917.97	6,566,006,124.91	8.82%
Total current liabilities	2,651,545,388.75	2,329,680,971.69	13.82%
Total non-current liabilities	626,021,273.34	631,805,669.34	-0.92%
Total liabilities	3,277,566,662.09	2,961,486,641.03	10.67%
Shareholders' equity	3,867,458,255.88	3,604,519,483.88	7.29%
Total equity attributable to shareholders of the Company	3,484,688,691.39	3,344,648,576.49	4.19%
Non-controlling interests	382,769,564.49	259,870,907.39	47.29%

2.3 PRINCIPAL FINANCIAL INDICATORS

Principal financial indicators	Reporting Period (January to June 2014)	Same period last year (January to June 2013)	Change compared with the same period last year (%)
Basic earnings per share (<i>RMB/share</i>)	0.98	0.88	11.36%
Diluted earnings per share (<i>RMB/share</i>)	0.98	0.88	11.36%
Weighted average return on net assets (%)	8.34%	8.27%	0.07%
Weighted average return on net assets after deducting the non-recurring gains and losses (%)	7.77%	7.92%	-0.15%
Net cash flow from operating activities per share (<i>RMB/share</i>)	0.688	0.628	9.55%
Principal financial indicators	At the end of the Reporting Period (30 June 2014)	At the end of last year (31 December 2013)	Change compared with the end of last year (%)
Net assets per share attributable to the shareholders of the Company (<i>RMB/share</i>)	11.78	11.31	4.19%
Gearing ratio (%) (<i>Note</i>)	45.87%	45.10%	0.77%

Note: The gearing ratio is calculated by dividing the total liabilities of the Group on the respective dates by the total assets.

2.4 EXTRAORDINARY GAINS OR LOSSES

Amount denominated: RMB

Items	Amount
Gains and losses from disposal of non-current assets	-494,642.81
Government grants included in the profit or loss for the Current Period	22,037,802.08
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 Group)	2,839,072.06
Other non-operating income and expenses apart from the above	804,284.92
Total extraordinary gains and losses (affecting gross profit)	25,186,516.25
Less: Effect on income tax	3,666,538.13
Effect on non-controlling interests (after tax)	1,562,054.83
Total	19,957,923.29

3.1. OPERATING ACTIVITIES

During the Reporting Period, there was no change to the core business of the Group, primarily consist of 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), Voriconazole for Injection (麗福康) and Cefodizime Sodium 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 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)).

3.2. BUSINESS REVIEW

During the Reporting Period, the Group reported an operating income of RMB2,628.47 million, representing an increase of 21.56% as compared with RMB2,162.26 million for the same period last year. Net profit was RMB311.14 million, representing an increase of 15.37% over RMB269.68 million for the same period last year. Net profit attributable to shareholders of the Company was RMB290.93 million, up by 12.20% as compared with RMB259.31 million for the same period last year. Excluding extraordinary gains and losses, the Company's net profit attributable to its shareholders generated from principal activities in the first half of 2014 was RMB270.98 million, representing an increase of 9.10% when compared with RMB248.38 million for the same period last year.

3.3. SEGMENTAL INFORMATION

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

3.4. ANALYSIS OF PRINCIPAL ACTIVITIES

3.4.1 Operating Income and Costs of Principal Activities

Product categories and names	Amount incurred for the Reporting Period		Amount incurred for the same period last year		Gross profit margin for the period (%)	Year-on- year change in operating income (%)	Year-on- year change in operating cost (%)	Year-on- year change in gross profit margin (%)
	Operating income (RMB)	Operating cost (RMB)	Operating income (RMB)	Operating cost (RMB)				
1. Drug preparation products								
(1) Western drug preparation products	1,020,404,325.31	249,746,874.57	788,054,616.86	206,564,256.22	75.52%	29.48%	20.91%	1.74%
Including: Gastrointestinal	202,699,817.49	22,266,882.78	177,085,277.79	21,331,635.26	89.01%	14.46%	4.38%	1.06%
Cardio-cerebral vascular	79,388,702.57	18,412,900.56	72,477,673.31	17,181,393.35	76.81%	9.54%	7.17%	0.51%
Antibiotics	168,020,368.07	39,490,245.60	133,415,458.61	38,257,257.31	76.50%	25.94%	3.22%	5.17%
Gonadotropic hormones	365,627,291.28	131,196,493.97	270,853,274.68	93,290,769.53	64.12%	34.99%	40.63%	-1.44%
Others	204,668,145.90	38,380,351.66	118,918,451.51	20,094,120.06	81.25%	52.48%	5.18%	8.44%
(2) Chinese drug preparation products	827,214,672.39	178,135,374.05	791,562,122.89	161,538,367.54	78.47%	4.50%	10.27%	-1.13%
Including: Shengqi Fuzheng Injection	604,696,849.43	96,748,598.49	588,984,786.21	89,815,428.22	84.00%	2.67%	7.72%	-0.75%
2. Bulk medicines and intermediates	500,843,650.89	429,042,521.62	397,815,396.77	349,888,612.78	14.34%	25.90%	22.62%	2.29%
3. Diagnostic reagents and equipment	203,063,114.66	89,584,166.31	175,836,534.61	82,174,063.17	55.88%	15.48%	9.02%	2.62%
4. Others	6,826,332.20	7,381,115.41	0.00	0.00	-8.13%	-	-	-
Total	2,558,352,095.45	953,890,051.96	2,153,268,671.13	800,165,299.71	62.71%	18.81%	19.21%	-0.13%

During the Reporting Period, the Group's principal activities generated an operating income of RMB2,558.35 million, representing an increase of RMB405.08 million or 18.81% as compared with RMB2,153.27 million for the same period last year. Among which, the sales growth in gonadotropic hormones products and antibiotics was significant, representing a year-on-year increase of 34.99% and 25.94% respectively. The increase in 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.

During the Reporting Period, the Group's operating costs of principal activities amounted to RMB953.89 million, representing an increase of RMB153.72 million or 19.21% as compared with RMB800.17 million for the same period last year. The rise in costs was slightly higher than the income growth rate.

3.4.2 Operating Income of Principal Activities by Regions

Regions	Amount incurred for the Reporting Period		Amount incurred for the same period last year	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	2,345,697,364.51	780,953,500.47	1,994,155,417.81	675,376,831.05
Overseas	212,654,730.94	172,936,551.49	159,113,253.32	124,788,468.66
Total	2,558,352,095.45	953,890,051.96	2,153,268,671.13	800,165,299.71

3.4.3 Major Customers and Suppliers

Period	Total operating income from top five customers	Percentage of operating income for the same period (%)
January to June 2014	197,199,361.08	7.50
January to June 2013	180,634,763.82	8.35

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

3.4.4 Expenses

During the Reporting Period, the Group's three major expense items (selling expenses, administrative expenses and financial expenses) amounted to RMB1,225.69 million, an increase of RMB222.20 million or 22.14% year-on-year. Details are as follows:

Items	Reporting Period (RMB)	Same period last year (RMB)	Year-on-year Change (%)
Selling expenses	1,021,013,816.96	825,119,808.36	23.74%
Administrative expenses	191,937,465.62	189,171,222.87	1.46%
Financial expenses	12,739,496.67	-10,796,789.08	217.99%

- (1) Selling expenses rose by 23.74% year-on-year, mainly due to an increase in marketing and promotion expenses;
- (2) Administrative expenses rose by 1.46% year-on-year, mainly due to an increase in investment on research and development;
- (3) Financial expenses rose by 217.99% year-on-year, mainly due to an increase in borrowings, higher interest expenses and change in exchange rates which resulted in an increase in exchange losses derived from borrowings denominated in foreign currency for the period. On the other hand, financing interest for the period was lower than the same period last year.

During the Reporting Period, the total income tax expenses were RMB56.08 million, representing an increase of RMB3.66 million or 6.97% year-on-year .

3.4.5 Research and development expenditure

During the Reporting Period, the Group's expenditures related to research and development amounted to RMB117.19 million, representing an increase of 13.79% year-on-year. The amount accounted for 3.36% of net assets attributable to shareholders of the Company and 4.46% of the Group's total operating income for the Reporting Period.

The progress of the Group's key R&D projects during the Reporting Period was as follows: Regarding recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody for Injection, it went through stage Ia clinical trials smoothly with preliminary results in line with expectations and the subsequent stage Ib clinical trials was under preparation at the same time; for anti-CD20 biosimilar monoclonal antibody and recombinant biosimilar human chorionic gonadotropin (rhCG), it had completed preclinical studies and clinical drug production. It was intended that the request for clinical applications would be submitted in the year; for the project on capsules for toxin degradation and kidney protection, the stage IIa clinical trials were successful completed and it was preparing for the clinical trials of stage IIb/III; for the Sanhuafen Injection (三花粉針) project, the stage IIa clinical trial proposal has been prepared and the testing samples of stage IIa clinical trials were also available, hence the said trials would commence in the second half of the year; for Encephalitis B Vaccine (Vero cells), the production registration was under review and the review is expected to be completed in the second half of the year; for the rotavirus vaccine clinical research project, it had commenced the research on production processes and product quality before clinical applications. The vero cell proliferation of rotavirus was initially established.

3.5. ANALYSIS OF FINANCIAL POSITION

3.5.1 Material Changes in Assets

	30 June 2014		31 December 2013		Change compared with the end of last year
	Amount (RMB)	Proportion of total assets (%)	Amount (RMB)	Proportion of total assets (%)	(%)
Other receivables	56,615,414.49	0.79%	39,477,295.95	0.60%	43.41%
Inventories	828,596,708.67	11.60%	641,649,965.85	9.77%	29.14%
Available-for-sale financial assets	180,452,289.93	2.53%	92,294,668.60	1.41%	95.52%

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

1. "Other receivables" increased by 43.41% year-on-year, which was mainly attributable to the increase in business advances and increase in export tax rebate receivables during the Reporting Period;
2. "Available-for-sale financial assets" increased by 95.52% year-on-year, which was mainly attributable to the increase in investment during the Reporting Period.

3.5.2 Material Changes in Liabilities

	30 June 2014		31 December 2013		Change compared with the end of last year
	Amount (RMB)	Proportion of total assets (%)	Amount (RMB)	Proportion of total assets (%)	(%)
Short-term borrowings	684,707,900.18	9.58%	491,084,453.79	7.48%	39.43%
Staff remuneration payables	49,920,862.56	0.70%	90,493,756.24	1.38%	-44.84%
Taxes payables	39,509,141.54	0.55%	89,414,763.31	1.36%	-55.81%
Dividends payables	150,392,910.46	2.10%	2,531,984.46	0.04%	5839.72%
Non-controlling interests	382,769,564.49	5.36%	259,870,907.39	3.96%	47.29%

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

1. "Short-term borrowings" increased by 39.43% year-on-year, which was mainly attributable to increases in borrowings during the Reporting Period;
2. "Staff remuneration payables" decreased by 44.84% year-on-year, which was mainly attributable to the payment of year-end bonus for last year during the Reporting Period;
3. "Taxes payables" decreased by 55.81% year-on-year, which was mainly attributable to the payment of enterprise income tax for last year during the Reporting Period;
4. "Dividends payables" increased by 5,839.72% year-on-year, which was mainly attributable to the distribution of dividends during the Reporting Period;
5. "Non-controlling interests" increased by 47.29% year-on-year, which was mainly attributable to the increase of capital contribution by the non-controlling shareholders during the Reporting Period.

Gearing ratio

As at 30 June 2014 and 31 December 2013, the gearing ratios were calculated by dividing the Group's total liabilities at each respective date by the total assets. The Group's gearing ratio increased to 45.87% as at 30 June 2014 from 45.10% as at 31 December 2013.

3.5.3 Material Changes in Income Statement Items

	30 June 2014 (RMB)	30 June 2013 (RMB)	Change compared with the same period last year (%)
Financial expenses	12,739,496.67	-10,796,789.08	217.99%
Losses from impairment of assets	34,101,943.96	16,030,577.83	112.73%
Gain from changes in fair value	-868,465.62	-1,242,332.26	30.09%
Investment income	6,664,307.02	3,086,974.76	115.88%
Non-operating income	23,405,956.79	15,038,795.39	55.64%
Gains and losses of non-controlling interests	20,203,010.98	10,365,229.26	94.91%
Other comprehensive income	-3,010,861.87	-2,050,147.10	-46.86%

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

1. "Financial expenses" increased by 217.99% year-on-year, mainly due to increase in borrowings, higher interest expenses and change of exchange rates which resulted in an increase in exchange losses derived from borrowings denominated in foreign currency for the period. On the other hand, financing interest for the period was lower than the same period last year;
2. "Losses from impairment of assets" increased by 112.73% year-on-year, mainly due to an increase of inventory impairment provision during the Reporting Period;
3. "Gain from changes in fair value" increased by 30.09% year-on-year, mainly due to an increase of market value of stocks held at the end of the Reporting Period;
4. "Investment income" increased by 115.88% year-on-year, mainly due to the gain from disposal of certain available-for-sale financial assets during the Reporting Period;
5. "Non-operating income" increased by 55.64% year-on-year, mainly due to an increase in government subsidies received during the Reporting Period;
6. "Gains and losses of non-controlling interests" increased by 94.91% year-on-year, mainly due to share transfer during the Reporting Period, resulting in an increase of gains and losses of non-controlling interests;
7. "Other comprehensive income" decreased by 46.86% year-on-year, mainly due to disposal of certain available-for-sale financial assets during the Reporting Period and their fair value was changed when they were transferred from capital reserve into investment gain.

3.5.4 Material changes in cash flow items

	30 June 2014 (RMB)	30 June 2013 (RMB)	Change compared with the same period last year (%)
Cash received from sale of goods and rendering of services	2,733,562,348.93	2,055,899,741.95	32.96%
Refund of taxes	15,426,719.13	7,182,715.19	114.78%
Cash received relating to other operating activities	36,820,519.50	78,591,439.75	-53.15%
Cash paid for goods and services	829,358,588.19	561,014,418.82	47.83%
Cash paid relating to other operating activities	1,128,246,344.50	861,743,634.48	30.93%
Cash received from disposal of investments	5,750,268.92	46,832,558.60	-87.72%
Cash received from return on investments	343,356.46	528,338.99	-35.01%
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,793,129.60	126,808.00	2102.64%
Cash received relating to other investing activities	9,444,211.41	–	100.00%
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	361,186,124.08	540,643,798.72	-33.19%
Cash paid for investments	93,254,995.09	–	100.00%
Cash paid relating to other investment activities	2,400,000.00	5,400,000.00	-55.56%
Cash received from investors	98,000,000.00	49,000,000.00	100.00%
Cash received from borrowings	474,419,867.17	250,169,855.44	89.64%
Cash received from issue of financing bills	–	400,000,000.00	-100.00%
Cash repayments of indebtedness	287,764,480.88	139,400,620.91	106.43%
Cash paid for dividends, profit distributions or interest	47,965,099.91	12,252,709.65	291.47%
Effect of foreign exchange rate changes on cash and cash equivalents	1,336,081.35	-819,287.90	263.08%

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

1. "Cash received from sale of goods and rendering of services" increased by 32.96% year-on-year, mainly due to an increase of sales during the Reporting Period;
2. "Refund of taxes" increased by 114.78% year-on-year, mainly due to an increase in export tax refund received during the Reporting Period;
3. "Cash received relating to other operating activities" decreased by 53.15% year-on-year, mainly due to a decrease in deposits received;
4. "Cash paid for goods and services" increased by 47.83% year-on-year, mainly due to an increase of purchase expenses which was in line with higher sales;
5. "Cash paid for relating to other operating activities" increased by 30.93% year-on-year, mainly due to an increase of relevant expenses as sales increased;
6. "Cash received from disposal of investments" decreased by 87.72% year-on-year, mainly due to cash received from disposal of a majority of marketable financial assets, such as stocks, during the same period last year;
7. "Cash received from return on investments" decreased by 35.01% year-on-year, mainly due to a decrease of dividends received from investees during the Reporting Period;
8. "Net cash received from disposal of fixed assets, intangible assets and other long-term assets" increased by 2,102.64% year-on-year, mainly due to an increase of cash received from disposal of fixed assets;
9. "Cash received relating to other investing activities" increased by 100.00% year-on-year, mainly due to increases of receipts of bank acceptance deposits and deposits for letters of credit during the Reporting Period;
10. "Cash paid for acquisition of fixed assets, intangible assets and other long-term assets" decreased by 33.19% year-on-year, mainly due to a decrease in project construction and purchase of equipment during the Reporting Period;
11. "Cash paid for investments" increased by 100.00% year-on-year, mainly due to an increase in external investment during the Reporting Period;
12. "Cash paid relating to other investment activities" decreased by 55.56% year-on-year, mainly due to a decrease of tender bond paid during the Reporting Period;
13. "Cash received from investors" increased by 100.00% year-on-year, mainly due to an increase of capital fund received from non-controlling shareholders for the capital expansion of subsidiaries during the Reporting Period;
14. "Cash received from borrowings" increased by 89.64% year-on-year, mainly due to an increase of new loans in Hong Kong dollars during the Reporting Period;

15. "Cash received from issue of financing bills" decreased by 100.00% year-on-year, mainly due to cash received from issue of financing bills during the same period last year;
16. "Cash repayments of borrowings" increased by 106.43% year-on-year, mainly due to an increase in repayment of borrowings during the Reporting Period;
17. "Cash paid for dividends, profit distributions or interest" increased by 291.47% year-on-year, mainly due to an increase of dividends paid by the subsidiaries to their non-controlling shareholders and an increase of interest paid during the Reporting Period;
18. "Effect of foreign exchange rate changes on cash and cash equivalents" increased by 263.08% year-on-year, mainly due to changes in foreign exchange rates resulting in exchange gains during the Reporting Period.

3.5.5 Liquidity and Financial Resources

The Group always maintains sufficient cash to finance its daily operations and to meet its obligations as and when they fall due. As at 30 June 2014, the Group's cash at bank and on hand amounted to RMB757.16 million (31 December 2013: RMB761.04 million).

As at 30 June 2014, the Group's borrowings from banks amounted to RMB833.81 million (31 December 2013: RMB640.98 million), accounting for 11.67% of total assets (31 December 2013: 9.76%), of which short-term borrowings to mature within one year amounted to RMB684.71 million (31 December 2013: RMB491.08 million), accounting for 9.58% of total assets (31 December 2013: 7.48%) and long-term borrowings to mature after one year amounted to RMB149.10 million (31 December 2013: RMB149.90 million), accounting for 2.09% of total assets (31 December 2013: 2.28%). Repayments of borrowings denominated in RMB and borrowings denominated in Hong Kong dollars during the Reporting Period amounted to RMB100 million and HK\$236 million, respectively.

The Group's gearing ratio is calculated by dividing the Group's total liabilities by its total assets. The gearing ratio of the Group increased from 45.10% as at 31 December 2013 to 45.87% as at 30 June 2014, which was mainly due an increase of the Group's short term borrowings.

3.5.6 Capital Structure

The Group's capital comprises shareholders' equity and liabilities. As at 30 June 2014, the shareholders' equity amounted to RMB3,867.46 million, the total liabilities amounted to RMB3,277.57 million and total assets amounted to RMB7,145.02 million. Among which, the current liabilities of the Group amounted to RMB2,651.55 million (31 December 2013: RMB2,329.68 million), which increased by 13.82% from the end of previous year; the long term liabilities amounted to RMB626.02 million (31 December 2013: RMB631.81 million), which decreased by 0.92% from the end of previous year. During the Reporting Period, the Group had repaid liabilities of RMB287.76 million (30 June 2013: RMB139.40 million).

Equity attributable to the shareholders of the Company amounted to RMB3,484.69 million (31 December 2013: RMB3,344.65 million), which increased by 4.19% from the end of previous year. Minority interests of the Group amounted to RMB382.77 million (31 December 2013: RMB259.87 million), which increased by 47.29% from the end of previous year.

As at 30 June 2014, the Group's contracted capital commitments in relation to the purchase of long-term assets amounted to RMB423.51 million (31 December 2013: RMB276.17 million).

Currency Structure

Item	At the end of the Reporting Period (30 June 2014)			At the end of last year (31 December 2013)		
	Foreign currency amount	Translation rate	Amount in RMB	Foreign currency amount	Translation rate	Amount in RMB
Cash on hand:						
– RMB	–	–	100,793.54	–	–	176,402.83
Bank deposits:			751,575,553.19			747,677,597.88
– RMB	–	–	708,422,136.95	–	–	694,716,070.22
– HK dollar	25,494,519.68	0.79375	20,236,275.00	39,298,550.07	0.78623	30,897,699.02
– U.S. dollar	2,422,610.22	6.1528	14,905,836.16	2,969,157.58	6.0969	18,102,656.85
– Japanese Yen	118,222,265.00	0.060815	7,189,687.05	47,462,411.00	0.057771	2,741,950.95
– Euro	97,874.59	8.3946	821,618.03	24,046.87	8.4189	202,448.19
– MOP	0.00	0.7784	0.00	1,339,974.50	0.7588	1,016,772.65
Other monetary fund on hand:			5,479,016.40			13,190,134.83
Total			<u>757,155,363.13</u>			<u>761,044,135.54</u>

3.5.7 Interest Expenses and Capitalisation

	Reporting Period (RMB)	Same period last year (RMB)
Interest expenses	11,948,630.14	4,046,904.86
Capitalised interest	16,215,671.85	19,626,284.20
Total interest expenses	28,164,301.99	23,673,189.06

3.5.8 Foreign Exchange Risks

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in RMB. However, the Company still has certain imports and exports businesses on 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. At the end of the Reporting Period, the loan balances in Hong Kong dollars amounted to HK\$547.6635 million. In respect of the above, the Company is still exposed 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 RMB, and timely adjust the extent of borrowings, so as to reduce its risks to the minimum.

3.5.9 Contingent Liabilities

As at 30 June 2014, the Group had no significant contingent liabilities.

3.5.10 Pledge of Assets

As at 30 June 2014, the Group's pledged assets under restrictions were as follows:

	30 June 2014 (RMB)	Reasons for restriction
Assets pledged:		
Other cash fund	2,469,075.60	Deposits under guarantees for letters of credit
Other cash fund	666,130.73	Deposits for bank acceptance bills
Total	3,135,206.33	

3.5.11 Employees, Remuneration and Pension Scheme

The remuneration of the employees 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 30 June 2014, the Group had 5,047 staff (31 December 2013: 5,058 staff). During the Reporting Period, the total wages, bonuses, allowances, compensation, welfare and social insurance paid to the employees by the Group amounted to RMB245.69 million (31 December 2013: RMB374.31 million).

During the Reporting Period, there was no change in the employees remuneration policies and training programs. 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. There was no change in the details of the pension welfare.

3.5.12 Investments

On 15 April 2014, the Group's controlling subsidiary Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) ("Livzon MAB") entered into an "Epirus Biopharmaceuticals, Inc. Series B Preferred Stock Purchase Agreement" with Epirus Biopharmaceuticals, Inc. ("Epirus"), a biopharmaceutical company based in Boston, the United States, pursuant to which Livzon MAB invested US\$15.00 million (equivalent to approximately RMB93.255 million) (accounting for approximately 2.79% of the Company's latest audited net assets attributable to shareholders of the Company of RMB3,344.6486 million) to subscribe for new 11.811 million Series B Preferred Stocks issued by Epirus. Upon the completion of subscription, Livzon MAB would hold approximately 15.22% of Epirus total shares.

On 16 July 2014, Epirus (NASDAQ: EPRS) was listed on NASDAQ in the United States. On the same date, Livzon MAB beneficially owned 1.566 million common stocks of Epirus, representing 12.14% of the total issued common stocks of Epirus.

Epirus is principally engaged in biopharmaceutical research and development, production and sales. Currently, it mainly focuses on the development and commercialisation of biosimilar monoclonal antibodies. The said investment can extend the reach to international partners for cooperation in biological drug R & D projects, which will not only foster the introduction of and collaboration on high-end technologies for the development of biological drugs, but also facilitate the enhancement of the research ability in biological drugs to a level which is comparable to the international standard. Given the limited investment amount, there is no significant impact on the Group's operating results for the Reporting Period.

3.6. CORE COMPETITIVENESS ANALYSIS

The Group's core competitiveness is primarily reflected in the following aspects:

1. A diversified product mix. The Group's products include drug preparation products, bulk medicines and intermediates as well as diagnostic reagents and equipment. Its main products include Shengqi Fuzheng Injection (參芪扶正注射液), Ilaprazole Enteric-Coated Tablets (艾普拉唑腸溶片), Anti-viral Granules (抗病毒顆粒), Urofollitropin for Injection (注射用尿促卵素) etc., covering gastrointestinal, anti-microbial medicine, mental, reproductive and neurological areas. The diversified product structure allows the Group to effectively maintain stable financial results and meet challenges from the market;
2. A matured marketing network. The Group has a marketing team consists of over 4,000 elite sales personnel, as well as a nationwide marketing network and a sound marketing structure;
3. Strong research and development capability. The Group always attaches great importance to scientific research and innovation, continues to invest in scientific research and emphasise on the research and development of new products and technologies. The Group has a well established research and development team for products such as biological drug preparation, chemical drug and traditional Chinese medicine products.

3.7. INVESTMENT ANALYSIS

3.7.1 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	-	-	-

3.7.2 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)	Number of shares/units held at the end of period (Shares)	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	1,000,000	1,000,000	9,969,500.00	-868,989.00	Financial assets for trading	Purchased in market
Funds	206001	Penghua Fund	150,000.00	619,573	619,573	595,747.12	523.38	Financial assets for trading	Purchased in market
Securities held at the end of the period			-	-	-	-	-		
Total			6,666,232.42	1,619,573	1,619,573	10,565,247.12	-868,465.62		

Shareholdings in other listed companies

Securities codes	Securities abbreviations	Initial investment amount (RMB)	Proportion of shareholding in such company	Carrying amount at the end of period (RMB)	Profit or loss for the Reporting Period	Change in the equity attributable to the owner for the Reporting Period (RMB)	Accounting items	Sources of shares
000963	Huadong Medicine	39,851.86		4,944,186.00	-	622,601.20	Available-for-sale financial assets	Investee
Total		39,851.86	-	4,944,186.00	-	622,601.20		

Trading in the equity of other listed companies by the Company during the Reporting Period

Securities codes	Stock name	Number of Shares held at the beginning of period (Shares)	Number of Shares purchased during the Reporting Period (Shares)	Number of Shares sold during the Reporting Period (Shares)	Number of Shares held at the end of period (Shares)	Fund utilised for purchase of Shares (RMB)	Fund inflow from selling of Shares (RMB)	Investment gain incurred (RMB)
601328	Bank of Communications	1,518,189	-	1,518,189	0	-	5,814,360.22	3,364,181.22
Total		1,518,189	-	1,518,189			5,814,360.22	3,364,181.22

3.7.3 Analysis of Major Subsidiaries and Investee Companies

Company names	Major products and services	Registered capital (RMB'0,000)	Total assets (RMB'0,000)	Net assets (RMB'0,000)	Net profit (RMB'0,000)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	principally engaged in the production and sale of chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	45,000.00	242,063.36	122,868.40	6,075.41
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	principally engaged in the research, production and sale of traditional Chinese medicine, major products include Anti-viral Granules, Dexaltin Oral Paste, etc.	14,900.00	60,464.17	54,281.64	6,555.47
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	principally engaged in the production and operation of the Chinese drug preparations and pharmaceutical raw materials, etc., major products include Shenqi Fuzheng Injection, Xueshuantong, etc.	6,156.10	77,791.36	41,296.24	4,868.52
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑有限公司)	principally engaged in the production and sale of diagnostic reagents, major products include Chlamydia Trachomatis Antigen Diagnostic Kit and ELISA HIV Testing Reagents Kit.	4,645.08	40,753.32	25,472.13	3,799.56

Note: The above table shows the subsidiaries and investee companies with net profit contribution or return on investment which account for more than 10% of the net profit of the Company.

3.7.4 Significant investment projects not financed by fund raising

Project name	Planned total investment (RMB million)	Amount invested during the Reporting Period (RMB million)	Accumulated actual investment amount as of the end of the Reporting Period (RMB million)	Project progress	Project revenue (RMB million)
Livzon (Ningxia) Pharmaceutical Group Industrial Park	724.00	2.57	723.07	Currently it is applying for the production permit	-23.86
Relocation project of a new factory of Livzon Pharmaceutical Factory	887.23	41.79	885.80	Production has been commenced after completion of the relocation	No separate account for this project
Total	1,611.23	44.36	1,608.87	-	-

3.8. DETAILS OF SUBSEQUENT EVENTS WITH MATERIAL IMPACT ON THE GROUP

As at the date of the Report, the Company has no material or contingent events that are required to disclose.

3.9. PROSPECTS

3.9.1 China's pharmaceutical industry development outlook in the second half of 2014

After the promulgation of The 12th Five Year Plan for Pharmaceutical Industry (《醫藥工業「十二五」發展規則》) and The 12th Five Year Plan Regulations on National Drug Safety (《國家藥品安全「十二五」規則》), pharmaceutical industry has been on a sustainable and steady development. At present, domestic players in the industry have already begun exploring the field of new drug research and development, and it is expected that they will make significant breakthrough during the period of the 12th Five Year Plan. However, as a result of the impact of medical reform policies, the new regulatory measures of China Food and Drug Administration on drugs, and a series of new policies issued by the National Development and Reform Commission and the National Health and Family Planning Commission, pharmaceutical industry will face greater challenges.

3.9.2 Embracing forthcoming changes in the second half of 2014

Looking ahead, competition in pharmaceutical market will continue to be intense in the second half of 2014. The promulgation of The 12th Five Year Plan for Pharmaceutical Industry (《醫藥工業「十二五」發展規則》) and The 12th Five Year Plan Regulations on National Drug Safety (《國家藥品安全「十二五」規則》) provokes challenges as well as opportunities to pharmaceutical industry. Meanwhile, the competent government departments' support and measures which encourage pharmaceutical companies to strengthen their business model may bring a golden age for the development of pharmaceutical industry in China in the coming decade. In the second half of 2014, the Company will seize those opportunities and continue to deepen its reform in marketing and sales and team building, so as to proactively meet the challenges ahead. Efforts will be made on quality control and cost control. Scientific research and development will be further promoted. To ensure continuous performance growth, the Group's management will be optimised.

3.9.3 Strategic outlook of the Company

As a thriving sector, pharmaceutical industry has an enormous bright future. Aging population, urbanisation, health awareness, etc. are favorable factors for the development of pharmaceutical industry, while development of biological science and technology also has guaranteed the innovation of medicine and accelerated the progress in research and development. In the future, the Company will continue to build up its strong foundation by focusing on scientific research and product quality and implement marketing reform to expand its sales team and network, so as to keep on improving its financial performance. At the same time, the Company will integrate the resources for bulk medicines business of the Group as and when appropriate to strengthen the research and development in biological area and relevant cooperation, as well as to optimise management of the Company, with the aim to achieve its strategic development goals.

In order to achieve the Company's strategic goals, the working plans for the second half of 2014 are as below:

(1) *To ensure performance growth by deepening the marketing reform and expanding sales*

In the second half of 2014, the marketing department shall pay close attention to the national policy changes for pharmaceutical industry and carry out various timely measures to minimise risk exposure. All marketing measures and plans set by the Group shall be effectively implemented. Assessment and supervision on our marketing units of all levels shall continue to be strengthened. More efforts shall be made on building of marketing teams and the distribution network shall be consolidated and expanded.

Specific measures include: (i) Continue to recruit sales personnel to expand the marketing teams, and to strengthen supervision on external sales personnel; broaden recruitment channels and minimise vacancies in sales function; (ii) Establish new job responsibilities and quantitative assessment indicators, apply reward and punishment program to establish and form strong teams. Assessment direction shall be adjusted to make us more service-oriented, foster team spirit and facilitate sales reform; (iii) Make good use of market resources by vigorously promoting scale production, setting role models, allocating resources with priority to units and regions with economies of scale and vigorously assisting those units and regions; (iv) Strengthen the collaboration with the key customers; and (v) For providing high-quality internal strategic research and information analysis services to the sales and marketing divisions, the strategic marketing department will continue to invite data base suppliers to offer trainings to the employees, upgrading their information collection and data analysis capabilities.

(2) *To develop biological research in a progressive manner*

Scientific research and development is a long-term strategic task. In the second half of 2014, the research department shall proceed with all research project plans according to their schedules, and ensure those key research and development projects are implemented. The major focuses in the second half of the year include: research on and develop new products, nurture the development of key products and continue in-depth research on potential products; organise and complete a series of re-assessment research for injection drugs after their launch such as economic research, safety research and material formation tests, and systematically carry out the planned research on Anti-viral Granules and Bazheng Capsules traditional Chinese medicines; commence the experimental tasks for rotavirus vaccine projects in accordance with the determined research direction; strengthen the recruitment of talented people and introduce advanced technologies; vigorously develop scientific research in the field of biomedicine.

(3) *To focus on production management, ensure quality and control costs*

In the second half of 2014, all production subsidiaries of the Company shall continue to ensure product quality. At the same time, measures shall be taken to further strengthen cost control, and facilitate the communication and connection between production and sales units. The major tasks in the second half of the year are as follows: (i) Continue to uphold strict requirement for quality management to ensure product quality. Our production subsidiaries shall strengthen the effectiveness of quality control measures on daily production. They shall organise quality assesment on each product material, production process, production line, critical production procedure. Processes or steps prone to errors shall be identified for setting up control measures and enhancement of risk management. Further effective checks on outputs shall be undertaken to standardise and upgrade our product quality and avoid any occurrences of unfavorable incidents; (ii) Strengthen cost control management to reduce production costs. Through continuous process optimisation, technology improvements, implementation of cost-saving measures, incentive and assessment program, etc., we shall achieve effective cost control, cost reduction as well as ensure quality products; (iii) Undertake an excellent communication and connection between production and sales units. Every production division should strengthen connection with the sales department. They should accept reasonable schedules, perform regular and comprehensive maintenance and checks and practice self-assertion to ensure smooth production and timely delivery. (iv) Strengthen accountability in production safety and environmental protection work, strictly monitor production safety, and eliminate potential environmental hazards. All production subsidiaries should continue to carry out EHS (Environment, Health, Safety) management system and deepen its foundation, making sure that no material safety and environmental incidents will occur.

(4) *To strengthen management functions and enhance internal control standard*

In the second half of 2014, with respect to the internal management functions, the Group will continue to strengthen the internal service functions such as administration, human resources, finance, information etc. (i) The Group will do a fabulous task in administration service and logistics to realise a smooth relocation of the headquarters in Zhuhai. The Company will strenuously attempt to gradually establish an effective management model of the overall administration and logistics service system of the Group. (ii) The Group will strengthen human resource management, gradually implement personnel succession planning and run a reasonable officer training and promotion mechanism so as to enhance employees' sense of belonging and pride of the Company and stimulate their enthusiasm. Furthermore, the Group will improve the training system for employees, develop and improve relevant training schemes, and successively optimise improve pre-job training, continuing professional education and management personnel training systems. (iii) The Group will continue to improve the comprehensive information management system. Human resource management projects will be implemented; the Group will optimise core business system functions (including ERP, CRM, etc.) by streamlining the operation of the system and extending business coverage; the Group will continue to develop sales and financial BI (Business Intelligence) reporting platform and complete optimisation of business data analysis operations to improve employee productivity and enhance scientific decision-making mechanism of the management. (iv) The Company will continue to strengthen its internal control system, make efforts on the formation of a self-examination and rectification mechanism, and hire external agencies to audit the Company's internal control measures to ensure its compliance with the relevant requirements, so as to further upgrade its corporate governance.

4.1 CHANGES IN THE COMPANY'S SHARE CAPITAL DURING THE REPORTING PERIOD

There were no changes in the Company's share capital during the Reporting Period. As at 30 June 2014, 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	—	—
3. Overseas listed foreign shares (<i>Note</i>)	111,993,354	37.87%
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.

4.2 NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS

4.2.1 Number of shareholders

At the end of the Reporting Period, the Company had a total of 9,229 Shareholders which included 3 H Shareholders (Note 1) and 9,226 A Shareholders. Among them, 9,228 Shareholders have no selling restrictions and 1 Shareholder has selling restrictions.

4.2.2 Shareholdings of the top ten shareholders

Name of shareholder	Nature of shareholder	Class of shares	Shareholding percentage (%)	Number of shares held at the end of the Reporting Period	Change during the Reporting Period	Number of shares with selling restrictions	Pledge or lock up	
				(Share)	(Share)	(Share)	Share status	Number
HKSCC Nominees Limited (Note 2)	Foreign legal person	H Share	37.87	111,992,454	–	16,000,000 (Note 2)	Pledge	16,000,000 (Note 2)
Joincare Pharmaceutical Industry Group Co., Ltd.	Domestic non-state owned legal person	A Share	26.21	77,510,167	–	–	–	–
Guangzhou Begol Trading Corporation	State owned legal person	A Share	2.05	6,059,428	–	6,059,428	Pledge and lock up	6,059,428
Bank of Communications – Bosera Emerging Growth Equity Securities Investment Fund	Fund	A Share	2.00	5,904,945	440,619	–	–	–
Shenzhen Haibin Pharmaceutical Co., Ltd.	Domestic non-state owned legal person	A Share	1.99	5,892,943	–	–	–	–
Agricultural Bank of China – Greatwall Anxin Return Mixed Type Securities Investment Fund	Fund	A Share	1.81	5,362,584	–	–	–	–
Agricultural Bank of China – Penghua Power Growth Mixed Type Securities Investment Fund	Fund	A Share	1.53	4,516,731	1,099,831	–	–	–
National Social Security Fund 404	Fund	A Share	1.27	3,749,484	1,499,559	–	–	–
Columbia University	Foreign legal person	A Share	1.12	3,317,433	–	–	–	–
Industrial and Commercial Bank of China – Bosera Selected Equity Securities Investment Fund	Fund	A Share	1.08	3,202,048	-5,598,189	–	–	–

4.2 NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS *(continued)*

4.2.3 Shareholdings of top ten shareholders without selling restrictions

Name of shareholder (Full name)	Number of shares held without selling restriction at the end of the Reporting Period (Share)	Type of shares	
		Category of shares	Number (Share)
HKSCC Nominees Limited <i>(Note 2)</i>	95,992,454	H Shares	95,992,454
Joincare Pharmaceutical Industry Group Co., Ltd.	77,510,167	A Shares	77,510,167
Bank of Communications – Bosera Emerging Growth Equity Securities Investment Fund	5,904,945	A Shares	5,904,945
Shenzhen Haibin Pharmaceutical Co., Ltd.	5,892,943	A Shares	5,892,943
Agricultural Bank of China – Greatwall Anxin Return Mixed Type Securities Investment Fund	5,362,584	A Shares	5,362,584
Agricultural Bank of China – Penghua Power Growth Mixed Type Securities Investment Fund	4,516,731	A Shares	4,516,731
National Social Security Fund 404	3,749,484	A Shares	3,749,484
Columbia University	3,317,433	A Shares	3,317,433
Industrial and Commercial Bank of China – Bosera Selected Equity Securities Investment Fund	3,202,048	A Shares	3,202,048
Industrial and Commercial Bank of China – 廣發聚富開放式證券投資基金	2,999,997	A Shares	2,999,997

4.2 NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS *(continued)*

4.2.3 Shareholdings of top ten shareholders without selling restrictions *(continued)*

Description on connection and concert in actions among top ten shareholders without selling restrictions themselves and between top ten shareholders without selling and top ten shareholders	(1) On 2 January 2004, Joincare and Guangzhou Begol Trading Corporation (廣州市保科力貿易公司) (hereinafter referred to as “Begol”) 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 Begol have been directly transferred, entrusted and pledged to Joincare; (2) Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司) is Joincare’s directly and indirectly wholly-owned subsidiary; (3) Bank of Communications – Boshi Emerging Growth Fund and Industrial and Commercial Bank of China – Boshi Selected Stock Fund are funds both managed by Boshi Asset Management Co., Limited (博時基金管理有限公司); (4) the Company does not aware whether the other shareholders mentioned above are related parties or persons acting-in-concert as defined in the Administration Procedures of the Takeover of Listed Companies.
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Note 1: Total number of H Shareholders is calculated based on the record of Tricor Investor Services Limited, the H Share Registrar of the Company.

Note 2: HKSCC Nominees Limited is a nominee holder of H Shares of the Company and the holdings under its name for others include 50,660,052 H Shares held by Topsino Industries Limited (天誠實業有限公司), which is a wholly-owned subsidiary of Joincare, the Company’s controlling shareholder (Topsino Industries Limited has entered into an equity interest pledge agreement with Nanyang Commercial Bank to pledge its 16,000,000 H Shares held in the Company to Nanyang Commercial Bank. The effective date of the pledge is 11 June 2014. Please see section 6.8 of the Report for details).

4.2 NUMBER OF SHAREHOLDERS AND DETAILS ON SHAREHOLDINGS *(continued)*

4.2.4 As at 30 June 2014, the interests or short positions of the substantial shareholders (within the meaning of SFO), other than Directors, Supervisors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

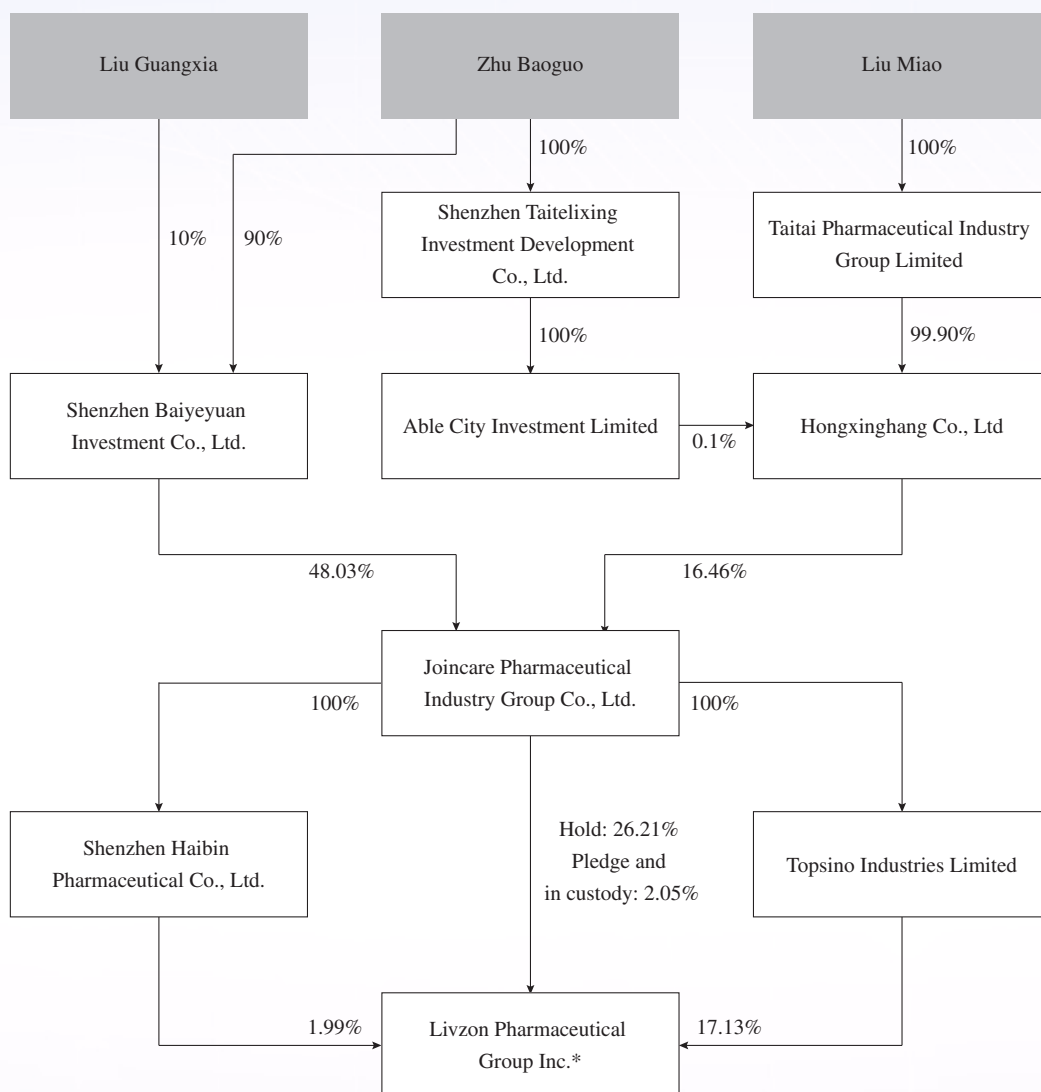
Name of shareholder	Capacity	Number of shares interested (Long position)	As a percentage of the specific class of issued share capital of the Company (%)	As a percentage of the total issued share capital of the Company (%)
Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) ("Baiyeyuan")	Interest of controlled corporations	89,462,538 A Shares ⁽¹⁾	48.69%	30.25%
	Interest of controlled corporations	50,660,052 H Shares ⁽²⁾	45.23%	17.13%
Joincare	Beneficial owner	77,510,167 A Shares	42.19%	26.21%
	Interest of controlled corporation	5,892,943 A Shares ⁽³⁾	3.20%	1.99%
	Person having a security interest in shares	6,059,428 A Shares ⁽⁴⁾	3.30%	2.05%
	Interest of controlled corporation	50,660,052 H Shares ⁽²⁾	45.23%	17.13%
Topsino Industries Limited (天誠實業有限公司) ("Topsino")	Beneficial owner	50,660,052 H Shares ⁽²⁾	45.23%	17.13%

Notes:

- (1) Among these shares, 83,569,595 shares and 5,892,943 shares are held directly by Joincare and its wholly-owned subsidiary, Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司) ("Shenzhen Haibin") respectively.
- (2) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare.
- (3) These shares are held directly by Shenzhen Haibin, a wholly-owned subsidiary of Joincare.
- (4) These shares were directly transferred from, entrusted and pledged by Guangzhou Begol Trading Corporation (廣州市保科力貿易公司) ("Begol") in favor of Joincare in accordance with a share transfer, custody and pledge agreement entered into among three parties, namely Begol, Joincare and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司), as well as a share transfer and custody agreement and a share pledge agreement entered into between Begol and Joincare on 2 January 2004.

4.3 CONTROLLING SHAREHOLDER AND ULTIMATE BENEFICIAL OWNER

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).

5.1 CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1.1 During the Reporting Period, there were no changes in shareholdings of Directors, Supervisors and senior management.

5.1.2 As at 30 June 2014, the interests or short positions of the Directors, Supervisors or chief executive of the Company, in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

(1) Interest in shares of the Company

Name of director	Capacity	Number of shares interested (Long position)	As a percentage of the specific class of issued share capital of the Company (%)	As a percentage of the total issued share capital of the Company (%)
Mr. Zhu Baoguo (朱保國)	Interest of controlled corporations	89,462,538 A Shares ⁽¹⁾⁽²⁾	48.69%	30.25%
		50,660,052 H Shares ⁽¹⁾⁽³⁾	45.23%	17.13%
Ms. Liu Guangxia (劉廣霞) (resigned as director on 21 August 2014)	Interest of spouse	89,462,538 A Shares ⁽⁴⁾	48.69%	30.25%
		50,660,052 H Shares ⁽⁴⁾	45.23%	17.13%

(2) Interest in shares of associated corporations of the Company

Name of director	Capacity	Name of associated corporation	Equity interest (RMB)	As a percentage of the equity interest of associated corporation (%)
Mr. Zhu Baoguo (朱保國)	Beneficial owner	Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司) ("Baiyeyuan")	72,000,000	90.00%
	Interest of controlled corporation	Joincare ⁽⁵⁾	742,415,520	48.03%
	Interest of controlled corporations	Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) ⁽¹⁾⁽⁶⁾	245,000,000	49.00%

Notes:

- (1) Joincare is 48.30% held by Baiyeyuan which is in turn 90% held by Mr. Zhu Baoguo (朱保國). Mr. Zhu Baoguo (朱保國) is deemed to be interested in the shares of the Company and the equity interest of its associated corporations in which Joincare is or is deemed to be interested by virtue of the SFO.
- (2) Among these shares, 83,569,595 shares and 5,892,943 shares are held directly by Joincare and its wholly-owned subsidiary, Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司), respectively.
- (3) These shares are held directly by Topsino Industries Limited, a wholly-owned subsidiary of Joincare.
- (4) Ms. Liu Guangxia (劉廣霞) is the spouse of Mr. Zhu Baoguo (朱保國), and so she is deemed to be interested in the shares in which Mr. Zhu Baoguo is deemed to be interested.
- (5) These shares are held by Baiyeyuan.
- (6) These shares are held by Joincare.

5.2 CHANGES IN THE COMPANY'S DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

Name	Position	Type	Date	Reason
An Ning (安寧)	Executive Director, President, authorised representative and a committee member of the Strategic Committee, the Remuneration and Assessment Committee and the Nomination Committee	Resigned	5 March 2014	Personal reason and for taking care of his family.
Tao Desheng (陶德勝)	President, authorised representative and a committee member of the Strategic Committee, the Remuneration and Assessment Committee and the Nomination Committee	Newly appointed	10 March 2014	Upon consideration and approval by the Board, he was appointed as the Company's President, authorised representative and a committee member of the Strategic Committee, the Remuneration and Assessment Committee and the Nomination Committee.
Luo Xiaosong (羅曉松)	Independent non-executive Director	Retired upon expiry of tenure of service	30 June 2014	End of six-year tenure of service as an independent non-executive Director of the Company.

Name	Position	Type	Date	Reason
Xu Yanjun (徐焱軍)	Independent non-executive Director	Newly appointed	30 June 2014	Upon consideration and approval by the 2013 annual general meeting, he was appointed as an independent non-executive Director of the Company.
	Chairman of the Audit Committee and a member of the Remuneration and Assessment Committee	Newly appointed	30 June 2014	Upon consideration and approval by the first meeting of the Eighth Session of the Company's Board, he was appointed as the Chairman of the Audit Committee and a member of the Remuneration and Assessment Committee.
Fu Daotian (傅道田)	Executive Director	Newly appointed	30 June 2014	Upon consideration and approval by the 2013 annual general meeting, he was appointed as an executive Director of the Company.
Yuan Huasheng (袁華生)	Chief Supervisor	Retired upon expiry of tenure of service	30 June 2014	End of tenure of service as the Chief Supervisor for the Seventh Session of the Company's Supervisory Committee.
Wang Maolin (汪卯林)	Chief Supervisor	Newly appointed	30 June 2014	Upon consideration and approval by the first meeting of the Eighth Session of the Company's Supervisory Committee, he was appointed as the Chief Supervisor of the Supervisory Committee.
Liu Guangxia (劉廣霞)	Non-executive Director and Vice Chairman	Resigned	21 August 2014	Personal work and time arrangement.
Tao Desheng (陶德勝)	Vice Chairman	Newly appointed	26 August 2014	Upon consideration and approval by the second meeting of the Eighth Session of the Board, he was appointed as the Vice Chairman of the Company.

5.3 LISTS OF MEMBERS OF THE BOARD AND THE SUPERVISORY COMMITTEE

5.3.1 The Board of the Company comprises ten Directors which includes two executive Directors, three non-executive Directors and five independent non-executive Directors. As at the date of the Report, the Directors of the Company are as follows:

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Mr. Xu Yanjun (徐焱軍)
Mr. Yang Bin (楊斌)
Mr. Guo Guoqing (郭國慶)
Mr. Wang Xiaojun (王小軍)
Mr. Yu Xiong (俞雄)

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

Mr. Wang Maolin (汪卯林) (*Chief Supervisor*)
Mr. Yuan Huasheng (袁華生)
Mr. Huang Huamin (黃華敏)

5.4 CHANGE OF BIOGRAPHICAL DETAILS OF DIRECTORS AND SUPERVISORS

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

5.4.1 Change of biographical details of Mr. Fu Daotian (傅道田), executive Director of the Company is set out as follows:

Mr. Fu Daotian (傅道田), executive Director of the Company, has been a director of EPIRUS BIOPHARMACEUTICALS, INC. (a company listed on NASDAQ, US since July 2014) since July 2014.

5.4.2 The updated biographical details of Mr. Wang Xiaojun (王小軍), independent non-executive Director of the Company is set out as follows:

Mr. Wang Xiaojun (王小軍), 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 1992 to 2001, Mr. Wang was an assistant manager in the China Listing Affairs Unit of the Hong Kong Stock Exchange, worked as a solicitor at Richards Butler, took the position of associate director of Peregrine Capital Limited and took the position of director of ING Barings in succession. He established X. J. Wang & Co. in 2001. 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 to 2013. Mr. Wang has been our independent non-executive Director from September 2013 to present.

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

Name of listed company and stock code	Position	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
Norinco International Cooperation Limited (北方國際合作股份有限公司) (000065.SZ)	Independent Director	June 2008 – 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 – October 2013

5.4.3 The updated biographical details of Mr. Yuan Huasheng (袁華生), Supervisor of the Eighth Session of the Supervisory Committee, is set out as follows:

Mr. Yuan Huasheng (袁華生), aged 52, 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); 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); director as well as the vice-general manager 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 Supervisor of our Supervisory Committee from June 2013 to present.

6.1 CORPORATE GOVERNANCE

– Highlights

The Company has been constantly optimising its corporate governance structure and strictly observing the Company Law of the PRC, the Securities Law of the PRC, the Guidelines for Corporate Governance of Listed Companies and the relevant laws and regulations of CSRC, Shenzhen Listing Rules and Hong Kong Listing Rules in doing its business. The corporate governance is in compliance with requirements for a listed company without any substantial deviation from the requirements of relevant documents of CSRC.

– Compliance with the Corporate Governance Code

The Company confirmed that it has strictly complied with all of the code provisions as set out in the Corporate Governance Code in Appendix 14 of the Hong Kong Listing Rules throughout the period from its H Shares being listed on the Main Board of the Hong Kong Stock Exchange on 16 January 2014 (“H Shares Listing Date”) to 30 June 2014.

– Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has 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 by the Company’s Directors and Supervisors. Having made specific enquiries to all of the Directors and Supervisors of the Company, the Company has not been informed of any information which reasonably indicated that each of the Directors and Supervisors had not complied with the standards required by the above code throughout the period from the H Shares Listing Date to 30 June 2014. All Directors and Supervisors have confirmed that they had fully complied with the standards as set out in the above code and the Company’s code of conduct throughout the period from the H Shares Listing Date to 30 June 2014.

– Audit Committee

The members of the Audit Committee of the Board are Mr. Xu Yanjun (徐焱軍) (Chairman of the committee), Mr. Yang Bin (楊斌) and Mr. Guo Guoqing (郭國慶) respectively. The Audit Committee has reviewed the Group’s results for the six months ended 30 June 2014.

6.2 SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES

6.2.1 Connected Transactions in the ordinary course of business

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Description of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB '0,000)	Proportion to transaction amount of the same category (%)	Settlement method of the connected transactions	Date of disclosure	Index of disclosure
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished goods	Determined by negotiation based on market price	0.54	0.00%	By bank	25 March 2014	Announcement name: "Announcement on connected transactions of Livzon Pharmaceutical Group Inc. in the ordinary course of business for the year 2014"; Announcement No.: 2014-25; Website for publication: CNINFO
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Sale of commodities	Sale of finished goods	Determined by negotiation based on market price	939.65	0.37%	By bank		
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Provision of services	Electricity and power	Determined by negotiation based on market price	244.25	96.04%	By bank		
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	Electricity and power	Determined by negotiation based on market price	8.95	3.52%	By bank		
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	47.69	0.05%	By bank		
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	454.91	0.48%	By bank		
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	Low-valued consumables	Determined by negotiation based on market price	1.71	0.00%	By bank		
Xinxiang Haibin Pharmaceutical Industry Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of raw materials	Determined by negotiation based on market price	24.11	0.03%	By bank		
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Procurement of goods	Determined by negotiation based on market price	20.09	0.02%	By bank		
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	Procurement of raw materials	Determined by negotiation based on market price	12,972.91	13.60%	By bank		
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	Renting out of office premises	Determined by negotiation based on market price	21.42	10.73%	By bank		
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	Renting out of office premises	Determined by negotiation based on market price	5.00	2.50%	By bank		
Joicare	Controlling shareholder	Hiring of assets	Renting of office premises	Determined by negotiation based on market price	32.95	100.00%	By bank		
Total				-	14,774.18	-	-	-	-

Substantial amount of returned products	Nil
Projected total amount of connected transactions in the ordinary course of business during the Current Period by type and actual performance during the Reporting Period (if any)	The Company estimated that the total amount of various connected transactions conducted in the ordinary course of business with its controlling shareholder and its subsidiaries for 2014 will be RMB156,000,000, and those with other connected parties (i.e. Blue Treasure Company) will be RMB18,000,000. During the Reporting Period, actual amount of connected transactions conducted by the Company with the controlling shareholder and its subsidiaries was RMB135,000,000, representing 86.54% of the projection; those with other connected parties (i.e. Blue Treasure Company) was RMB12,000,000, representing 66.67% of the projection.
Reason for the significant difference between the transaction amounts and referential projection amounts (if applicable)	Not applicable

6.2.2 Connected transactions relating to acquisition and disposal of assets

During the Reporting Period, the Company has no connected transaction relating to acquisition and disposal of assets.

6.2.3 Major Connected Transactions on Joint External Investment

Transactions with co-investor	Relationships with connected parties	Pricing principle of joint investment	Name of the investee company	Principle business of the investee company	Registered capital of the investee company (RMB '0,000)	Total assets of the investee company (RMB '0,000)	Net assets of the investee company (RMB '0,000)	Net profit of the investee company (RMB '0,000)
Joincare	Controlling shareholder	Determined by negotiation based on market price	Livzon MABPharm Inc. (珠海市麗珠单抗生物技術有限公司)	Research and development of technologies for biopharmaceutical products and vaccines	50,000.00	36,897.75	34,894.34	-1,815.77

Progress of major construction-in-progress projects of the investee company (if any)	Trial production plant and laboratories for research and development of vaccines planned for construction has a total area of 17,200 square meters. It will be an industrial base for research and development of vaccines of international standard with an investment amount of approximately RMB200,000,000. It is scheduled that the construction will be completed during the year.
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6.2.4 Debtors and creditors with connected parties

Connected parties	Relationships with connected parties	Type of creditors' or debtors' rights	Reason for occurrence	Use of extraordinary capital	Balance at the beginning of the period (RMB '0,000)	Amount incurred during the Current Period (RMB '0,000)	Balance at the end of the period (RMB '0,000)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Debtors arisen from connected transactions	Sale of goods	No	439.93	280.07	720.00
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Debtors arisen from connected transactions	Sale of goods	No	3.93	8.09	12.02
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	Debtors arisen from connected transactions	Sale of goods	No	50.86	-50.86	-
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Debtors arisen from connected transactions	Leasing of assets	No	1.30	1.34	2.64
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Debtors arisen from connected transactions	Leasing of assets	No	1.67	-0.83	0.83
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	Debtors arisen from connected transactions	Advance payment to wages and social security fees etc.	Yes	16.04	-16.04	-
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	Debtors arisen from connected transactions	Sale of goods	No	5.00	-	5.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Debtors arisen from connected transactions	Provision of services	No	54.52	39.76	94.28
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associate	Creditors arisen from connected transactions	Procurement of goods	No	0.44	-0.44	-
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Creditors arisen from connected transactions	Procurement of goods	No	626.91	532.09	1,159.00
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Creditors arisen from connected transactions	Procurement of goods	No	-	23.50	23.50
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	Creditors arisen from connected transactions	Procurement of goods	No	5,570.40	4407.33	9,977.73
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	Creditors arisen from connected transactions	Advance payment to social security fees	Yes	1.25	-1.25	-
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Creditors arisen from connected transactions	Lease of assets	No	153.75	-32.95	120.80

Effect of debtors and creditors with connected parties on the operating results and financial position of the Company

The debtors and creditors mainly arose from connected transactions of the Company with connected parties in the ordinary course of business. There is no significant effect on the operating results and financial position of the Company.

6.2.5 Other major connected transactions

During the Reporting Period, the Group had no other major connected transaction.

6.3 MAJOR CONTRACTS AND ITS ENFORCEMENT

6.3.1 Custody, hiring and leasing matters

During the Reporting Period, the Company had no custody, hiring or leasing of other companies' assets which generated 10% or more of total profit of the Company for the Current Period.

6.3.2 Guarantees

During the Reporting Period, the Company had no guarantee provided for companies other than its subsidiaries. The total guarantee for its subsidiaries amounted to RMB478.6126 million. For the details, please refer to the relevant content in "Note VIII. Related Parties and Related Party Transactions" as set out in the section headed "Financial Report" in the Report.

6.3.3 Other major contracts

During the Reporting Period, the Company did not enter into any other major contracts.

6.3.4 Other material transactions

During the Reporting Period, the Company did not enter into any other material transactions.

6.4 PUNISHMENT AND RECTIFICATION

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

6.5 MATTERS OF COMMITMENTS

6.5.1 Undertakings during the IPO issuance or re-financing

Covenantors: Shenzhen Baiyeyuan Investment Co., Ltd. (深圳市百業源投資有限公司), Joicare (collectively, the "Covenantors"), Zhu Baoguo (朱保國), Liu Guangxia (劉廣霞)

Date of undertakings and their duration: 10 January 2014; These undertakings will be effective for long term.

Details of the undertakings: Regarding the Company's implementation of listing and trading on the Main Board of the Hong Kong Stock Exchange by way of introduction of domestically listed foreign shares (B Shares) (hereinafter referred to as the "B-to-H Share Conversion"), the Covenantors have provided the "non-competition undertakings" as follows:

- "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 the Group from time to time (hereinafter referred to as the "Restricted Activities").
2. The Covenantors together with companies and individuals controlled thereof shall immediately notify the Company in writing and prioritise such business opportunity to the Group on reasonable and fair terms and conditions, upon discovering any new business opportunities which constituted competition with the Restricted Activities. If the 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 the Group.

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 (hereinafter referred to as the "Disposal and Transfer"), the Covenantors together with companies and individuals controlled thereof shall provide pre-emptive rights to the Group on equivalent terms. If the 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 the 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 the Group or other shareholders by using their relationship with shareholders of the Group or their identity as shareholders of the 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 the Group to terminate their employment with the Group or end their positions as employees or consultants of the 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 the Group (other than those who serves as the Directors, senior management or consultants belonging to the Company and/or subsidiaries (excluding the 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 the Group, canvass, or solicit or accept orders from or do business with any person with whom any member of the Group has done business or solicit or persuade any person who has dealt with the Group or is in the process of negotiating with the Group in relation to the Restricted Business to cease to deal with the Group or reduce the amount of business which the person would normally do with the Group or seek to improve their terms of trade with any member of the Group.

6. The Covenantors and subsidiaries thereof further undertake:
 - a) The Covenantors and subsidiaries thereof (excluding the Group) allow and procure relevant associates (excluding the Group) to allow the Independent Directors of the Company to review at least once each year the compliance of this letter of undertaking by the Covenantors and subsidiaries thereof (excluding the Group);
 - b) The Covenantors and subsidiaries thereof (excluding the Group) shall provide annual review from Independent Directors of the Company and all necessary information in relation to execution of this letter of undertaking;
 - c) The Group be allowed to disclose in annual reports or announcements of the decisions concerning compliance and execution of this letter of undertaking by the Covenantors and subsidiaries thereof (excluding the Group), after reviewed by Independent Directors of the Company;
 - d) The Covenantors (on behalf of subsidiaries thereof excluding the Group) shall provide annual confirmation in respect of compliance of the terms of this letter of undertaking for inclusion into annual reports of the Company.
7. Commencing from the date of issuing this relevant letter of undertaking, the Covenantors undertake that they shall bear related legal responsibilities and consequences arising from breach of any terms in the relevant letter of undertaking by the Covenantors (or subsidiaries of the Covenantors excluding the Group, and associate(s) of the Covenantors).
8. The above undertaking shall terminate upon occurrence of the following events (whichever is earliest):
 - a) The Covenantors and any subsidiaries thereof cease as controlling shareholders of the Company;
 - b) The shares of the Company are no longer listed on the Stock Exchange and other stock exchange overseas (save as suspension of trading of the shares of the Company due to any reason(s))."

Compliance of undertakings: have been complying.

6.5.2 Other undertakings to minority shareholders of the Company

Convenantor: Joincare

Date of undertakings and their duration: 10 January 2014; six to twelve months.

Details of the undertakings: "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 listing document, 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 Stock Exchange (hereinafter referred to as the "Initial Limitation Period") as disclosed in the listing prospectus; and
2. dispose of its securities beneficially owned as described in the listing document, 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 Stock Exchange as disclosed in the listing document:

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."

Compliance of undertakings:	have been complying.
Convenantor:	Joincare
Date of undertakings and their duration:	17 December 2008; These undertaking will be effective for long term.
Details of the Undertakings:	<p>"1. 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 Group's shares subject to trading moratorium held by it; Joincare planned to sell the Group's shares subject to trading moratorium held by it, through the auction trading system of the stock exchange.</p> <p>2. 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 the Group within two trading days prior to the first reduction of shareholding."</p>
Compliance of the undertakings:	During the Reporting Period, the Convenantor had complied with the undertakings in good faith.
Convenantor:	Topsino Industries Limited
Undertaking's date and duration:	25 January 2013; Effective till the date of completion of the B-to-H Share Conversion.
Details of the Undertaking:	"Under the cash options provided by the third party arranged by the Group in connection with such B-to-H Share Conversion of the 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 completion date of the implementation of this sub-plan, the Company would not purchase or dispose of the shares of the Group (including A Shares and B Shares)."
Compliance of the Undertaking:	it was fulfilled and completed.

6.6 PURCHASE, SALE AND REDEMPTION OF SECURITIES

Throughout the period from the H Shares Listing Date to 30 June 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

6.7 DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014. The Company did not pay any dividend during the six months ended 30 June 2013.

6.8 SHARES PLEDGED BY THE CONTROLLING SHAREHOLDER

The Company noted on 29 May 2014, by a notice from Topsino Industries Limited (天誠實業有限公司) ("Topsino"), a wholly-owned subsidiary of Joicare, its controlling shareholder, that Topsino had entered into an equity interests pledge agreement with Nanyang Commercial Bank to pledge its 16,000,000 H Shares of the Company to Nanyang Commercial Bank as security for the bank loans granted by Nanyang Commercial Bank to Topsino and Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司), another wholly-owned subsidiary of Joicare. The pledge of equity interests shall be effective from 11 June 2014 on which Topsino deposited its H Shares of the Company with Nanyang Commercial Bank.

As at the date of the Report, Joicare, the Company's controlling shareholder, directly and indirectly, holds and controls a total of 140,122,590 Shares of the Company, representing 47.38% of the Company's total issued share capital. Among which, Topsino directly holds 50,660,052 H Shares of the Company, representing 17.13% of the Company's total issued share capital, and a total of 16,000,000 H Shares of the Company are subject to pledge, representing 5.41% of the Company's total issued share capital.

6.9 OTHER SIGNIFICANT EVENT

The Company had no significant investment, significant acquisition or disposal involving any subsidiary or associate company, nor had other significant event which is required to be disclosed during the Reporting Period.

30 June 2014

Prepared by: Livzon Pharmaceutical Group Inc.

Prepared by: Livzon Pharmaceutical Group Inc.			Amounts denominated: RMB
Item	Notes	At the end of the period	At the beginning of the period
Current assets:			
Cash at bank and on hand	VII.1	757,155,363.13	761,044,135.54
Financial assets held for trading	VII.2	10,565,247.12	11,335,125.54
Bills receivables	VII.3	260,608,434.90	271,431,749.11
Accounts receivables	VII.4	1,108,496,012.11	1,053,350,426.59
Prepayments	VII.5	208,628,661.04	202,437,865.84
Interest receivables			
Dividends receivables			
Other receivables	VII.6	56,615,414.49	39,477,295.95
Inventories	VII.7	828,596,708.67	641,649,965.85
Non-current assets due within one year			
Other current assets			
Total current assets		3,230,665,841.46	2,980,726,564.42
Non-current assets:			
Available-for-sale financial assets	VII.8	180,452,289.93	92,294,668.60
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	VII.9	44,468,526.79	41,511,757.45
Investment properties			
Fixed assets	VII.10	2,243,868,543.65	1,976,910,773.96
Construction in progress	VII.11	1,022,037,573.66	1,082,419,104.88
Construction supplies	VII.12	732,723.27	481,529.20
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets	VII.13	257,246,061.84	224,516,411.93
Development costs	VII.14		
Goodwill	VII.15	103,040,497.85	103,040,497.85
Long-term deferred expenses	VII.16	14,660,876.14	13,914,408.10
Deferred tax assets	VII.17	47,851,983.38	50,190,408.52
Other non-current assets			
Total non-current assets		3,914,359,076.51	3,585,279,560.49
Total assets		7,145,024,917.97	6,566,006,124.91

30 June 2014

Prepared by: Livzon Pharmaceutical Group Inc.

Item	Notes	At the end of the period	Amounts
			denominated: RMB At the beginning of the period
Current liabilities:			
Short-term loans	VII.20	684,707,900.18	491,084,453.79
Financial liabilities held for trading			
Bills payables	VII.21	344,272,232.68	375,775,891.08
Accounts payables	VII.22	555,987,672.07	435,966,092.72
Receipts in advance	VII.23	49,915,524.83	61,780,193.14
Employee benefits payables	VII.24	49,920,862.56	90,493,756.24
Taxes payables	VII.25	39,509,141.54	89,414,763.31
Interest payables	VII.26	10,880,671.21	15,434,979.65
Dividends payables	VII.27	150,392,910.46	2,531,984.46
Other payables	VII.28	765,558,473.22	766,798,857.30
Non-current liabilities due within one year	VII.29	400,000.00	400,000.00
Other current liabilities			
Total current liabilities		2,651,545,388.75	2,329,680,971.69
Non-current liabilities:			
Long-term loans	VII.30	149,100,000.00	149,900,000.00
Notes payables	VII.31	400,000,000.00	400,000,000.00
Long-term payables			
Special payables			
Accrued liabilities			
Deferred tax liabilities	VII.17	2,779,650.23	2,834,136.62
Other non-current liabilities	VII.32	74,141,623.11	79,071,532.72
Total non-current liabilities		626,021,273.34	631,805,669.34
Total liabilities		3,277,566,662.09	2,961,486,641.03
Shareholders' equity:			
Share capital	VII.33	295,721,852.00	295,721,852.00
Capital reserve	VII.34	214,856,115.70	218,364,428.76
Less: Treasury shares			
Special reserve			
Surplus reserve	VII.35	501,196,946.97	501,196,946.97
General risks provision			
Retained earnings	VII.36	2,495,185,489.09	2,352,112,358.31
Translation differences of financial statements denominated in foreign currency		-22,271,712.37	-22,747,009.55
Total equity attributable to shareholders of the parent company		3,484,688,691.39	3,344,648,576.49
Non-controlling interests	VII.37	382,769,564.49	259,870,907.39
Total shareholders' equity		3,867,458,255.88	3,604,519,483.88
Total liabilities and shareholders' equity		7,145,024,917.97	6,566,006,124.91

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.		Amount denominated: RMB	
Item	Notes	At the end of the period	At the beginning of the period
Current assets:			
Cash at bank and on hand		643,242,583.04	605,185,530.12
Financial assets held for trading			
Bills receivables		133,355,265.77	120,567,146.16
Accounts receivables	XIV.1	680,280,927.37	539,436,165.11
Prepayments		30,208,225.52	20,854,996.19
Interest receivables			
Dividends receivables			
Other receivables	XIV.2	1,217,905,384.60	1,310,892,358.58
Inventories		142,007,539.13	92,506,921.96
Non-current assets due within one year			
Other current assets			
Total current assets		2,846,999,925.43	2,689,443,118.12
Non-current assets:			
Available-for-sale financial assets		86,697,294.84	91,794,668.60
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XIV.3	1,719,554,042.52	1,630,813,503.28
Investment properties			
Fixed assets		80,093,923.02	83,633,614.63
Construction in progress			
Construction supplies			
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets		25,911,363.29	29,475,846.39
Development costs			
Goodwill			
Long-term deferred expenses		240,000.00	
Deferred tax assets		17,811,212.92	16,692,683.03
Other non-current assets			
Total non-current assets		1,930,307,836.59	1,852,410,315.93
Total assets		4,777,307,762.02	4,541,853,434.05

As at 30 June 2014

Prepared by: Livzon Pharmaceutical Group Inc.

Prepared by: Livzon Pharmaceutical Group Inc.		Amount denominated: RMB
Item	Notes	At the beginning of the period
At the end of the period		
Current liabilities:		
Short-term loans		362,818,462.68
Financial liabilities held for trading		362,142,733.79
Bills payables		649,348,380.63
Accounts payables		643,744,938.79
Receipts in advance		456,449,276.50
Employee benefits payables		162,503,401.93
Taxes payables		9,941,720.11
Interest payables		10,149,207.65
Dividends payables		12,178,145.73
Other payables		16,057,652.73
Non-current liabilities due within one year		34,400,113.00
Other current liabilities		37,262,819.18
Total current liabilities		9,072,184.92
		14,494,945.92
		20,174.46
		1,437,995,908.72
</		

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 INCOME STATEMENT

For the period from 1 January 2014 to 30 June 2014

Prepared by: Livzon Pharmaceutical Group Inc.			Amount
Item	Notes	Current Period	denominated: RMB Previous Period
I. Total operating income		2,628,474,326.38	2,162,261,822.40
Including: Operating income	VII.38	2,628,474,326.38	2,162,261,822.40
II. Total operating costs		2,289,400,412.21	1,855,583,225.56
Including: Operating costs	VII.38	998,038,593.18	808,839,135.50
Business taxes and surcharges	VII.39	31,569,095.82	27,219,270.08
Selling expenses	VII.40	1,021,013,816.96	825,119,808.36
Administrative expenses	VII.41	191,937,465.62	189,171,222.87
Financial expenses	VII.42	12,739,496.67	-10,796,789.08
Impairment loss	VII.43	34,101,943.96	16,030,577.83
Add: Gains from changes in fair value ("—" represents losses)	VII.44	-868,465.62	-1,242,332.26
Investment income ("—" represents losses)	VII.45	6,664,307.02	3,086,974.76
Including: Income from investment in associates and jointly controlled entities		2,956,769.34	1,708,850.99
III. Operating profit ("—" represents losses)		344,869,755.57	308,523,239.34
Add: Non-operating income	VII.46	23,405,956.79	15,038,795.39
Less: Non-operating expenses	VII.47	1,058,512.60	1,462,423.58
Including: Losses from disposal of non-current assets		840,060.89	4,620.05
IV. Profit before income tax ("—" represents losses)		367,217,199.76	322,099,611.15
Less: Income tax expenses	VII.48	56,080,132.00	52,423,967.25
V. Net profit ("—" represents losses)		311,137,067.76	269,675,643.90
Net profit attributable to the shareholders of the parent company		290,934,056.78	259,310,414.64
Non-controlling interests		20,203,010.98	10,365,229.26
VI. Earnings per share:			
(1) Basic earnings per share	VII.49	0.98	0.88
(2) Diluted earnings per share	VII.49	0.98	0.88
VII. Other comprehensive income	VII.50	-3,010,861.87	-2,050,147.10
VIII. Total comprehensive income		308,126,205.89	267,625,496.80
Total comprehensive income attributable to the shareholders of the parent company		287,901,040.90	257,265,409.40
Total comprehensive income attributable to non-controlling interests		20,225,164.99	10,360,087.40

Legal representatives:

Principal in charge of
accounting work:

Name of the accounting firm's
principal:

(The accompanying notes form part of the financial statements)

For the period from 1 January 2014 to 30 June 2014

Prepared by: Livzon Pharmaceutical Group Inc.			Amount
Item	Notes	Current Period	denominated: RMB Previous Period
I. Total operating income	XIV.4	1,393,770,374.84	1,011,564,671.85
Less: Operating costs	XIV.4	602,822,513.20	416,041,317.69
Business taxes and surcharges	XIV.5	14,183,708.58	11,988,544.29
Selling expenses		670,068,944.54	454,663,139.94
Administrative expenses		58,899,624.44	68,514,052.40
Financial expenses		-12,422,169.33	-10,271,365.02
Impairment loss		13,477,294.09	2,586,122.93
Add: Gains from changes in fair value ("—" represents losses)			
Investment income ("—" represents losses)	XIV.6	20,693,415.47	584,086.33
Including: Income from investment in associates and jointly controlled entities		673,340.48	240,336.33
II. Operating profit ("—" represents losses)		67,433,874.79	68,626,945.95
Add: Non-operating income		12,933,164.79	4,146,828.21
Less: Non-operating expenses		190,348.64	1,114,983.05
Including: Losses from disposal of non-current assets		90,348.64	4,620.05
III. Profit before income tax ("—" represents losses)		80,176,690.94	71,658,791.11
Less: Income tax expenses		8,551,303.98	9,565,579.61
IV. Net profit ("—" represents losses)		71,625,386.96	62,093,211.50
V. Other comprehensive income		-2,250,115.53	-667,423.65
VI. Total comprehensive income		69,375,271.43	61,425,787.85

<i>Legal representatives:</i>	<i>Principal in charge of accounting work:</i>	<i>Name of the accounting firm's principal:</i>
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(The accompanying notes form part of the financial statements)

CONSOLIDATED CASH FLOW STATEMENT

For the period from 1 January 2014 to 30 June 2014

Prepared by: Livzon Pharmaceutical Group Inc.		Amount denominated: RMB	
Item	Notes	Current Period	Previous Period
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		2,733,562,348.93	2,055,899,741.95
Refund of taxes		15,426,719.13	7,182,715.19
Cash received relating to other operating activities	VII.52	36,820,519.50	78,591,439.75
Sub-total of cash inflows from operating activities		2,785,809,587.56	2,141,673,896.89
Cash paid for goods and services		829,358,588.19	561,014,418.82
Cash paid to and for employees		225,434,597.41	200,991,329.00
Cash paid for all types of taxes		399,194,848.92	332,093,491.05
Cash paid relating to other operating activities	VII.52	1,128,246,344.50	861,743,634.48
Sub-total of cash outflows from operating activities		2,582,234,379.02	1,955,842,873.35
Net cash flows from operating activities		203,575,208.54	185,831,023.54
II. Cash flows from investing activities:			
Cash received from disposal of investments		5,750,268.92	46,832,558.60
Cash received from return on investments		343,356.46	528,338.99
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,793,129.60	126,808.00
Cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investing activities	VII.52	9,444,211.41	
Sub-total of cash inflows from investing activities		18,330,966.39	47,487,705.59
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		361,186,124.08	540,643,798.72
Cash paid for acquisition of investments		93,254,995.09	
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities	VII.52	2,400,000.00	5,400,000.00
Sub-total of cash outflows from investing activities		456,841,119.17	546,043,798.72
Net cash flows from investing activities		-438,510,152.78	-498,556,093.13

CONSOLIDATED CASH FLOW STATEMENT

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For the period from 1 January 2014 to 30 June 2014

Prepared by: Livzon Pharmaceutical Group Inc.		Amount denominated: RMB	
Item	Notes	Current Period	Previous Period
III. Cash flows from financing activities:			
Cash received from investors		98,000,000.00	49,000,000.00
Including: Cash received from non-controlling shareholders of subsidiaries		98,000,000.00	49,000,000.00
Cash received from borrowings		474,419,867.17	250,169,855.44
Cash received from issue of financing bills			400,000,000.00
Cash received relating to other financing activities			
Sub-total of cash inflows from financing activities		572,419,867.17	699,169,855.44
Cash repayments of borrowings		287,764,480.88	139,400,620.91
Cash paid for dividends, profit distributions or interest		47,965,099.91	12,252,709.65
Including: Dividends and profits paid to non-controlling shareholders of subsidiaries		17,150,000.00	
Cash paid relating to other financing activities			
Sub-total of cash outflows from financing activities		335,729,580.79	151,653,330.56
Net cash flows from financing activities		236,690,286.38	547,516,524.88
IV. Effect of foreign exchange rate changes on cash and cash equivalents		1,336,081.35	-819,287.90
V. Net increase in cash and cash equivalents		3,091,423.49	233,972,167.39
Add: Cash and cash equivalents at the beginning of the period		750,928,733.31	1,178,636,300.52
VI. Cash and cash equivalents at the end of the period		754,020,156.80	1,412,608,467.91

<i>Legal representatives:</i>	<i>Principal in charge of accounting work:</i>	<i>Name of the accounting firm's principal:</i>
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(The accompanying notes form part of the financial statements.)

CASH FLOW STATEMENT

For the period from 1 January 2014 to 30 June 2014

Item	Notes	Current Period	Amount
			denominated: RMB Previous Period
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		1,438,899,436.01	988,001,182.80
Refund of taxes			
Cash received relating to other operating activities		22,746,695.76	33,983,980.65
Sub-total of cash inflows from operating activities		1,461,646,131.77	1,021,985,163.45
Cash paid for goods and services		462,487,585.22	427,873,613.77
Cash paid to and for employees		39,968,022.99	45,102,436.10
Cash paid for all types of taxes		141,872,500.80	112,019,148.33
Cash paid relating to other operating activities		753,064,127.34	440,929,046.10
Sub-total of cash outflows from operating activities		1,397,392,236.35	1,025,924,244.30
Net cash flows from operating activities		64,253,895.42	-3,939,080.85
II. Cash flows from investing activities:			
Cash received from disposal of investments		26,315,563.50	
Cash received from return on investments		17,914,091.30	343,750.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		161,269.44	73,000.00
Cash received relating to other investing activities		64,091.30	
Sub-total of cash inflows from investing activities		44,455,015.54	416,750.00
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		8,018,649.01	14,879,582.03
Cash paid for acquisition of investments		109,890,690.87	51,000,000.00
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities		2,400,000.00	
Sub-total of cash outflows from investing activities		120,309,339.88	65,879,582.03
Net cash flows from investing activities		-75,854,324.34	-65,462,832.03

CASH FLOW STATEMENT

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For the period from 1 January 2014 to 30 June 2014

Prepared by: Livzon Pharmaceutical Group Inc.			Amount
Item	Notes	Current Period	denominated: RMB Previous Period
III. Cash flows from financing activities:			
Cash received from investors			
Borrowings received from subsidiaries		437,039,411.03	
Cash received from borrowings		156,272,470.00	57,224,195.44
Cash received from issue of financing bills			400,000,000.00
Cash received relating to other financing activities			
Sub-total of cash inflows from financing activities		593,311,881.03	457,224,195.44
Cash repayments of borrowings		156,675,000.88	96,454,960.91
Cash paid for dividends, profit distributions or interest		23,143,737.24	5,973,732.56
Advances to subsidiaries			20,012,978.78
Cash paid relating to other financing activities		366,256,798.80	127,153,504.20
Sub-total of cash outflows from financing activities		546,075,536.92	249,595,176.45
Net cash flows from financing activities		47,236,344.11	207,629,018.99
IV. Effect of foreign exchange rate changes on cash and cash equivalents		21,213.52	5,812.51
V. Net increase in cash and cash equivalents		35,657,128.71	138,232,918.62
Add: Cash and cash equivalents at the beginning of the period		605,176,378.73	1,099,218,893.89
VI. Cash and cash equivalents at the end of the period		640,833,507.44	1,237,451,812.51

<i>Legal representatives:</i>	<i>Principal in charge of accounting work:</i>	<i>Name of the accounting firm's principal:</i>
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(The accompanying notes form part of the financial statements)

For the period from 1 January 2014 to 30 June 2014

Prepared by: Livzon Pharmaceutical Group Inc.

Amounts denominated:RMB

[illegible]

Principal in charge of accounting work:	Name of the accounting firm's principal:

Legal representatives:

(The accompanying notes form part of the financial statements)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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For the period from 1 January 2014 to 30 June 2014

Prepared by: Livzon Pharmaceutical Group Inc.

Amounts denominated: RMB

Item	Current Period						Previous Period					
	Share capital	Capital reserve	Treasury shares	Less:	Special reserve	Surplus reserve	General risks provision	Retained earnings	General risks provision	Surplus reserve	Special reserve	Total shareholders' equity
I. Balance at the end of last year	295,721,852.00	338,633,539.58				296,233,893.39		515,462,518.82		285,355,983.32		1,485,619,234.01
Add: Effects of changes in accounting policies												
Effects of correction on errors in prior years												
Others												
II. Balance at the beginning of the Current Period	295,721,852.00	338,633,539.58				296,233,893.39		515,462,518.82		285,355,983.32		1,485,619,234.01
III. Changes in equity for the Current Period												
(I) Repurchases (decrease)		-2,250,115.53						-76,235,539.04				-86,435,138.15
(II) Net profit								71,625,386.96				62,093,211.50
(III) Other comprehensive income		-2,250,115.53						-2,250,115.53				-667,423.65
Sub-total of (I)(II)(III)		-2,250,115.53						71,625,386.96				61,425,787.85
(IV) Shareholders' contributions and decrease of capital												
1. Contributions by shareholders												
2. Increase in shareholders' equity resulted from share-based payments												
3. Others												
(V) Appropriation of profits												
1. Appropriation of surplus reserve								-147,860,926.00				-147,860,926.00
2. Appropriation of general risks provision												
3. Distributions to shareholders												
4. Others												
(VI) 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												
(VII) Special reserve												
1. Appropriation of special reserve for the Current Period												
2. Utilisation of special reserve for the Current Period												
(VIII) Others												
IV. Balance at the end of the Current Period	295,721,852.00	336,383,424.05				296,233,893.39		439,226,979.78		285,355,983.32		1,390,184,095.86

Principal in charge of accounting work: *Name of the accounting firm's principal:*

Legal representatives:

(The accompanying notes form part of the financial statements)

For the period from 1 January 2014 to 30 June 2014

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

I. COMPANY STATUS

1. History and development

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

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

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

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

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 publication financial statements of the Company has been approved by the Company's Board meeting on 26 August 2014.

II. BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS

The financial statements have been prepared by the Company on the basis of going concern, actual transactions and events. The financial statements were prepared in accordance with the Accounting Standards for Business Enterprises – Basic Standards issued on 15 February 2006, and another 41 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 30 June 2014 and the results and cash flow of the Company from January to June 2014. 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. For equity instrument investments which have no quotation prices in active market and their fair values cannot be measured reliably, they are measured at costs.

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. 13 – 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
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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.

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

- 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.

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***9. Inventories** *(continued)***(3) Method of measurement**

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Long-term equity investment**

Long-term equity investments included equity investments in subsidiaries, joint ventures and associates and equity investments in investees in or on whom investors do not have control, common control or significant influence.

(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 share in the carrying amount of the acquiree's equity at the combination date as shown in the final controlling party's combined financial statements. 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.

(2) Subsequent measurement and recognition of profit or loss**1 Long-term equity investment accounted for using the cost method**

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

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**

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

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*10. Long-term equity investment *(continued)*(2) **Subsequent measurement and recognition of profit or loss** *(continued)*3 *Acquisition of non-controlling interests*

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

4 *Disposal of long-term equity investment*

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

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

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

(4) Impairment test and provision for impairment

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

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

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.

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

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.

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.

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

Fixed assets are initially measured at cost.

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*12. Fixed Assets *(continued)*(4) *Method for depreciation of fixed assets*

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

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

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

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

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

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.

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

13. Construction in progress *(continued)*

(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.
- (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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***14. Borrowing Costs** *(continued)*(2) *(continued)*

- 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.

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.

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

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;
- 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***19. Provisions** *(continued)***(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.

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

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

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

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.

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

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.

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

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

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. 2 – Long-term Equity Investment (Cai Kuai [2014] No. 14) and the Notice on Issuing the Accounting Standards for Business Enterprises No. 41 – Disclosures of interest in Other Entities (Cai Kuai [2014] No. 16), the enterprises listed overseas are encouraged to implement the above new or amended accounting standards in advance. Accordingly, the second Meeting of the Eighth Board of Directors of the Company resolved that the Company implemented the above 2 accounting standards in advance from 1 January 2014.

The changes in the accounting policies caused by the implementation of the above mentioned accounting policies by the Company is set out as below:

(1) Consolidated statement

	Opening balance/ incurred during the Current Period before adoption	Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long-term Equity Investment)	Opening balance/ incurred during the Current Period after adoption
January to June 2014			
Available-for-sale financial assets	10,041,559.76	82,253,108.84	92,294,668.60
Long-term equity investment	<u>123,764,866.29</u>	<u>-82,253,108.84</u>	<u>41,511,757.45</u>
	Opening balance/ incurred during the current period before adoption	Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long-term Equity Investment)	Opening balance/ incurred during the current period after adoption
January to June 2013			
Available-for-sale financial assets	10,612,859.66	82,253,108.84	92,865,968.50
Long-term equity investment	<u>120,961,203.38</u>	<u>-82,253,108.84</u>	<u>38,708,094.54</u>

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*29. Change in accounting policies, accounting estimates and correction to previous errors *(continued)*

(2) Statement of parent company

January to June 2014	Opening balance/ incurred during the Current Period before adoption	Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long-term Equity Investment)	Opening balance/ incurred during the Current Period after adoption
Available-for-sale financial assets	10,041,559.76	81,753,108.84	91,794,668.60
Long-term equity investment	<u>1,712,566,612.12</u>	<u>-81,753,108.84</u>	<u>1,630,813,503.28</u>
January to June 2013	Opening balance/ incurred during the current period before adoption	Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long-term Equity Investment)	Opening balance/ incurred during the current period after adoption
Available-for-sale financial assets	10,612,859.66	81,753,108.84	92,365,968.50
Long-term equity investment	<u>1,660,096,199.25</u>	<u>-81,753,108.84</u>	<u>1,578,343,090.41</u>

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(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 sale of products and raw materials	Value added tax rate for sale of biological preparation: 3% and 6%, value added tax rate for other sale: 17%.
Business tax	Taxable operating income	5%
Urban maintenance and construction tax	Turnover tax to be paid	1%, 5%, 7%
Education surcharges	Turnover tax to be paid	3%
Local education surcharges	Turnover tax to be paid	Note 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. 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) was recognised as high and new technology enterprises in 2013 for a valid period of three years. Other companies were applying for a review on the application for high and new technology enterprises.
Other subsidiaries	25%	

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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) were applying for a review on the application for a high and new technology enterprise, subject to an enterprise income tax rate of 15% for the Current Period. 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) has 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 commencing from 2013 and were subject to an enterprise income tax rate of 15% for the Current Period.

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

In accordance with the Revenue Bill 2008 passed by the Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, the subsidiaries of the Company, 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% for the Current Period.

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

1. SUBSIDIARIES STATUS

(1) 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)*1	Wholly-owned subsidiary	Zhuhai	Manufacture of medicine	RMB450,000,000	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	Sale 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	Sale 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)*2	Controlled 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)	Controlled subsidiary	Zhuhai	Manufacture of medicine	RMB128,280,000	Production and sales of proprietary chemical bulk medicines, pharmaceutical preparations, pharmaceutical intermediates, chemical products

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

(1) 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)	Controlled 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. (龍西麗珠參源藥材有限公司)	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	HKD10,000	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)	Controlled 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

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

(1) 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)
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)*3	Controlled subsidiary	Zhuhai	Provision of services	RMB500,000,000	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)	Controlled 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)	Controlled 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)	Controlled subsidiary	Pingluo County	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 County	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)

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

(1) 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 controlled subsidiary	Macau	Sale 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)	A subsidiary of controlled 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)	Wholly-owned subsidiary	Zhuhai		RMB1,000,000	Enterprise management service and social economy information consultation

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

(1) 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)* ¹	RMB431,140,000	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)* ²	RMB44,540,000	0.00	51.00%	51.00%
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)	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%

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

(1) 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%
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)* ³	RMB204,000,000	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)	RMB7,500,000	0.00	38.25%	38.25%
Zhuhai Livzon Pharmaceutical Enterprise Management Co. Ltd. (珠海市麗珠醫藥企業管理有限公司)	RMB1,000,000	0.00	100%	100%

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

(1) 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	Closing 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)* ¹	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)* ²	Yes	53,243,728.19	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	123,907,669.31	0.00	0.00
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	Yes	117,249.48	0.00	0.00
Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司)	Yes	0.00	0.00	0.00
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技股份有限公司)	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

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

(1) 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	Closing 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 Baimeg 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
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)*3	Yes	170,982,289.54	0.00	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Yes	3,195,432.41	0.00	0.00
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Yes	7,931,317.31	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	905,761.19	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. (上海麗珠生物科技股份有限公司)	Yes	2,355,587.29	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)	Yes	0.00	0.00	0.00

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

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

- *1. In accordance with Zhu Ke Gong Mao Xin Zi [2014] No. 162 (珠科工貿信資[2014]162號) promulgated by Science, Industry, Trade and Information Technology Bureau of Zhuhai (珠海市科技工貿和信息化局), it was resolved in the board meeting of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) that its registered capital would be increased to RMB450,000,000, for which the new registered capital of RMB7,890,690.87 should be provided by the Company on 13 March 2014. 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 Hai Yan Zi [2014] No. 40030006 (瑞華珠海驗字[2014]第40030006號).
- *2. In accordance with 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. As at the Current Period, the Company fully received the above consideration for the transfer of equity interests from Ding Gongcai (丁公才). Pursuant to the agreement stipulated, Ding Gongcai (丁公才) is entitled to the distribution of profits in Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) on pro rata basis beginning from January 2014.
- *3. It was resolved in the First Extraordinary General Meeting of Livzon MABPharm Inc. (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 phase would be paid up by 30 June 2013, whilst the remaining contributions would be paid up within 36 months after 30 June 2013. The contributions for the first phase at an amount of RMB200 million were provided by the Company and Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) on 9 June 2013 and 26 March 2014 respectively. The contribution of registered capital was verified by Ruihua Certified Public Accountants (LLP), Zhuhai Branch with the issue of capital verification reports Guo Hao Zhu Yan Zi [2013] No. 841C0001 (國浩珠驗字[2013]841C0001號) and Rui Hua Zhu Hai Yan Zi [2014] No. 40030008 (瑞華珠海驗字[2014]40030008號).

On 15 May 2014, it was resolved in the general meeting of Livzon MABPharm Inc. that its registered capital would be increased to RMB500 million to be provided by shareholders of such company based on the original proportion of contribution, for which the first instalment of contribution amounting to RMB100 million should be paid before 30 June 2014 and the remaining balance shall be paid up within 36 months after 30 June 2017. The contributions for the first phase at an amount of RMB100 million were provided by the Company and Jincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) on 27 May 2014. 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 Hai Yan Zi [2014] No. 40030011 (瑞華珠海驗字[2014]第40030011號).

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

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. 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)	Controlled 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 County	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)

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. 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%

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. 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	Closing 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	19,019,061.82	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

For the period from 1 January 2014 to 30 June 2014
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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

(4) Major financial information of subsidiaries with substantial non-controlling interests for the Current Period

Name of subsidiary	Financial position at the end of the period		Financial position at the beginning of the period	
	Total assets	Net assets	Total assets	Net assets
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (Merged with Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司))	220,010,214.05	150,817,041.28	213,111,190.25	129,487,193.85
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (Merged with Companhia de Macau Carason Limitada (澳門嘉安信有限公司))	407,533,169.60	254,721,286.77	387,846,120.46	241,680,437.49
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	368,977,493.95	348,943,448.04	220,113,267.14	167,101,180.54
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	31,267,976.83	19,785,959.21	28,325,405.34	25,745,753.12
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	34,608,506.97	16,190,443.49	50,052,267.00	26,931,645.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	333,389,185.42	241,972,796.72	323,098,460.78	224,397,704.44

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

VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

(4) Major financial information of subsidiaries with substantial non-controlling interests for the Current Period (continued)

Name of subsidiary	Results for the Current Period			Results for the Previous Period		
	Operating income	Net profit	Total comprehensive income	Operating income	Net profit	Total comprehensive income
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (Merged with Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	171,979,654.25	21,329,847.43	21,329,847.43	110,999,672.96	6,109,099.72	6,109,099.72
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (Merged with Companhia de Macau Carason Limitada (澳門嘉安信有限公司))	203,346,811.97	37,995,637.01	38,040,849.27	176,193,704.41	30,275,906.43	30,265,412.83
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	0.00	-18,157,732.50	-18,157,732.50	0.00	-10,548,115.43	-10,548,115.43
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	0.00	-5,959,793.91	-5,959,793.91	0.00	-7,033,035.61	-7,033,035.61
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	6,826,332.20	-741,201.51	-741,201.51	4,276,835.00	1,815,392.31	1,815,392.31
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	122,627,806.90	17,575,092.28	17,575,092.28	140,145,946.08	12,760,897.51	12,760,897.51

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. SUBSIDIARIES STATUS (continued)

(4) Major financial information of subsidiaries with substantial non-controlling interests for the Current Period (continued)

Name of subsidiary	Cash flows for the Current Period					Cash flows for the Previous Period				
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the beginning of the year	Cash and cash equivalents at the end of the year	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the beginning of the year	Cash and cash equivalents at the end of the year
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (Merged with Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	-24,608,345.65	-4,143,706.44	24,645,191.34	6,903,881.62	2,797,020.87	14,154,481.21	-13,099,685.90	-2,821,646.75	6,251,594.24	4,484,742.80
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (Merged with Companhia de Macau Carason Limitada (澳門嘉安信有限公司))	-4,038,027.62	-14,937,334.88	1,881,486.21	48,077,587.44	31,166,387.27	-503,203.27	-12,440,974.93	4,266,840.57	23,641,408.77	14,962,969.44
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	-18,928,319.14	-129,564,381.92	151,565,562.43	301,702.79	3,374,564.16	-8,403,538.73	10,051,171.44	56,264,734.41	2,082,178.66	59,994,545.78
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	-3,152,266.54	-1,641,661.63	4,595,376.88	312,248.13	113,696.84	-4,797,853.28	-258,600.00	5,069,512.55	115,846.16	128,905.43
Wenshan Livzon Sangji Plantation Co., Ltd. (文山麗珠三七種植有限公司)	11,519,111.36	0.00	-14,350,045.00	2,866,245.28	35,311.64	6,322,049.96	0.00	-3,365,329.88	1,061,054.95	4,017,775.03
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	52,391,489.21	-3,969,779.70	-48,875,220.56	15,067,394.93	15,386,843.04	47,077,198.65	-3,125,012.27	-35,905,487.28	7,532,423.57	15,308,181.42

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

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

3. Changes in combination scope

Nil

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

Nil

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VI. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

5. Partial disposal of the equity interests in subsidiaries (without losing control) during the Current Period

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 2012, the Company received RMB19,884,600.00 from Ding Gongcai (丁公才) as the consideration for the transfer of equity interests, hence 24.01% equity interests in Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) were recognised in such transfer. During the period, the Company received RMB20,565,294.58 from Ding Gongcai (丁公才) as the consideration for the transfer of equity interests, hence 24.99% equity interests in Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) were recognised in such transfer. The difference of approximately RMB-1,258,197.53 between the disposal price received during the Current Period and the corresponding entitlement to the subsidiaries' net assets was included in capital reserve.

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

Item	Assets and liabilities	
	30 June 2014	1 January 2014
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= RMB0.79375	HK\$1= RMB0.78623
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	MOP1= RMB0.7784	MOP1= RMB0.7588
Item	Income, expenses and cash flows items	
	January to June 2014	January to June 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= RMB0.78999	HK\$1= RMB0.80370
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	MOP1 = RMB0.7686	MOP1 = RMB0.7750

For the period from 1 January 2014 to 30 June 2014
(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	At the end of the period			At the beginning of the period		
	Foreign amounts	Exchange Rate	RMB amounts	Foreign amounts	Exchange Rate	RMB amounts
Cash on hand :						
– Renminbi	–	–	100,793.54	–	–	176,402.83
Bank deposits :			751,575,553.19			747,677,597.88
– Renminbi	–	–	708,422,136.95	–	–	694,716,070.22
– Hong Kong dollar	25,494,519.68	0.79375	20,236,275.00	39,298,550.07	0.78623	30,897,699.02
– U.S. dollar	2,422,610.22	6.1528	14,905,836.16	2,969,157.58	6.0969	18,102,656.85
– Japanese Yen	118,222,265.00	0.060815	7,189,687.05	47,462,411.00	0.057771	2,741,950.95
– Euro	97,874.59	8.3946	821,618.03	24,046.87	8.4189	202,448.19
– Macau dollar	0.00	0.7784	0.00	1,339,974.50	0.7588	1,016,772.65
Other cash at bank and on hand :			5,479,016.40			13,190,134.83
– Renminbi	–	–	3,264,538.44	–	–	10,866,986.95
– Hong Kong dollar	2,789,893.49	0.79375	2,214,477.96	2,954,794.24	0.78623	2,323,147.88
Total			<u>757,155,363.13</u>			<u>761,044,135.54</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:

	At the end of the period	At the beginning of the period
Deposits under guarantees for letter of credit	2,469,075.60	1,019,151.39
Deposits under bank acceptance bills	<u>666,130.73</u>	<u>9,096,250.84</u>
Total	<u>3,135,206.33</u>	<u>10,115,402.23</u>

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2014 to 30 June 2014

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

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 end of the period	Fair value at the beginning of the period
Financial assets at fair value through profit and loss	10,565,247.12	11,335,125.54
Of which: Shares	9,969,500.00	10,739,901.80
Funds	595,747.12	595,223.74

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 Reporting Period.

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

(3) *No hedges instruments in the closing balance and no hedges transactions during the end of the period.*

3. Bills receivables

(1) Classification of bills receivables

Type	At the end of the period	At the beginning of the period
Bank acceptance bills	260,372,559.90	271,242,129.11
Short-term commercial papers	235,875.00	189,620.00
Total	<u>260,608,434.90</u>	<u>271,431,749.11</u>

(2) *At the end of the period, no bills receivables of the Company 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

For the period from 1 January 2014 to 30 June 2014
(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 period:

Issuing unit	Date of issue	Maturity days	Amount	Remarks
Zhuhai Kinhoo Pharmaceutical Co, Ltd. (珠海金鴻藥業股份有限公司)	4 April 2014	4 October 2014	1,973,163.50	De-recognised
Sichuan Kelun Pharmaceutical Co, Ltd. (四川科倫醫藥貿易有限公司)	29 May 2014	29 August 2014	1,315,092.00	De-recognised
Changmao Biochemical Engineering Company Limited (常茂生物化學工程股份有限公司)	23 April 2014	22 October 2014	1,200,000.00	De-recognised
Chengdu Xibu Pharmaceutical Co, Ltd. (成都西部醫藥經營有限公司)	18 February 2014	18 August 2014	1,100,000.00	De-recognised
Zhuhai Kinhoo Pharmaceutical Co, Ltd. (珠海金鴻藥業股份有限公司)	13 March 2014	13 September 2014	1,099,463.50	De-recognised
Total			<u>6,687,719.00</u>	

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

Nil

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2014 to 30 June 2014

(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	At the end of the period			
	Gross amount		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
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	1,172,559,527.89	99.95	64,063,515.78	5.46
Accounts receivables that are individually insignificant but impairment provided on an individual basis	566,871.41	0.05	566,871.41	100.00
Total	1,173,126,399.30	100.00	64,630,387.19	5.51
Type	At the beginning of the period			
	Gross amount		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
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

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

For the period from 1 January 2014 to 30 June 2014
(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) Ageing analysis of accounts receivables (based on dates of recognition of accounts receivables)

Item	At the end of the period		At the beginning of the period	
	Amount	Proportion (%)	Amount	Proportion (%)
1 to 90 days	951,918,813.14	81.14	915,319,753.14	82.11
91 to 180 days	125,032,462.36	10.66	118,197,408.04	10.60
181 days to 1 year	54,205,467.88	4.62	42,671,189.41	3.83
1 to 2 years	30,335,689.40	2.59	28,363,181.65	2.54
2 to 3 years	5,986,037.21	0.51	4,774,679.92	0.43
3 to 4 years	1,748,524.99	0.15	1,419,854.38	0.13
4 to 5 years	810,736.10	0.07	988,105.44	0.09
Over 5 years	3,088,668.22	0.26	3,080,930.73	0.27
Total	<u>1,173,126,399.30</u>	<u>100.00</u>	<u>1,114,815,102.71</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	At the end of the period			At the beginning of the period		
	Gross amount			Gross amount		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 1 year	1,131,156,743.38	96.47	56,557,837.18	1,076,188,350.59	96.58	53,809,417.54
1 to 2 years	30,335,689.40	2.59	1,820,141.37	28,363,181.65	2.55	1,701,790.90
2 to 3 years	5,986,037.21	0.51	1,197,207.44	4,731,669.92	0.42	946,333.98
3 to 4 years	1,705,514.99	0.14	1,193,860.49	1,419,854.38	0.13	993,898.07
4 to 5 years	810,736.10	0.07	729,662.49	988,105.44	0.09	889,294.90
Over 5 years	2,564,806.81	0.22	2,564,806.81	2,557,069.32	0.23	2,557,069.32
Total	<u>1,172,559,527.89</u>	<u>100.00</u>	<u>64,063,515.78</u>	<u>1,114,248,231.30</u>	<u>100.00</u>	<u>60,897,804.71</u>

For the period from 1 January 2014 to 30 June 2014

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

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

4. Accounts receivables (continued)

(3) Provision for bad debts (continued)

- 2 At the end of the period, ageing analysis of accounts receivables that are individually insignificant but impairment provided on an individual basis

Accounts receivables description	Gross amount	Provision for bad debts	Proportion of provision (%)	Reason for provision made
Sale 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

(4) Accounts receivables reversed or recoverable for the Current Period

Nil

(5) In the Current Period, the Company had written off accounts receivables due from non-related parties of RMB512,109.07, 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
Hunan Weichu Pharmaceutical Co, Ltd. (湖南唯楚醫藥有限公司)	Sale of goods	266,067.80	Not recoverable	No
Hunan Jinpeng Pharmaceutical Industry Co, Ltd. (湖南金鵬藥業有限公司)	Sale of goods	91,692.31	Not recoverable	No
Hunan DJWK Medical Co., Ltd. (湖南達嘉維康醫藥有限公司)	Sale of goods	67,661.49	Not recoverable	No
Hengyang Tongdexiang Pharmaceutical Co, Ltd. (衡陽市同德祥醫藥有限公司)	Sale of goods	60,634.66	Not recoverable	No
合計		486,056.26		

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

4. Accounts receivables (continued)

(6) For balances at the end of the period, 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 at the end of the period

Name of unit	Relationship with the Company	Amount	Nature or description	Terms	Proportion to total accounts receivables (%)
Biocon Limited	Non-related party	35,900,320.52	Sale of goods	Within 1 year	3.06
Harbin Pharmaceutical Group Co., Ltd. General Pharm. (哈藥集團製藥總廠)	Non-related party	21,878,524.52	Sale of goods	Within 1 year	1.86
Yuekang Pharmaceutical Group Co., Ltd. (悅康藥業集團有限公司)	Non-related party	21,465,517.86	Sale of goods	Within 1 year	1.83
Liaoning Hengsong Pharmaceutical Co. Ltd. (遼寧恒松醫藥有限公司)	Non-related party	18,407,986.02	Sale of goods	Within 1 year	1.57
Shanghai SiFu Pharmaceutical Co., Ltd. (上海思富醫藥有限公司)	Non-related party	17,747,018.00	Sale of goods	Within 1 year	1.51
Total		<u>115,399,366.92</u>			<u>9.83</u>

(8) Accounts receivables due from related parties at the end of the period

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	7,200,000.00	0.61
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the parent company	<u>120,193.48</u>	<u>0.01</u>
Total		<u>7,320,193.48</u>	<u>0.62</u>

(9) Accounts receivables de-recognised

Nil

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2014 to 30 June 2014

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

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

4. Accounts receivables *(continued)*

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

Nil

(11) Amounts of original currency for foreign accounts receivables and exchange rates are as follows

Item	At the end of the period			At the beginning of the period		
	Foreign amount	Exchange rate	Translated to Renminbi	Foreign amount	Exchange rate	Translated to Renminbi
U.S. dollar	13,567,492.92	6.1528	83,478,070.44	16,965,767.38	6.0969	103,438,587.16
Japanese Yen	6,530,832.00	0.060815	397,172.55	19,581,836.89	0.057771	1,131,262.30
Macau dollar	0.00	0.7784	0.00	1,005,868.30	0.7588	763,252.87
Euro	5,652.00	8.3946	47,446.28	0.00	8.4189	0.00
Total			<u>83,922,689.27</u>			<u>105,333,102.33</u>

5. Prepayments

(1) Ageing analysis of prepayments is as follows

Ageing	At the end of the period		At the beginning of the period	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	164,812,998.52	79.00	160,527,663.83	79.30
1 to 2 years	14,566,212.79	6.98	13,588,338.87	6.71
2 to 3 years	9,915,334.30	4.75	11,006,493.60	5.44
Over 3 years	19,334,115.43	9.27	17,315,369.54	8.55
Total	<u>208,628,661.04</u>	<u>100.00</u>	<u>202,437,865.84</u>	<u>100.00</u>

Prepayments over one year mainly represented prepaid land costs.

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

5. Prepayments

(2) Top five prepayment amounts at the end of the period

Name of unit	Relationship with the Company	Amount	Terms	Reason
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	24,384,210.37	Within 1 year	Based on cost of raw materials in advance agreed in the contracts
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
Inner Mongolia Fufeng Biotechnologies Co., Ltd. (內蒙古阜豐生物科技(有限)公司)	Non-related party	16,378,800.00	Within 1 year	Based on cost of raw materials in advance agreed in the contracts
Shizuishan Power Supply Company, State Grid Corporation of China (國網寧夏電力公司石嘴山供電公司)	Non-related party	7,950,329.90	Within 1 year	Based on cost of raw materials in advance agreed in the contracts
MP Biomedicals Asia Pacific (MP生物醫學亞太私人有限公司)	Non-related party	4,984,270.77	Within 1 year	Based on cost of raw materials in advance agreed in the contracts
Total		<u>74,122,796.04</u>		

(3) For balances at the end of the period, 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	At the end of the period			At the beginning of the period		
	Foreign amount	Exchange rate	Translated to Renminbi	Foreign amount	Exchange rate	Translated to Renminbi
U.S. dollar	308,340.00	6.1528	1,897,154.35	0.00	6.0969	0.00

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2014 to 30 June 2014

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

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

6. Other receivables

(1) Other receivables presented by types

Type	At the end of the period			
	Gross amount		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
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	64,922,220.76	98.43	8,306,806.27	12.80
Other receivables that are individually insignificant but impairment provided on an individual basis	1,036,698.56	1.57	1,036,698.56	100.00
Total	<u>65,958,919.32</u>	<u>100.00</u>	<u>9,343,504.83</u>	<u>14.17</u>
Type	At the beginning of the period			
	Gross amount		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
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	<u>47,538,357.66</u>	<u>100.00</u>	<u>8,061,061.71</u>	<u>16.96</u>

For the period from 1 January 2014 to 30 June 2014
(Unless specified otherwise, all amounts are denominated in RMB)

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

6. Other receivables (continued)

(2) Ageing analysis of other receivables was as follows

Item	At the end of the period		At the beginning of the period	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	52,348,581.84	79.37	33,576,154.11	70.63
1 to 2 years	3,636,056.68	5.51	5,462,586.83	11.49
2 to 3 years	2,239,888.28	3.40	931,677.03	1.96
3 to 4 years	5,679,628.42	8.61	5,862,021.12	12.33
4 to 5 years	455,693.15	0.69	161,699.77	0.34
Over 5 years	1,599,070.95	2.42	1,544,218.80	3.25
Total	65,958,919.32	100.00	47,538,357.66	100.00

(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	At the end of the period			At the beginning of the period		
	Gross amount			Gross amount		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 1 year	52,348,581.84	80.63	2,617,429.09	33,576,154.11	72.22	1,678,807.70
1 to 2 years	3,636,056.68	5.60	218,163.40	5,462,586.83	11.75	327,755.22
2 to 3 years	2,239,888.28	3.45	447,977.66	931,677.03	2.00	186,335.41
3 to 4 years	5,429,628.42	8.37	3,800,739.89	5,612,021.12	12.07	3,928,414.79
4 to 5 years	455,693.15	0.70	410,123.84	161,699.77	0.35	145,529.79
Over 5 years	812,372.39	1.25	812,372.39	750,120.24	1.61	750,120.24
Total	64,922,220.76	100.00	8,306,806.27	46,494,259.10	100.00	7,016,963.15

- 2 At the end of the period, ageing analysis of other receivables that are individually insignificant but impairment provided on an individual basis

Other receivables description	Gross amount	Provision for bad debts	Proportion of provision (%)	Reason for provision made
Current account	1,036,698.56	1,036,698.56	100.00	Mainly due to current account over 5 year, which not expected to be recoverable

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2014 to 30 June 2014

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

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

6. Other receivables (continued)

(4) Other receivables reversed or recoverable for the Current Period

Nil

(5) Large sum of other receivables actually written off for the Current Period

Nil

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

(7) Other receivables due from top five customers at the end of the period

Name of unit	Relationship with the Company	Amount	Nature or description	Terms	Proportion to total other receivables (%)
Tax refunds on exports	Non-related party	9,751,212.66	Tax refunds on exports	Within 1 year: RMB8,957,831.67, 1 to 2 years: RMB793,380.99	14.79
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	7.58
Guangdong Zhengpeng Biomass Energy Technology Co., Ltd. (廣東正騰生物質能源科技有限公司)	Non-related party	998,100.00	Current account	2 to 3 years	1.51
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Related party	942,760.04	Service fee	Within 1 year	1.43
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	1 to 2 years	1.36
Total		<u>17,590,468.70</u>			<u>26.67</u>

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

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

6. Other receivables *(continued)*

(8) Accounts receivables due from related parties at the end of the period

Name of unit	Relationship with the Company	Amount	Proportion to total other receivables (%)
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the parent company	26,386.94	0.04
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the parent company	8,329.00	0.01
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	A company controlled by the parent company	50,005.81	0.08
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Associates	942,760.04	1.43
Total		<u>1,027,481.79</u>	<u>1.56</u>

(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

For the period from 1 January 2014 to 30 June 2014

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

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

7. Inventories

(1) Classification of inventories

Item	At the end of the period		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	159,489,788.73	192,218.71	159,297,570.02
Packaging materials	33,349,912.19	30,290.25	33,319,621.94
Goods in process	140,780,714.85	1,418,442.94	139,362,271.91
Finished goods	365,597,169.95	23,981,049.37	341,616,120.58
Sub-contracting materials	2,057,104.25	0.00	2,057,104.25
Low-valued consumables	940,179.99	0.00	940,179.99
Goods in transit	3,115,053.17	0.00	3,115,053.17
Consumable biological assets	33,040,672.76	0.00	33,040,672.76
Proprietary semi-finished goods	115,848,114.05	0.00	115,848,114.05
Total	<u>854,218,709.94</u>	<u>25,622,001.27</u>	<u>828,596,708.67</u>
Item	At the beginning of the period		
	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>

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.

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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 period	Provision made for the Current Period	Decrease for the Current Period		
			At the end of the period	Written back	Write-off
Raw materials	1,470,027.40	2,720,454.32	4,826.45	3,993,436.56	192,218.71
Packaging materials	117,183.54	84,145.78	2,498.00	168,541.07	30,290.25
Goods in process	1,346,871.96	1,916,152.28	0.00	1,844,581.30	1,418,442.94
Finish goods	12,995,536.35	20,879,406.68	153,705.85	9,740,187.81	23,981,049.37
Proprietary semi-finished goods	502,958.56	3,704,010.43	0.00	4,206,968.99	0.00
Total	16,432,577.81	29,304,169.49	161,030.30	19,953,715.73	25,622,001.27

(3) Reason for provision and write-off for diminution in value of inventories

Item	Basis for provision for diminution in value of inventories	Reason for reversal provision for diminution in value of inventories during the Current Period	The amount of the written back percentage of balances of inventories at the end of the period (%)
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	0.00
Packaging materials	Net realisable value is less than carrying amount	Prices of some products rose, net realisable value of packaging materials is higher than carrying amount	0.01
Finish goods	Net realisable value is less than carrying amount	Prices of some products rose	0.04
Other inventories	Net realisable value is less than carrying amount	—	—

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

8. Available-for-sale financial assets

(1) Available-for-sale financial assets at fair value

Item	Fair value at the end of the period	Fair value at the beginning of the period
Available-for-sale equity instruments	4,944,186.00	10,041,559.76
Of which: Shares	4,944,186.00	10,041,559.76

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 Reporting Period.

(2) Available-for-sale financial assets at cost

Item	At the end of the period	At the beginning of the period
Cost of available-for-sale equity instruments	196,108,103.93	102,853,108.84
Less: provision for impairment	<u>20,600,000.00</u>	<u>20,600,000.00</u>
Total	<u>175,508,103.93</u>	<u>82,253,108.84</u>

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

8. Available-for-sale financial assets (continued)

(2) Available-for-sale financial assets at cost (continued)

Equity investments that are not quoted in an active market as at 30 June 2014 and their fair value cannot be reliably measured are measured at cost. The Company does not have any plan for disposal of such equity investments in the foreseeable future. Details of equity instruments measured at cost as at 30 June 2014 are as follows:

Name of investee	Accounting method	Investment cost	At the beginning of the period	Changes	At the end of the period
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. (瑞醫藥科技投資有限公司)	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
EPIRUS BIOPHARMACEUTICALS, INC.	Cost method	93,254,995.09	0.00	93,254,995.09	93,254,995.09
Total		196,108,103.93	102,853,108.84	93,254,995.09	196,108,103.93

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

8. Available-for-sale financial assets (continued)

(2) Available-for-sale financial assets in cost (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. (瑞醫藥 科技投資有限責任公司)	5.681	5.681		0.00	0.00	0.00
Shanghai Haixin Pharmaceutical Co., Ltd. (上海海欣醫藥 有限公司)	4.55	4.55		0.00	0.00	97,825.00
EPIRUS BIOPHARMACEUTICALS, INC.	15.22%	15.22%		0.00	0.00	0.00
Total				<u>20,600,000.00</u>	<u>0.00</u>	<u>97,825.00</u>

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

8. Available-for-sale financial assets (continued)

(3) Breakdown of available-for-sale financial assets provision for impairment

Item	At the beginning of the period	Additions for the Current Period	Disposal for the Current Period	At the end of the period	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 assets 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	Making loss
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	20,600,000.00	0.00	0.00	20,600,000.00	

(4) 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 period	Additions for the Current Period	Disposal for the Current Period	At the end of the period
Investments in associates	42,711,757.45	2,956,769.34	0.00	45,668,526.79
Less: Long-term equity investments provision for impairment	1,200,000.00	0.00	0.00	1,200,000.00
Total	41,511,757.45	2,956,769.34	0.00	44,468,526.79

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

9. Long-term equity investments

(2) Breakdown of long-term equity investments

Name of investee	Accounting method	Investment cost	At the beginning of the period	Changes	At the end of the period
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	36,836,117.18	2,935,837.08	39,771,954.26
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	4,675,640.27	20,932.26	4,696,572.53
Total		47,427,540.45	42,711,757.45	2,956,769.34	45,668,526.79

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
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				1,200,000.00	0.00	0.00

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

9. Long-term equity investments (continued)

(3) Status of restricted ability for transferring funds to investee

Nil

(4) Details of investment loss not recognised

Nil

(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	Percentage of Shareholding (%)	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	Tao Desheng (陶德勝)	Production and sale 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)	Sale of goods	RMB100,000,000	35.00	35.00

continued:

Name of investee	Total assets at the end of the period	Total liabilities at the end of the period	Net assets at the end of the period	Total revenue for the Current Period	Net profit for the Current Period
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	116,718,024.54	12,739,059.11	103,978,965.43	48,256,227.12	7,675,391.12
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)	14,857,536.08	1,438,757.41	13,418,778.67	5,135,367.24	59,806.46
Total	131,575,560.62	14,177,816.52	117,397,744.10	53,391,594.36	7,735,197.58

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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 period	Additions for the Current Period	Disposal for the Current Period	At the end of the period	Reason for provision made
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
Total	1,200,000.00	0.00	0.00	1,200,000.00	

10. Fixed assets

(1) Status of fixed assets

Item	At the beginning of the period	Additions for the Current Period	Disposal for the Current Period	At the end of the period
I.Total cost at book:	3,407,472,146.55	377,898,177.70	11,305,244.16	3,774,065,080.09
Including:Plant & buildings	1,633,950,933.30	184,926,103.09	0.00	1,818,877,036.39
Machinery & equipment	1,497,300,652.67	176,148,361.01	9,044,211.13	1,664,404,802.55
Motor vehicles	50,215,111.43	3,970,059.50	1,640,861.32	52,544,309.61
Electronic devices and others	226,005,449.15	12,853,654.10	620,171.71	238,238,931.54
II.Accumulated depreciation:	1,341,472,057.40	106,760,984.12	7,124,980.54	1,441,108,060.98
Including:Plant & buildings	496,413,859.26	33,641,963.38	0.00	530,055,822.64
Machinery & equipment	667,917,936.53	59,897,192.51	5,505,291.87	722,309,837.17
Motor vehicles	23,988,285.04	3,407,962.72	1,089,310.36	26,306,937.40
Electronic devices and others	153,151,976.57	9,813,865.51	530,378.31	162,435,463.77
III.Total fixed assets net carrying amount:	2,066,000,089.15			2,332,957,019.11
Including:Plant & buildings	1,137,537,074.04			1,288,821,213.75
Machinery & equipment	829,382,716.14			942,094,965.38
Motor vehicles	26,226,826.39			26,237,372.21
Electronic devices and others	72,853,472.58			75,803,467.77
IV.Total provision for impairment:	89,089,315.19	1,824.00	2,663.73	89,088,475.46
Including:Plant & buildings	47,154,210.14	0.00	0.00	47,154,210.14
Machinery & equipment	40,894,242.13	0.00	839.73	40,893,402.40
Motor vehicles	95,452.14	0.00	0.00	95,452.14
Electronic devices and others	945,410.78	1,824.00	1,824.00	945,410.78
V. Total fixed assets carrying amount:	1,976,910,773.96			2,243,868,543.65
Including:Plant & buildings	1,090,382,863.90			1,241,667,003.61
Machinery & equipment	788,488,474.01			901,201,562.98
Motor vehicles	26,131,374.25			26,141,920.07
Electronic devices and others	71,908,061.80			74,858,056.99

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

10. Fixed assets (continued)

(1) Status of fixed assets (continued)

During the Current Period, the amount of depreciation was RMB106,760,984.12 (RMB70,064,684.65 for the same period last year). During the Current Period, construction in progress was transferred to cost of fixed assets of RMB362,403,016.56 (RMB46,100,369.39 for the same period last year).

(2) Status of restricted fixed assets

Nil

(3) As at the year end, temporarily idled fixed assets

Item	Original carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount	Remarks
Plant & buildings	24,415,223.64	9,996,742.40	0.00	14,418,481.24	
Machinery & equipment	43,808,479.54	26,810,746.33	1,320,900.00	15,676,833.21	
Electronic devices and others	2,236,334.94	1,954,789.69	0.00	281,545.25	
Total	<u>70,460,038.12</u>	<u>38,762,278.42</u>	<u>1,320,900.00</u>	<u>30,376,859.70</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 end of the period	Carrying amount at the beginning of the period
Plant and building	1,639,674.03	1,708,598.28

(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	519,517,632.03

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

11. Construction in progress

(1) Construction in progress status

Item	At the end of the period			At the beginning of the period		
	Gross amount	Provision for impairment	Carrying amount	Gross amount	Provision for impairment	Carrying amount
Construction of new production plants	608,668,080.66	0.00	608,668,080.66	651,157,334.91	0.00	651,157,334.91
Installation of equipment	336,009,654.55	0.00	336,009,654.55	375,866,583.79	0.00	375,866,583.79
Technology upgrade	1,364,610.71	0.00	1,364,610.71	904,393.80	0.00	904,393.80
Workshop modification	75,995,227.74	0.00	75,995,227.74	54,490,792.38	0.00	54,490,792.38
Total	1,022,037,573.66	0.00	1,022,037,573.66	1,082,419,104.88	0.00	1,082,419,104.88

(2) Status of changes of significant construction in progress item

Categories of project	Budgeted amount	At the beginning of the period	Additions for the Current Period	Transferred to fixed asset for the Current Period	Other deduction	At the end of the period
Construction of new production plants	1,554,877,055.44	651,157,334.91	132,774,545.12	175,263,799.37	0.00	608,668,080.66
Installation of equipment	634,176,176.03	375,866,583.79	145,051,853.63	184,896,782.87	12,000.00	336,009,654.55
Technology upgrade	4,459,743.72	904,393.80	1,503,572.82	387,083.91	656,272.00	1,364,610.71
Workshop modification	89,115,800.00	54,490,792.38	23,590,778.27	1,855,350.41	230,992.50	75,995,227.74
Total	2,282,628,775.19	1,082,419,104.88	302,920,749.84	362,403,016.56	899,264.50	1,022,037,573.66

Categories of project	Accumulated amount of the interest capitalised at the end of the period	Including: The interest capitalised for the Current Period	The interest capitalised rate for the Current Period (%)	Percentage of cost incurred over budgeted amount (%)	Construction progress	Sources of funds
Construction of new production plants	35,858,256.27	10,596,508.01	4.20	50.42	Completion of some projects	Borrowings and self-funding
Installation of equipment	4,715,598.14	4,715,598.14	4.20	82.14	Completion of some projects	Borrowings and self-funding
Technology upgrade	0.00	0.00	0.00	53.99	Completion of some projects	Self-funding
Workshop modification	1,403,537.28	903,565.70	4.20	87.62	Completion of some projects	Borrowings and self-funding
Total	41,977,391.69	16,215,671.85				

(3) At the end of the period, status of the interest capitalised in the projects under construction in progress

Categories of project	At the beginning of the period	Additions for the Current Period	Transferred to fixed asset for the Current Period	Other deduction	At the end of the period
Construction of new production plants	25,761,719.84	16,215,671.85	0.00	0.00	41,977,391.69

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

12. Construction supplies

Item	At the beginning of the period	Additions for the Current Period	Disposal for the Current Period	Balance at the end of the period
Specialised equipment	481,529.20	1,899,572.63	1,648,378.56	732,723.27

13. Intangible assets

(1) Status of intangible assets

Item	At the beginning of the period	Additions for the Current Period	Disposal for the Current Period	At the end of the period
I.Total cost:	393,056,867.15	42,362,774.25	0.00	435,419,641.40
Land use rights	224,260,382.20	33,499,013.55	0.00	257,759,395.75
Technical know-how	142,675,720.94	8,180,000.00	0.00	150,855,720.94
Software	26,096,764.01	683,760.70	0.00	26,780,524.71
Trademark rights	24,000.00	0.00	0.00	24,000.00
II. Accumulated depreciation:	166,178,628.39	9,633,124.34	0.00	175,811,752.73
Land use rights	54,430,991.13	2,279,787.81	0.00	56,710,778.94
Technical know-how	96,804,721.65	5,576,056.13	0.00	102,380,777.78
Software	14,918,915.61	1,777,280.40	0.00	16,696,196.01
Trademark rights	24,000.00	0.00	0.00	24,000.00
III. Total net carrying value of intangible assets :	226,878,238.76			259,607,888.67
Land use rights	169,829,391.07			201,048,616.81
Technical know-how	45,870,999.29			48,474,943.16
Software	11,177,848.40			10,084,328.70
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:	224,516,411.93			257,246,061.84
Land use rights	168,847,564.13			200,066,789.87
Technical know-how	44,490,999.40			47,094,943.27
Software	11,177,848.40			10,084,328.70
Trademark rights	0.00			0.00

Amortisation for the Current Period is RMB9,633,124.34 (RMB9,503,685.18 for the same period last year).

For the period from 1 January 2014 to 30 June 2014

(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	17,445,998.78

14. Development costs

Item	At the beginning of the period	Additions for the Current Period	Disposal for the year		At the end of the period
			Recognised in profit or loss	Recognised as intangible assets	
Expensing costs	0.00	74,925,769.25	74,925,769.25	0.00	0.00
Total	0.00	74,925,769.25	74,925,769.25	0.00	0.00

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(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 period	Additions for the Current Period	Disposal for the Current Period	At the end of the period	Provision for impairment at the end of the period
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	47,912,269.66	0.00	0.00	47,912,269.66	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

Breakdown of impairment of goodwill is as follows:

Name of investee or the matter of goodwill arisen	At the beginning of the period	Additions for the Current Period	Disposal for the Current Period	At the end of the period
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	11,200,000.00	0.00	0.00	11,200,000.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	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

For the period from 1 January 2014 to 30 June 2014

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

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 2013 to 2014). Upon the test, the management of the Company expects that no provision for impairment on goodwill is required to be made during the Reporting Period.

Please see Note IV. 18 for the details on impairment test on goodwill.

16. Long-term deferred expenses

Item	At the beginning of the period	Additions for the Current Period	Amortisation for the Current Period	Other decrease	At the end of the period	Reason for other decrease
Overhaul costs of fixed assets	3,804,996.58	1,488,878.41	996,798.03	0.00	4,297,076.96	
Renovation costs of offices	622,251.68	889,879.38	205,498.33	0.00	1,306,632.73	
Renovation costs of plants	1,257,881.43	0.00	825,482.56	0.00	432,398.87	
Share of costs for public utilities	72,418.33	0.00	45,814.15	0.00	26,604.18	
Resin	5,321,945.74	1,246,303.18	1,518,795.77	0.00	5,049,453.15	
Others	<u>2,834,914.34</u>	<u>2,268,573.47</u>	<u>1,554,777.56</u>	<u>0.00</u>	<u>3,548,710.25</u>	
Total	<u>13,914,408.10</u>	<u>5,893,634.44</u>	<u>5,147,166.40</u>	<u>0.00</u>	<u>14,660,876.14</u>	

For the period from 1 January 2014 to 30 June 2014
(Unless specified otherwise, all amounts are denominated in RMB)

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	At the end of the period	At the beginning of the period
Deferred tax assets:		
Deductible temporary difference arising from provision for impairment	27,232,801.08	26,323,090.46
Deductible temporary difference arising from long-term equity investments not in the scope of combination	3,575,297.36	3,676,298.43
Deductible temporary difference arising from amortisation of intangible assets	11,556.72	14,656.18
Deductible temporary difference arising from accrued expenses	10,390,222.25	12,138,803.14
Deductible temporary difference arising from tax losses carried forward	6,105,105.97	7,205,052.81
Deductible temporary difference arising from deferred income	537,000.00	832,507.50
Total	47,851,983.38	50,190,408.52
Deferred tax liabilities:		
Taxable temporary difference arising from financial assets held for trading	66,862.07	66,783.56
Taxable temporary difference arising from available-for-sale financial assets	735,650.12	1,132,729.35
Taxable temporary difference arising from long-term equity investments under in equity method	1,977,138.04	1,634,623.71
Total	2,779,650.23	2,834,136.62

(2) Breakdown of deferred tax assets not recognised

Item	At the end of the period	At the beginning of the period
Deductible temporary difference	4,001,682.45	82,821,546.09
Deductible loss	160,907,450.30	110,070,484.29
Total	164,909,132.75	192,892,030.38

For the period from 1 January 2014 to 30 June 2014

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

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	At the end of the period	At the beginning of the period	Remarks
2014	342,796.94	342,796.94	
2015	8,908,557.85	8,908,557.85	
2016	28,334,063.89	28,334,063.89	
2017	24,487,896.28	24,866,249.24	
2018	38,316,056.73	38,316,056.73	
2019	46,103,425.85	0.00	
Indefinitely	14,414,652.76	9,302,759.64	
Total	160,907,450.30	110,070,484.29	

(4) *Breakdown of taxable difference and deductible difference item*

Item	At the end of the period	At the beginning of the period
Taxable item:		
Taxable temporary difference arising from financial assets held for trading	445,747.12	445,223.74
Taxable temporary difference arising from available-for-sale financial assets	4,904,334.13	7,551,528.90
Taxable temporary difference arising from long-term equity investments under equity method	13,180,920.26	10,897,491.40
Sub-total	18,531,001.51	18,894,244.04
Taxable difference item:		
Deductible temporary difference arising from provision for impairment	178,432,065.83	167,243,336.41
Deductible temporary difference arising from long-term equity investments not in the scope of combination	23,835,315.75	24,508,656.28
Deductible temporary difference arising from amortisation of intangible assets	77,045.67	97,708.67
Deductible temporary difference arising from accrued expenses	69,268,148.37	80,925,354.31
Deductible temporary difference arising from tax losses carried forward	40,700,706.46	48,033,685.41
Deductible temporary difference arising from deferred income	3,580,000.00	5,550,050.00
Sub-total	315,893,282.08	326,358,791.08

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(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 period	Provision made for the Current Period	Decrease for the Current Period		
			At the end of the period	Write back	Write-off
Provision for bad debts	69,525,737.83	4,956,980.77	0.00	508,826.58	73,973,892.02
Inventories provision for diminution in value	16,432,577.81	29,304,169.49	161,030.30	19,953,715.73	25,622,001.27
Available-for-sale financial assets provision for impairment	20,600,000.00	0.00	0.00	0.00	20,600,000.00
Long-term equity investments provision for impairment	1,200,000.00	0.00	0.00	0.00	1,200,000.00
Fixed assets provision for impairment	89,089,315.19	1,824.00	0.00	2,663.73	89,088,475.46
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>217,968,520.81</u>	<u>34,262,974.26</u>	<u>161,030.30</u>	<u>20,465,206.04</u>	<u>231,605,258.73</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	At the end of the period	Reason for restriction
Assets pledged:		
Other cash fund	2,469,075.60	Deposits under guarantees for letter of credit
Other cash fund	666,130.73	Deposits under bank acceptance bills
Total	<u>3,135,206.33</u>	

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

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

20. Short-term loans

(1) *Classification of short-term loans*

Item	At the end of the period	At the beginning of the period
Loans on credit	362,818,462.68	362,142,733.79
Guarantee loans	321,889,437.50	128,941,720.00
Total	684,707,900.18	491,084,453.79

Notes to classifications of short-term loans

Guarantee loans: The Company provided guarantee for a loan of HKD405,530,000 granted to Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) for the Current Period.

(2) *There was no past due short-term loans that were unpaid in the closing balance.*

21. Bills payables

Type	At the end of the period	At the beginning of the period
Bank acceptance bills	344,272,232.68	375,775,891.08

(1) The amount of RMB344,272,232.68 will be due for the next accounting period.

(2) For balances at the end of the period, 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.

For the period from 1 January 2014 to 30 June 2014
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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	At the end of the period	At the beginning of the period
1 to 90 days	376,481,708.83	332,078,144.46
91 to 180 days	80,762,502.88	22,789,943.67
181 days to 1 year	57,576,791.75	41,623,708.26
1 to 2 years	27,250,510.24	30,018,248.59
Over 2 years	13,916,158.37	9,456,047.74
Total	555,987,672.07	435,966,092.72

(2) For balances at the end of the period, 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
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
Jiangsu Jiu Wu Hi-Tech Company Limited (江蘇久吾高科技股份有限公司)	3,778,350.00	Holdback	No
ABC Building Systems (China) Co., Ltd (美建建築系統(中國)有限公司)	3,131,338.65	Holdback	No
GEA PHARMA SYSTEMS AG	2,282,211.22	Holdback	No
Total	16,126,309.29		

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2014 to 30 June 2014

(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) At the end of the period, 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)	76,907,937.61	Sale of goods	Within 1 year	13.83
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	74,755,500.56	Sale of goods	Within 1 year	13.45
Siping City Fine Chemicals Product Co. Ltd (四平市精細化學品有限公司)	24,422,318.80	Sale of goods	Within 1 year	4.39
Siemens Healthcare Diagnostics (Shanghai) Co. Ltd (西門子醫學診斷產品(上海)有限公司)	15,887,185.19	Sale of goods	Within 1 year	2.86
Jiangsu Yangzhou Jianggong Construction Group Co., Ltd. (江蘇揚州建工建設集團有限公司)	13,999,002.55	Equipment, project costs	Within 1 year	2.52
Total	<u>205,971,944.71</u>			<u>37.05</u>

(5) Accounts payables (including foreign currency balances) were as follows:

Item	At the end of the period			At the beginning of the period		
	Foreign amount	Exchange rate	Translated to Renminbi	Foreign amount	Exchange rate	Translated to Renminbi
U.S. dollar	27,006.95	6.1528	166,168.36	399,298.05	6.0969	2,434,480.31
Pound Sterling	217,399.00	10.4978	2,282,211.22	0.00	9.4213	0.00
Total			<u>2,448,379.58</u>			<u>2,434,480.31</u>

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

23. Receipts in advance

(1) Breakdown of receipts in advance

Item	At the end of the period	At the beginning of the period
Within 1 year	39,036,459.78	46,866,539.32
Over 1 year	10,879,065.05	14,913,653.82
Total	49,915,524.83	61,780,193.14

(2) For balances at the end of the period, 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)	4,903,265.50	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)	867,595.10	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)	677,041.00	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
The Health Department of Shanxi Province (山西省衛生廳)	345,800.00	The customer has not required the delivery of goods
Total	7,299,324.40	

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2014 to 30 June 2014

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

23. Receipts in advance *(continued)*

(4) At the end of the period, status of receipts in advance from top five units

Name of unit	Amount	Nature or description	Terms	Proportion to total receipts in advance (%)
Family Planning Service Center of Shenzhen (深圳市計劃生育服務中心)	5,208,762.00	Sale of goods	Within 1 year	10.43
Yunnan Province Center for Disease Prevention and Control (雲南省疾病預防控制中心)	5,146,708.78	Sale of goods	Within 1 year: RMB243,443.28, 1 to 2 years: RMB4,903,265.50	10.31
Guangdong Province Center for Disease Control and Prevention (廣東省疾病預防控制中心)	2,006,115.12	Sale of goods	Within 1 year	4.02
The Health Department of Henan Province (河南省衛生廳)	1,600,380.00	Sale of goods	Within 1 year	3.21
Heilongjiang Province Center for Disease Control and Prevention (黑龍江省疾病控制中心)	1,468,764.00	Sale of goods	Within 1 year	2.94
Total	15,430,729.90			30.91

(5) Receipts in advance (including foreign currency balances) were as follows:

Item	At the end for the period			At the beginning of the period		
	Foreign amount	Exchange rate	Translated to Renminbi	Foreign amount	Exchange rate	Translated to Renminbi
U.S. dollar	261,789.35	6.1528	1,610,737.51	125,576.59	6.0969	765,627.91

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

24. Employee benefits payables

Item	At the beginning of the period	Accruals for the Current Period	Decrease for the Current Period	At the end of the period
Salaries, bonuses, allowances and subsidies	87,237,105.25	166,040,133.39	205,619,594.09	47,657,644.55
Employee welfare	720,687.60	8,213,839.77	8,256,148.67	678,378.70
Social insurance	99,683.20	24,238,680.82	24,017,645.28	320,718.74
Of which: Medical insurances	29,002.83	6,645,051.33	6,589,304.00	84,750.16
Basic pension insurances	48,425.54	15,066,134.69	14,928,262.74	186,297.49
Unemployment insurances	16,560.46	1,306,897.10	1,292,309.30	31,148.26
Work-related injury insurances	1,703.72	739,755.38	731,116.07	10,343.03
Maternity insurances	3,990.65	480,842.32	476,653.17	8,179.80
Housing funds	897,970.46	6,284,058.73	6,403,590.83	778,438.36
Labour union fees and employee education fees	250,909.39	562,320.37	668,572.70	144,657.06
Severance welfare	127,095.00	450,565.10	577,660.10	0.00
Performance-linked bonuses of subsidiaries	819,280.19	0.00	819,280.19	0.00
Others	341,025.15	0.00	0.00	341,025.15
Total	<u>90,493,756.24</u>	<u>205,789,598.18</u>	<u>246,362,491.86</u>	<u>49,920,862.56</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 RMB144,657.06 for labour union fees and employee education fees, the amount of RMB0.00 for non-monetary benefits, and the amount of RMB0.00 for severance welfare.

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

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

25. Taxes payables

Item	At the end of the period	At the beginning of the period
Value added tax payable	-20,237,721.73	-14,725,130.73
Business tax payable	4,590.97	4,297.75
Urban maintenance and construction tax payable	3,270,207.60	2,664,270.63
Enterprise income tax payable	37,480,813.89	87,180,525.14
Property tax payable	3,495,768.82	952,728.41
Land use tax payable	1,071,271.85	545,794.94
Individual income tax payable	10,477,392.67	10,114,792.80
Stamp duty payable	611,836.61	278,475.17
Education surcharges payable	2,871,042.32	2,098,296.85
Flood prevention fee payable	364,249.36	233,590.80
Others	99,689.18	67,121.55
Total	<u>39,509,141.54</u>	<u>89,414,763.31</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	At the end of the period	At the beginning of the period
Interest for medium-term financing bills	1,681,260.30	11,823,945.23
Interest payables for short-term loans	9,199,410.91	3,611,034.42
Total	<u>10,880,671.21</u>	<u>15,434,979.65</u>

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

27. Dividends payables

Name of unit	At the end of the period	At the beginning of the period	Reason for outstanding over 1 year
Dividends on ordinary shares Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	147,881,100.46	20,174.46	Not yet paid
Other legal persons and individual shares of subsidiaries	1,200,710.00	1,200,710.00	Not yet paid
Staff shares of subsidiaries	1,051,300.00	1,051,300.00	Not yet paid
	259,800.00	259,800.00	Not yet paid
Total	<u>150,392,910.46</u>	<u>2,531,984.46</u>	

28. Other payables

(1) Breakdown of other payables

Item	At the end of the period	At the beginning of the period
Within 1 year	747,718,225.99	693,604,025.31
Over 1 year	<u>17,840,247.23</u>	<u>73,194,831.99</u>
Total	<u>765,558,473.22</u>	<u>766,798,857.30</u>

- (2) For balances at the end of the period, 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 details of the amounts.

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

28. Other payables *(continued)*

(3) The breakdown of accruals included in balances is as follows:

Item	At the end of the period	At the beginning of the period	Reason for outstanding
Utilities expenses	9,905,966.85	3,735,773.85	Not yet paid
Research expenses	1,512,517.75	2,399,315.36	Not yet paid
Business promotion expenses	529,071,494.50	457,054,765.57	Not yet paid
Advertising expenses	2,243,632.40	9,171,399.21	Not yet paid
Business meeting expenses	3,437,533.15	19,474,029.71	Not yet paid
Auditing and information disclosure expenses	2,400,963.65	1,849,876.74	Not yet paid
Segment operating expenses	11,070,258.73	6,708,382.69	Not yet paid
Others	19,646,048.42	34,726,464.68	Not yet paid
Total	579,288,415.45	535,120,007.81	

29. Non-current liabilities due within one year

(1) Breakdown of long-term liabilities due within one year

Item	At the end of the period	At the beginning of the period
Long-term loans due within one year	400,000.00	400,000.00

(2) Long-term loans due within one year

1 Breakdown of long-term loans due within one year

Item	At the end of the period	At the beginning of the period
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.

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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	At the end of the period		At the beginning of the period	
					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	Renminbi	-	400,000.00	-	400,000.00

Overdue loans for long-term loans due within one year: Nil

30. Long-term loans

(1) Classification of long-term loans

1 Classification of long-term loans

Item	At the end of the period	At the beginning of the period
Loans on credit	700,000.00	700,000.00
Guarantee loans	148,400,000.00	149,200,000.00
Total	149,100,000.00	149,900,000.00

As at 30 June 2014, 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 (%)	At the end of the period		At the beginning of the period	
					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	Renminbi	6.15	-	148,400,000.00	-	149,200,000.00
Fuzhou Bureau of Finance	Indefinite	Indefinite	Renminbi	Interest-free	-	700,000.00	-	700,000.00
Total					-	149,100,000.00	-	149,900,000.00

Long-term loans of RMB148,400,000.00 will be repaid after the second year of the reporting date.

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

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

31. Notes payables

Name of bond	Nominal amount	Date of issue	Term of bond	Issue amount	Interest payables at the beginning of the period	Interest payables for the Current Period	Interest paid for the Current Period	Interest payables at the end of the period	Balances at the end of the period
13 Livzon MTN1	400,000,000.00	29 May 2013	3 years	400,000,000.00	11,823,945.23	9,977,315.07	20,120,000.00	1,681,260.30	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 bills payable will be repaid by RMB400,000,000.00 in the second year after the reporting date.

32. Other non-current liabilities

Item	Description	At the end of the period	At the beginning of the period
Deferred income	Government grant	<u>74,141,623.11</u>	<u>79,071,532.72</u>

Breakdown of deferred income is as follows:

Liabilities	Balances at the beginning of the period	Amount of new additional subsidy for the Current Period	Recognised in non-operating income for the Current Period	Other changes	Balances at the end of the period	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)	12,331,374.94	0.00	1,000,000.02	0.00	11,331,374.92	Related to assets
	7,905,533.28	0.00	374,064.90	0.00	7,531,468.38	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)	18,141,671.04	0.00	727,551.29	0.00	17,414,119.75	Related to assets
	542,808.33	0.00	0.00	0.00	542,808.33	Related to income

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

32. Other non-current liabilities (continued)

Liabilities	Balances at the beginning of the period	Amount of new additional subsidy for the Current Period	Recognised in non-operating income for the Current Period	Other changes	Balances at the end of the period	Related to assets/ Related to income
MAB for Class I treatment of necrosis factor in human tumour from human source (類治療用人源化抗人腫瘤壞死因子單克隆抗體)	472,053.20	0.00	84,815.91	0.00	387,237.29	Related to assets
Demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目)	6,192,166.62	0.00	350,500.02	0.00	5,841,666.60	Related to assets
Subsidy for the tender of technology upgrade project for PVC soft bag supported by provincial finance departments (省財政支持技改招標項目補助金PVC軟袋)	2,964,077.46	0.00	80,985.75	0.00	2,883,091.71	Related to assets
Demonstration projects of high concentration organic wastewater treatment technology (高濃度有機廢水治理技術示範項目)	1,183,175.00	0.00	197,202.00	0.00	985,973.00	Related to assets
Shenqi Fuzheng Injection (參芪扶正注射液)	1,203,000.00	0.00	55,078.60	0.00	1,147,921.40	Related to assets
	964,070.19	0.00	0.00	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
	625,000.00	0.00	312,500.00	0.00	312,500.00	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)	6,000,000.00	0.00	499,797.00	1,000,000.00	4,500,203.00	Related to assets
Leuprolide microspheres and injections (亮丙瑞林微球及注射劑)	0.00	300,000.00	300,000.00	0.00	0.00	Related to assets

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

32. Other non-current liabilities *(continued)*

Liabilities	Balances at the beginning of the period	Amount of new additional subsidy for the Current Period	Recognised in non-operating income for the Current Period	Other changes	Balances at the end of the period	Related to assets/ 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)	291,666.65	0.00	208,333.35	0.00	83,333.30	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
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	500,000.00	0.00	0.00	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)	225,007.00	0.00	41,665.00	0.00	183,342.00	Related to assets
Power-saving of lighting pump fan and air-conditioning system (照明水泵風機及空調系統節電)	157,507.00	0.00	29,165.00	0.00	128,342.00	Related to assets

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

32. Other non-current liabilities (continued)

Liabilities	Balances at the beginning of the period	Amount of new additional subsidy for the Current Period	Recognised in non-operating income for the Current Period	Other changes	Balances at the end of the period	Related to assets/ Related to income
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	300,000.00	0.00	0.00	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	188,600.00	0.00	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)	55,000.00	0.00	0.00	0.00	55,000.00	Related to assets
	47,500.01	0.00	19,791.65	0.00	27,708.36	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	141,450.00	0.00	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)	30,000.00	0.00	0.00	0.00	30,000.00	Related to assets
	55,555.56	0.00	11,111.10	0.00	44,444.46	Related to income

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

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

32. Other non-current liabilities *(continued)*

Liabilities	Balances at the beginning of the period	Amount of new additional subsidy for the Current Period	Recognised in non-operating income for the Current Period	Other changes	Balances at the end of the period	Related to assets/ 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
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	490,000.00	0.00	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)	487,868.89	0.00	0.00	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))	3,066,400.00	470,000.00	0.00	0.00	3,536,400.00	Related to assets
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)	117,520.00	0.00	71,825.19	0.00	45,694.81	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)	1,000,000.00	0.00	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)	200,000.00	0.00	200,000.00	0.00	0.00	Related to income

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

32. Other non-current liabilities (continued)

Liabilities	Balances at the beginning of the period	Amount of new additional subsidy for the Current Period	Recognised in non-operating income for the Current Period	Other changes	Balances at the end of the period	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)	150,000.00	0.00	150,000.00	0.00	0.00	Related to income
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	9,000,000.00	0.00	971,872.83	0.00	8,028,127.17	Related to assets
Construction projects of astragalus facilities of Ministry of Industry and Information Technology of the PRC (國家工信部黃芪基地建設項目)	0.00	1,000,000.00	0.00	0.00	1,000,000.00	Related to assets
Subsidy for development costs (研發費補助金)	0.00	1,021,400.00	0.00	0.00	1,021,400.00	Related to income
Demolition compensation from Finance Bureau in Hunyuan County (渾源縣財政局拆遷補償)	0.00	300,000.00	0.00	0.00	300,000.00	Related to income
Construction projects of astragalus facilities of Finance Bureau in Hunyuan County (渾源縣財政局黃芪基地建設項目)	0.00	135,000.00	0.00	0.00	135,000.00	Related to assets
Special funds provided by the Government – funding for entrepreneurial team (政府撥出專款—創業團隊經費)	0.00	150,000.00	0.00	0.00	150,000.00	Related to income
Others	0.00	90,800.00	90,800.00	0.00	0.00	Related to income
Total	<u>79,071,532.72</u>	<u>3,467,200.00</u>	<u>7,397,109.61</u>	<u>1,000,000.00</u>	<u>74,141,623.11</u>	

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

33. Share capital

January to June 2014

Item	At the beginning of the period		Changes for the Current Period (+,-)					At the end of the period	
	Amount	Proportion (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Proportion (%)
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 shares)	111,993,354	37.87	0.00	0.00	0.00	-111,993,354	0.00	0.00	0.00
3. Overseas listed foreign shares (H shares)	0.00	0.00	0.00	0.00	0.00	111,993,354	0.00	111,993,354	37.87
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>

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 shares) in the share capital of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

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

33. Share capital (continued)

January to June 2013

Item	At the beginning of the period		Changes for the current period (+, -)					At the end of the period	
	Amount	Proportion (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Proportion (%)
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 shares)	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 shares)	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>

34. Capital reserve

January to June 2014

Item	At the beginning of the period	Increase for the Current Period	Decrease for the Current Period	At the end of the period
Capital premiums	191,464,446.44	0.00	0.00	191,464,446.44
Other capital reserve	26,899,982.32	0.00	3,508,313.06	23,391,669.26
Total	<u>218,364,428.76</u>	<u>0.00</u>	<u>3,508,313.06</u>	<u>214,856,115.70</u>

The decrease in other capital reserve for the Current Period was attributable to (1) the difference of RMB1,258,197.53 between the consideration received from the equity transfer arising from the disposal of 24.99% equity interests in Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) and the corresponding interests less capital reserve; (2) disposal of some available-for-sale financial assets and fair value change resulting to the decrease in capital reserve of RMB2,250,115.53.

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

34. Capital reserve *(continued)*

January to June 2013

Item	At the beginning of the period	Increase for the current period	Decrease for the current period	At the end of the period
Share premiums	191,724,618.44	0.00	0.00	191,724,618.44
Other capital reserve	27,385,587.24	0.00	667,423.65	26,718,163.59
Total	<u>219,110,205.68</u>	<u>0.00</u>	<u>667,423.65</u>	<u>218,442,782.03</u>

The decrease of the capital reserve in the current period was attributable to the changes in fair value of available-for-sale financial assets.

35. Surplus reserve

January to June 2014

Item	At the beginning of the period	Increase for the Current Period	Decrease for the Current Period	At the end of the period
Statutory surplus reserve	333,608,626.57	0.00	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>501,196,946.97</u>	<u>0.00</u>	<u>0.00</u>	<u>501,196,946.97</u>

January to June 2013

Item	At the beginning of the period	Increase for the current period	Decrease for the current period	At the end of the period
Statutory surplus reserve	322,730,716.50	0.00	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>490,319,036.90</u>	<u>0.00</u>	<u>0.00</u>	<u>490,319,036.90</u>

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

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

36. Retained earnings

(1) Changes in retained earnings

Item	Current Period	Previous Period	Allocation or appropriation proportion
Retained earnings for the previous year before adjustment	2,352,112,358.31	2,023,348,842.58	
Add: Adjusted retained earnings at the beginning of the period	0.00	0.00	
Retained earnings at the beginning of the year after adjustment	2,352,112,358.31	2,023,348,842.58	
Add: Net earnings attributable to the shareholders of the parent company for the Current Period	290,934,056.78	259,310,414.64	
Less: Appropriation to statutory surplus reserve	0.00	0.00	10%
Appropriation to discretionary surplus reserve	0.00	0.00	
Dividends payable to ordinary shares	147,860,926.00	147,860,926.00	
Dividends of ordinary shares capitalised	0.00	0.00	
Retained earnings at the end of the period	<u>2,495,185,489.09</u>	<u>2,134,798,331.22</u>	

Breakdown of adjustments to the retained earnings as at the beginning of the period:

- 1 The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and their new related requirements on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 2 The effect of changes in accounting policies on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 3 The effect of corrections of significant accounting errors on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 4 The effect of the change of the scope of combination under common control on the retained earnings as at the beginning of the period amounted to RMB0.00.
- 5 The effect of other adjustments on the retained earnings as at the beginning of the period amounted to RMB0.00.

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2014 to 30 June 2014

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

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

36. Retained earnings

(2) Notes to appropriation of profits

Item	Current Period	Unit: RMB'000
		Previous Period
Dividends:		
Final dividends in respect of the year 2012		
paid during the year end	–	–
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 Reporting Period. Such profit distribution plan was approved in the 2013 shareholders' meeting on 30 June 2014 and the dividends were paid to shareholders after the Reporting Period.

Note 2: On 7 March 2013, the Company held the Fifteenth Meeting of the Seventh Board, which passed the resolution of 2012 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 Reporting Period. Such profit distribution plan was approved in the shareholders' meeting on 21 June 2013 and the dividends were paid to shareholders in July 2013.

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

37. Non-controlling interests

Name of company	At the beginning of the period	Changes in the Current Period					At the end of the period
	Non-controlling interests	Net profit of subsidiary	Shareholding percentage of non-controlling shareholders	Profit or Loss attributable to non-controlling shareholders	Dividends paid	Other changes	Non-controlling interests
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	117,657,199.67	37,683,546.53	49.00%	18,478,315.63	-12,250,000.00	22,154.01	123,907,669.31
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	766,214.69	284,788.78	49.00%	139,546.50	0.00	0.00	905,761.19
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	17,637,659.57	17,575,092.28	7.86%	1,381,402.25	0.00	0.00	19,019,061.82
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	141,163.34	-318,851.44	7.50%	-23,913.86	0.00	0.00	117,249.48
Zhuhai Baiameng Biological Materials Co., Ltd. (珠海麗珠－拜阿蒙生物材料有限公司)	1,111,467.95	0.00	18.00%	0.00	0.00	0.00	1,111,467.95
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	81,879,578.47	-18,157,732.50	49.00%	-8,897,288.93	0.00	98,000,000.00	170,982,289.54
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	4,157,939.13	-5,959,793.91	16.15%	-962,506.72	0.00	0.00	3,195,432.41
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	20,967,668.89	21,331,769.77	49.00%	10,452,567.19	0.00	21,823,492.11	53,243,728.19
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司)	2,357,509.63	-7,689.35	61.75%	-1,922.34	0.00	0.00	2,355,587.29
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	13,194,506.05	-741,201.51	49.00%	-363,188.74	-4,900,000.00	0.00	7,931,317.31
Total	259,870,907.39	51,689,928.65		20,203,010.98	-17,150,000.00	119,845,646.12	382,769,564.49

The increase in other changes in the Current Period is mainly attributable to the capital invested by non-controlling shareholders.

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

38. Operating income, operating cost

(1) Operating income, operating cost

Item	Current Period	Previous Period
Income from principal activities	2,558,352,095.45	2,153,268,671.13
Income from non-principal activities	70,122,230.93	8,993,151.27
Operating income in aggregate	2,628,474,326.38	2,162,261,822.40
Cost of principal activities	953,890,051.96	800,165,299.71
Cost of non-principal activities	44,148,541.22	8,673,835.79
Operating cost in aggregate	998,038,593.18	808,839,135.50

(2) Principal activities (by products)

Name of products	Current Period		Previous Period	
	Operating income	Operating cost	Operating income	Operating cost
I. Drug preparation products				
1. Western drug preparation products	1,020,404,325.31	249,746,874.57	788,054,616.86	206,564,256.22
Of which: Gastrointestinal drugs	202,699,817.49	22,266,882.78	177,085,277.79	21,331,635.26
Cardio-cerebrovascular drugs	79,388,702.57	18,412,900.56	72,477,673.31	17,181,393.35
Antibiotic drugs (including imported drugs)	168,020,368.07	39,490,245.60	133,415,458.61	38,257,257.31
Gonadotropic hormones	365,627,291.28	131,196,493.97	270,853,274.68	93,290,769.53
Blood and hemopoietic system drugs	18,218,972.20	14,933,798.69	15,304,480.96	16,409,080.71
Others	186,449,173.70	23,446,552.97	118,918,451.51	20,094,120.06
2. Chinese drug preparation products	827,214,672.39	178,135,374.05	791,562,122.89	161,538,367.54
Sub-total of drug preparation products:	1,847,618,997.70	427,882,248.62	1,579,616,739.75	368,102,623.76
II. Bulk medicines and intermediates	500,843,650.89	429,042,521.62	397,815,396.77	349,888,612.78
III. Diagnostic reagents and equipment	203,063,114.66	89,584,166.31	175,836,534.61	82,174,063.17
IV. Others	6,826,332.20	7,381,115.41	0.00	0.00
Total	2,558,352,095.45	953,890,051.96	2,153,268,671.13	800,165,299.71

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

38. Operating income, operating cost *(continued)*

(3) *Principal activities (by geographical regions)*

Name of geographical regions	Current Period		Previous Period	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	2,345,697,364.51	780,953,500.47	1,994,155,417.81	675,376,831.05
Overseas	212,654,730.94	172,936,551.49	159,113,253.32	124,788,468.66
Total	<u>2,558,352,095.45</u>	<u>953,890,051.96</u>	<u>2,153,268,671.13</u>	<u>800,165,299.71</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 (%)
From January to June 2014	197,199,361.08	7.50
From January to June 2013	<u>180,634,763.82</u>	<u>8.35</u>

The Company operates in a single operating segment in the PRC, i.e. the manufacture of pharmaceuticals. Accordingly, no operating segment and geographical information of the Company are presented.

39. Business taxes and surcharges

Item	Current Period	Previous Period
Urban maintenance and construction tax payable	16,955,978.82	14,776,878.51
Education surcharges payable	13,313,402.12	11,355,712.40
Flood prevention fee payable	1,268,770.42	927,700.53
Business tax payable	30,311.30	41,666.43
Others	<u>633.16</u>	<u>117,312.21</u>
Total	<u>31,569,095.82</u>	<u>27,219,270.08</u>

The basis of calculations for various business taxes and surcharges are disclosed in Note V. Taxation.

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

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

40. Selling expenses

Item	Current Period	Previous Period
Marketing and promotional expenses	927,634,718.69	740,534,020.35
Staff salaries	38,441,450.05	33,897,664.91
Transportation costs	18,624,121.85	14,375,611.50
Travelling expenses and entertainment	12,799,086.44	11,033,408.61
Business meeting expenses	8,579,123.06	10,048,794.48
Others	14,935,316.87	15,230,308.51
Total	<u>1,021,013,816.96</u>	<u>825,119,808.36</u>

41. Administrative expenses

Item	Current Period	Previous Period
Research and development costs	74,925,769.25	61,743,254.35
Staff salaries	37,749,566.56	43,044,714.13
Depreciation and amortisation	17,571,459.97	17,161,243.12
Loss on suspension of operations	10,699,503.88	9,802,604.39
Tax expenses	9,222,472.96	7,512,085.65
Others	41,768,693.00	49,907,321.23
Total	<u>191,937,465.62</u>	<u>189,171,222.87</u>

42. Financial expenses

Item	Current Period	Previous Period
Interest expenses	11,948,630.14	4,046,904.86
Less: Interest income	5,298,709.73	12,448,188.23
Exchange gains or losses	3,614,565.25	-3,663,026.19
Bank charges	2,475,011.01	1,267,520.48
Total	<u>12,739,496.67</u>	<u>-10,796,789.08</u>

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

43. Impairment loss

Item	Current Period	Previous Period
Provision for bad debts	4,956,980.77	9,991,960.93
Provision for diminution in value of inventories	29,143,139.19	6,038,616.90
Provision for impairment of fixed assets	1,824.00	0.00
Total	34,101,943.96	16,030,577.83

44. Gains from changes in fair value

Sources of gains from changes in fair value	Current Period	Previous Period
Financial assets held for trading	-868,465.62	-1,242,332.26
Of which: Shares	-868,989.00	-1,220,089.59
Funds	523.38	-22,242.67

45. Investment Income

(1) Breakdown of investment income item

Item	Current Period	Previous Period
Long-term equity investments income under equity method	2,956,769.34	1,708,850.99
Investment income generated from disposal of long-term equity investments	0.00	0.00
Investment income generated during the period from financial assets held for trading	181,440.16	184,588.99
Investment income generated during the period from held-to-maturity investments	0.00	0.00
Investment income generated during the period from available-for-sale financial assets	161,916.30	343,750.00
Investment income from disposal of financial assets held for trading	0.00	849,784.78
Investment income from disposal of held-to-maturity investments	0.00	0.00
Investment income from disposal of available-for-sale financial assets	3,364,181.22	0.00
Others	0.00	0.00
Total	6,664,307.02	3,086,974.76

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

45. Investment Income *(continued)*

(2) Long-term equity investments income under equity method

Name of investee	Current year	Previous year	The reason for changed in the current year as compared to the previous year
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	2,935,837.08	1,888,090.28	Changes in income of investees
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	20,932.26	-179,239.29	Changes in income of investees
Total	<u>2,956,769.34</u>	<u>1,708,850.99</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

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

46. Non-operating income

Item	Current Period	Previous Period	Recognised as extraordinary gains or losses for the Current Period
Gains on disposal of non-current assets in aggregate	345,418.08	329,936.16	345,418.08
Of which: Gains on disposal of fixed assets	345,418.08	329,936.16	345,418.08
Income from scraps	536,099.68	143,243.13	536,099.68
Government grants (For more details, please see the table below: Table for breakdown of government grants)	22,037,802.08	12,883,755.38	22,037,802.08
Compensation income	141,231.80	812,555.00	141,231.80
Waiver of payables	0.00	602,512.31	0.00
Others	345,405.15	266,793.41	345,405.15
Total	<u>23,405,956.79</u>	<u>15,038,795.39</u>	<u>23,405,956.79</u>

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

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

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

46. Non-operating income *(continued)*

Of which, breakdown of government grants:

Item	Current Period	Previous Period	Related to assets/ Related to income	Approval documents
Municipal Finance Bureau grant for special funding to small and medium enterprises to develop in 2013 (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)
Special funds for provincial intellectual property rights in 2013 (2013 省級知識產權專項資金)	30,000.00	0.00	Related to income	—
Subsidies from the Finance Bureau on special arrangement for small and medium enterprises to attract high school graduates (財政局專項安排中小企業吸納高校畢業生補貼款)	11,000.00	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)	197,202.00	197,202.00	Related to assets	—
Deferred income from astragalus GAP projects (黃芪GAP項目遞延收益)	499,797.00	0.00	Related to assets	—
Shenqi Fuzheng Injection (參芪扶正注射液)	55,078.60	61,619.48	Related to assets	—
Special funds for the national research in the technology standard of Chinese medicine drinking tablets (全國中藥飲片炮製技術規範研究專項經費)	71,825.19	70,000.00	Related to income	—
Compensation for relocation (搬遷補償)	12,000,000.00	0.00	Related to income	—

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

46. Non-operating income (continued)

Item	Current Period	Previous Period	Related to assets/ Related to income	Approval documents
Reward Funds from the Finance Bureau in Jinwan for Scientifically and Technologically Advanced Enterprises (金灣財政局獎勵科學技術先進企業獎勵金)	50,000.00	0.00	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)	0.00	419,347.31	Related to income	–
Patent Technology Support Payment (專利技術扶持收款)	0.00	100,000.00	Related to income	–
Triple pollen injection medicine (注射用三花粉針)	0.00	44,976.51	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)	0.00	45,731.88	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)	374,064.90	424,064.90	Related to income	Yue Fa Gai Gao (2008) No. 1282, Yue Cai Gong (2010) No. 276, Yue Cai Gong (2010) No. 445 (粵發改高(2008)1282號、粵財工(2010)276號、粵財工(2010)445號)
	1,000,000.02	1,050,000.02		
Sustained-release famciclovir capsule 0302 Project (泛昔洛韋緩釋膠囊0302項目)	0.00	2,994,863.03	Related to income	–
Special funds for energy auditing (能源審計專項資金)	20,000.00	0.00	Related to income	Rong Jing Neng [2013] No. 798 (榕經能[2013]798號)

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

46. Non-operating income *(continued)*

Item	Current Period	Previous Period	Related to assets/ Related to income	Approval documents
Special subsidies for innovative technology of provincial enterprises (Arginine) (省企業創新技術專項補助資金(精氨酸))	300,000.00	0.00	Related to income	Rong Cai Qi (Zhi) [2013] No. 75 (榕財企(指)[2013]75號)
Special subsidies for innovative technology of provincial enterprises (Teicoplanin) (省企業創新技術專項補助資金(替考))	400,000.00	0.00	Related to income	Min Jing Mao Ji Cai [2013] No. 537(閩經貿計財 [2013]537號)
Support funds for export premiums (出口保險費扶持資金)	166,795.00	290,042.00	Related to income	—
Subsidy for renovation on mathematical apparatus transmission network (數儀聯網傳輸改造補助款)	4,000.00	0.00	Related to income	—
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)	0.00	600,000.00	Related to income	Rong Cai Qi (Zhi) [2013] No. 3 (榕財企(指)[2013]3號)
Power consumption subsidies (用電補貼)	0.00	187,720.00	Related to income	Min Jing Mao Yun Xing [2012] No. 323(閩經貿運行 [2012]323號)
Subsidy relating to technology research and development from the Finance Bureau (財政局關於技術研究與開發補助款)	0.00	300,000.00	Related to income	Rong Cai Qi (Zhi) [2013] No. 20(榕財企(指) [2013]20號)
Power consumption rewards (用電獎勵)	159,400.00	144,100.00	Related to income	Gu Zheng Wen [2012] No.276 (古政文[2012]276號)
Subsidy for renovation of the Stated-controlled Online Surveillance System on Key Pollution Sources namely "One click, double transfer" (國控重點污染源在線監控系統「一點雙傳」改造補助資金)	1,000.00	0.00	Related to income	Ning Shi Huan Zhi Dui (2014) No. 37(寧市環支隊 (2014)37號)

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

46. Non-operating income *(continued)*

Item	Current Period	Previous Period	Related to assets/ Related to income	Approval documents
2012 first batch of energy saving and recycling economy financial incentive projects of Fujian Province (2012年福建省第一批節能循環經濟財政獎勵項目)	0.00	190,000.00	Related to income	Gu Cai Qi [2012] No. 46 (古財企[2012]46號)
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)	80,985.75	97,182.90	Related to assets	Yue Ke Ji Zi [2007] No. 172 (粵科技字[2007]172號)
Power-saving of lighting pump fan and air-conditioning system (照明水泵風機及空調系統節電)	29,165.00	34,998.00	Related to assets	Shao Cai Gong [2010] No. 179 (韶財工[2010]179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)	41,665.00	49,998.00	Related to assets	Shao Cai Gong [2010] No. 170 (韶財工[2010]170號)
Financial grant for key technology on production quality control of Shenqi Fuzheng Injection (參芪扶正注射液生產質量控制關鍵技術財政撥款)	312,500.00	1,254,166.66	Related to income	Shao Cai Gong [2011] No. 79 (韶財工[2011]79號)
Grant for the quality control of traditional Chinese medicine injections (中藥注射劑質控撥款)	208,333.35	583,333.33	Related to income	—
Zhuhai special supporting funds to expand imports and exports from January to July 2013 (2013年1-7月珠海市擴大進出口回專項配套資金)	14,352.60	0.00	Related to income	—
Interest discount funds for promoting imported products (進口產品貼息資金)	42,700.00	235,210.00	Related to income	—

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

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

46. Non-operating income (continued)

Item	Current Period	Previous Period	Related to assets/ Related to income	Approval documents
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)	350,500.02	350,500.02	Related to assets	Zhu Cai Gong [2011] No. 60 (珠財工[2011]60號)
Special fund on renewable energy in 2012 (2012年度可再生能源專項資金)	0.00	300,000.00	Related to income	Zhu Gui Jian Zhi [2013] No. 4 (珠規建質[2013]4號)
Subsidies from the Pengzhou Industry and Information Technology Bureau (彭州市工業和信息化局補貼)	2,000.00	0.00	Related to income	—
Improvement and upgrade on production process of anti-viral granules, automatic production and packaging lines of Chinese medicine granules (抗病毒顆粒生產工藝改進及提升、中藥顆粒劑自動化生產包裝線)	176,500.00	0.00	Related to income	—
Tariff subsidies (電價補貼)	10,100.00	0.00	Related to income	Cheng Jing Xin Ban [2013] No. 70 (成經信辦[2013]70號)
New prescriptions for antiviral influenza (新處方抗病毒顆粒)	600,000.00	0.00	Related to income	Cheng Cai Jiao [2013] No. 200 (成財教[2013]200號)
Re-employment subsidies (再就業補貼)	14,181.75	0.00	Related to income	Cheng Lao She [2013] No. 178 (成勞社[2013]178號)
Subsidies for technology centres for municipal level enterprises striving for excellence in Chengdu (成都市企業技術中心補貼、企業爭先創優)	300,000.00	0.00	Related to income	—
Re-employment subsidies (再就業補貼)	39,360.35	0.00	Related to income	Cheng Lao She [2013] No. 178 (成勞社[2013]178號)
Subsidies from the Pengzhou Industry and Information Technology Bureau (彭州市工業和信息化局補貼)	45,202.77	0.00	Related to income	—

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

46. Non-operating income *(continued)*

Item	Current Period	Previous Period	Related to assets/ Related to income	Approval documents
Energy consumption subsidies (Tariff subsidies) (能耗補貼款 (電費補貼))	0.00	8,700.00	Related to income	–
Research for enhancing the quality standards of anti-viral granules (抗病毒顆粒質量標準 提升研究)	0.00	200,000.00	Related to income	–
2010 Project funding for technology centres for municipal level enterprises in Zhuhai (2010年珠海市市級 企業技術中心工程項目經費)	300,000.00	0.00	Related to income	–
Product Development Projects on Vitro Diagnostic Technology in the Biological and Medical Technology Field in respect of Projects 863 (863計劃生物和 醫藥技術領域體外診斷技術 產品開發項目)	150,000.00	0.00	Related to income	Ke Xue Ji Shu Bu Wen Jian Guo Ke Fa She (2011) No. 419 (科學技術部文件 國科發社(2011)419號)
2013 Strategic Emerging Industries Special Funds – Bio- medicine R&D subsidies (2013 年戰略性產業專項資金— 生物醫藥研發補助資金)	200,000.00	0.00	Related to income	Zhu Ke Gong Mao Xin (2013) No. 510 (珠科工貿信 (2013)510號)
Innovation Special Rolling Funds paid by the Industry and Commerce Division (工貿科 付省建創新滾動切塊資金)	490,000.00	0.00	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	Related to income	–

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

46. Non-operating income *(continued)*

Item	Current Period	Previous Period	Related to assets/ Related to income	Approval documents
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	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	Related to income	—
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)I類治療人源化 抗人腫瘤壞死因子 α 單克隆 抗體新藥的研製)	84,815.91	847,698.36	Related to assets	Zhu Xiang Ke Gong Mao Xin Zi [2013] No. 17 (Second batch of science and technology R&D special fund (Zhuhai Finance Bureau)) (珠香科工貿信字 [2013]17號(第二批科學 技術研究與開發專項資金 (珠海市財政局)))
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)	727,551.29	718,833.95	Related to assets	Zhu Ke Gong Mao Xin Zi [2013] No. 576(珠科工貿 信字[2013]576號)
2013 central funding of special funds from the provincial finance department to foreign patent applications (省財政2013年中央資助向 國外申請專利專項資金)	90,800.00	0.00	Related to income	Guo Qiao Jing Fa [2013] No. 68 (國僑經發[2013]68號)

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

46. Non-operating income (continued)

Item	Current Period	Previous Period	Related to assets/ Related to income	Approval documents
Funds for Shanghai Science and Technology Committee (municipal) – Grant to enterprises manufacturing bright acrylic microspheres and its injection (上海市科學技術委員會撥款(市) – 亮丙微球及注射劑企業撥款)	300,000.00	120,000.00	Related to assets	–
Funds for little giant training enterprise (district) (小巨人培育企業撥款(區))	0.00	200,000.00	Related to income	Hu Ke [2010] No. 407 (滬科[2010]407號)
Industrial Revitalisation Supporting Funds from the Government (政府產業振興扶持資金)	971,872.83	0.00	Related to assets	Ning Fa Gai Chan Ye [2013] No. 412 (寧發改產業[2013]412號)
Enterprise Incentive Funds (企業獎勵基金)	0.00	500,000.00	Related to income	Ping Dang Fa [2013] No.24 (平黨發[2013]24號)
Others	60,002.75	263,467.03	Related to income	–
Total	<u>22,037,802.08</u>	<u>12,883,755.38</u>		

47. Non-operating expenses

Item	Current Period	Previous Period	Recognised as extraordinary gains or losses for the Current Period
Losses on disposal of non-current assets	840,060.89	4,620.05	840,060.89
Of which: Losses on disposal of fixed assets	840,060.89	4,620.05	840,060.89
Write-off of fixed assets	86,684.38	78,659.03	86,684.38
Charity donation expenses	100,000.00	1,268,264.83	100,000.00
Others	31,767.33	110,879.67	31,767.33
Total	<u>1,058,512.60</u>	<u>1,462,423.58</u>	<u>1,058,512.60</u>

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

48. Income tax expenses

(1) Breakdown of income tax expenses

Item	Current Period	Previous Period
Current income tax calculated according to tax laws and relevant rules	53,399,114.02	52,634,810.70
Include: Income tax on domestic enterprises	53,385,954.82	52,580,418.33
Income tax on Hong Kong and Macau enterprises	13,159.20	54,392.37
Adjustment of deferred income tax	2,681,017.98	-210,843.45
Total	56,080,132.00	52,423,967.25

(2) Relationship between income tax expenses and total profit are shown below

Item	Current Period	Previous Period
Profit before tax	367,217,199.76	322,099,611.15
Income tax calculated at statutory tax rates	91,804,299.94	80,524,902.79
Tax effect of different rates applicable to subsidiaries	453,853.76	364,280.88
Effect of tax deduction	-43,365,547.69	-37,082,791.24
Effect of non-deductible expenses	-2,288,103.22	634,854.48
Credit (charge) on temporary differences on which deferred tax assets are not recognised for the year	-1,849,653.77	290,071.06
Deductible losses of deferred tax assets that are not recognised for the year	12,213,194.55	5,799,022.33
Use of deductible losses of deferred tax assets that are not recognised in the previous year	-1,849,003.45	-225,750.61
Others	961,091.88	2,119,377.56
Total	56,080,132.00	52,423,967.25

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

49. Basic earnings per share and diluted earnings per share

Basic earnings per share are calculated based on the net profit for the Current Period 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 Current Period 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) **Basic earnings per share and diluted earnings per share for each period are shown below**

Profit for the Reporting Period	Current Period		Previous Period	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares	0.98	0.98	0.88	0.88
Net profit attributable to shareholders of ordinary shares after extraordinary gains or losses	0.92	0.92	0.84	0.84

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

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

49. Basic earnings per share and diluted earnings per share *(continued)*

(2) Calculation of the basic earnings per share and diluted earnings per share

Item	Serial number	Current Period	Previous Period
Net profit attributable to shareholders of ordinary shares	A	290,934,056.78	259,310,414.64
Extraordinary gains or losses	B	19,957,923.29	10,929,243.30
Net profit attributable to shareholders of ordinary shares after extraordinary gains or losses	C=A-B	270,976,133.49	248,381,171.34
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	6	6
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	0.98	0.88
Basic earnings per share after extraordinary gains or losses	N=C/L	0.92	0.84

During the Reporting Period, there was no potential dilutive ordinary shares. Therefore diluted earnings per share is equal to basic earnings per share.

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

50. Other comprehensive income

(1) Breakdown of other comprehensive income

Item	Current Period	Previous Period
1 Gains (losses) on available-for-sale financial assets	732,472.00	-785,204.28
Less: Effect of income tax arising from available-for-sale financial assets	109,870.80	-117,780.63
Net amount recognised in other comprehensive income in Previous Period transferred to profit or loss for the Current Period	2,872,716.73	0.00
Sub-total	-2,250,115.53	-667,423.65
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 Current 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 Current 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

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

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

50. Other comprehensive income *(continued)*

(1) Breakdown of other comprehensive income *(continued)*

Item	Current Period	Previous Period
4 Differences from translation of financial statements denominated in foreign currencies	497,451.19	-1,382,723.45
Less: Net amount transferred to profit or loss upon disposal of overseas operations for the Current Period	0.00	0.00
Sub-total	497,451.19	-1,382,723.45
5 Others	-1,258,197.53	0.00
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 Current Period	0.00	0.00
Sub-total	-1,258,197.53	0.00
Total	-3,010,861.87	-2,050,147.10

For the period from 1 January 2014 to 30 June 2014
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VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50. Other comprehensive income (continued)

(2) Movement in other comprehensive income item

Item	Current Period	Previous Period
Balances at the beginning 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	-22,765,309.23	-20,485,557.76
Add: Movement for the Current Period	-3,010,861.87	-2,050,147.10
Including: Capital reserve – Other capital reserve (Available-for-sale financial assets)	-2,250,115.53	-667,423.65
Capital reserve – Other capital reserve (Disposal of equity interests without losing control)	-1,258,197.53	0.00
Differences from translation of financial statements denominated in foreign currencies	497,451.19	-1,382,723.45
Balances at the end of the period	-20,440,440.43	-16,714,369.27
Including: Capital reserve – Other capital reserve (Available-for-sale financial assets)	4,168,684.03	6,236,980.83
Capital reserve – Other capital reserve (Disposal of equity interests without losing control)	-2,341,266.42	-1,083,068.89
Differences from translation of financial statements denominated in foreign currencies	<u>-22,267,858.04</u>	<u>-21,868,281.21</u>

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

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

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

51. Supplemental information to income statement

Item	Current Period	Previous Period
Profit before tax deductions:		
Materials expenses	826,227,311.09	562,455,274.62
Labor costs	203,877,984.74	184,903,652.41
Depreciation	106,760,984.12	70,064,684.65
Amortisation of intangible assets	9,633,124.34	9,503,685.18
Amortisation of long-term deferred expenses	5,147,166.40	5,671,058.62
Energy and power	95,053,811.80	85,774,658.94
Other manufacturing expenses	118,498,189.34	88,883,394.98
Marketing and promotional expenses	926,496,994.63	739,310,414.92
Transportation costs	18,001,242.83	13,889,209.90
Other research and development expenses	17,900,178.07	14,190,750.64
Written-off of provision for diminution in value of inventories	-19,953,715.73	-10,206,143.16
Movement in inventories	-196,136,166.28	-42,785,969.03
Entertainment and travelling expenses	21,984,414.98	23,253,042.16
Business meeting expenses	11,034,122.85	10,823,376.25
Taxation	40,847,898.46	34,789,916.14
Net expenses of financial expenses	12,739,496.67	-10,796,789.08
Impairment loss	34,101,943.96	16,030,577.83
Others	58,243,942.54	61,290,853.17
Total	<u>2,290,458,924.81</u>	<u>1,857,045,649.14</u>

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

52. Notes to cash flow statement item

(1) Other cash received relating to operating activities

Item	Current Period	Previous Period
Government grants	18,107,892.47	5,955,183.56
Interest income	5,298,709.73	12,448,188.23
Damages and penalty income	241,913.12	850,227.50
Income from scraps	536,099.68	143,243.13
Deposits under guarantees for letter of credit	635,992.60	17,506,921.43
Funds transfer and others	11,999,911.90	41,687,675.90
Total	36,820,519.50	78,591,439.75

(2) Other cash paid relating to operating activities

Item	Current Period	Previous Period
Office expenses	9,933,877.17	12,269,529.30
Travelling expenses	13,903,077.15	12,595,001.56
Entertainment expenses	10,723,830.97	12,283,515.34
Transportation fees	25,231,782.44	20,372,627.24
Advertising expenses	5,601,955.52	7,588,664.09
Business meeting expenses	16,564,335.14	17,788,236.88
Auditing and information disclosure fees	2,648,191.63	2,292,668.99
Consultancy fees	12,782,697.57	13,163,940.54
Research and development costs	34,061,510.13	14,059,250.06
Bank charges	2,475,011.01	1,267,520.48
Business promotion expenses	960,933,317.65	685,772,456.41
Deposits under guarantees for letter of credit and bank acceptance bills	700,008.11	9,996,654.30
Other expenses paid and current account	32,686,750.01	52,293,569.29
Total	1,128,246,344.50	861,743,634.48

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VII. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***52. Notes to cash flow statement item** *(continued)***(3) Other cash received relating to investing activities**

Item	Current Period	Previous Period
Deposits under guarantees for letter of credit	<u>9,444,211.41</u>	<u>0.00</u>

(4) Other cash paid relating to investing activities

Item	Current Period	Previous Period
Deposits under guarantees for letter of credit	<u>2,400,000.00</u>	<u>5,400,000.00</u>

53. Supplemental information to cash flow statement**(1) Information about reconciliation of net profit to cash flow from operating activities**

Item	Current Period	Previous Period
1 Reconciliation of net profit to cash flow from operating activities:		
Net profit	311,137,067.76	269,675,643.90
Add: Provision for impairment of assets	34,101,943.96	16,030,577.83
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	106,760,984.12	70,064,684.65
Amortisation of intangible assets	9,633,124.34	9,503,685.18
Amortisation of long-term expense	5,147,166.40	5,671,058.62
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains)	494,642.81	-325,316.11
Losses on write-off of fixed assets ("—" represents gains)	86,684.38	78,659.03
Losses from changes in fair value ("—" represents gains)	868,465.62	1,242,332.26
Financial expenses ("—" represents gains)	16,780,608.89	644,227.39
Investments losses ("—" represents gains)	-6,664,307.02	-3,086,974.76
Decrease in deferred tax assets ("—" represents increase)	2,338,425.14	-427,784.25
Increase in deferred tax liabilities ("—" represents decrease)	342,592.84	216,940.80
Decrease in inventories ("—" represents increase)	-222,042,979.72	-55,357,012.81
Decrease in trade receivables ("—" represents increase)	-79,207,563.28	-277,041,226.17
Increase in trade payables ("—" represents decrease)	23,798,352.30	148,941,527.98
Others	0.00	0.00
Net cash flows from operating activities	203,575,208.54	185,831,023.54

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

53. Supplemental information to cash flow statement *(continued)*

(1) Information about reconciliation of net profit to cash flow from operating activities *(continued)*

Item	Current Period	Previous Period
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	754,020,156.80	1,412,608,467.91
Less: Cash at the beginning of the year	750,928,733.31	1,178,636,300.52
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>3,091,423.49</u>	<u>233,972,167.39</u>

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

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

53. Supplemental information to cash flow statement *(continued)*

(2) Relevant information with respect to acquisition or disposal of subsidiaries and other operating units during the Reporting Period

Nil

(3) The composition of cash and cash equivalents

Item	Current Period	Previous Period
1 Cash	754,020,156.80	1,412,608,467.91
Of which: Cash on hand	100,793.54	104,156.71
Bank deposits that are readily available for payment	751,575,553.19	1,411,792,956.41
Other cash at bank and on hand that are readily available for payment	2,343,810.07	711,354.79
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>754,020,156.80</u>	<u>1,412,608,467.91</u>

Cash and cash equivalents excluded restricted cash and cash equivalents used by the Company.

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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 30 June 2014, 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.

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

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 parent company	61885517-4
Xinxiang Haibin Pharmaceutical Industry Co., Ltd. (新鄉海濱藥業有限公司)	A company controlled by the parent company	76489454-2
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 parent 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 parent company	75788087-1
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the parent company	61749891-0
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	A company controlled by the parent 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 parent company	73308333-3

5. Related party transactions

(1) Related party transactions relating to purchase of goods/receipt of services

Related party	Description of related party transaction	Pricing basis and decision-making procedures of the related party transactions	Current Period		Previous Period	
			Amount	Proportion to similar transactions (%)	Amount	Proportion to similar transactions (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Raw materials	Market price	476,868.29	0.05	1,204,449.85	0.15
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	Market price	4,549,145.29	0.48	4,104,700.85	0.51
Xinxiang Haibin Pharmaceutical Industry Co., Ltd. (新鄉海濱藥業有限公司)	Raw materials	Market price	241,111.11	0.03	0.00	0.00
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	Low-valued consumables	Market price	17,094.02	0.00	64,102.56	0.01
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Raw materials	Market price	200,858.85	0.02	0.00	0.00
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	Market price	129,729,106.60	13.60	61,303,294.38	7.66
Total			135,214,184.16	14.18	66,676,547.64	8.33

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(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	Description of related party transaction	Pricing principles and decision-making procedures of the related party transactions	Current Period		Previous Period	
			Amount	Proportion to similar transactions (%)	Amount	Proportion to similar transactions (%)
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Finished goods	Market price	5,429.46	0.00	5,686.36	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Finished goods	Market price	9,396,504.27	0.37	18,066,712.74	0.84
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	Market price	0.00	0.00	434,704.27	0.02
Sale of goods in aggregate			9,401,933.73	0.37	18,507,103.37	0.86
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Electricity and power	Market price	2,442,526.92	96.04	2,517,340.10	97.64
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Electricity and power	Market price	89,544.68	3.52	60,821.68	2.36
Provision of services in aggregate			2,532,071.60	99.56	2,578,161.78	100.00

(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 Current Period
The Company	Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings	January 2014	December 2014	Market price	214,233.60
The Company	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	January 2014	December 2014	Market price	49,974.00

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For the period from 1 January 2014 to 30 June 2014

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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 Current Period
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	The Company	Plant & buildings	March 2014	February 2015	Market price	329,472.00

(4) Related party guarantees

During the Reporting Period, the details on the bank loans of subsidiaries guaranteed by the Company were set out as follows (RMB'0,000):

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 obligation guarantee	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	2,461.12 (USD400.00)	Joint obligation guarantee	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 obligation guarantee	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	14,840.00	15,000.00	15,000.00	Joint obligation guarantee	2012.4.17-2015.4.16 China Agricultural Bank, Shaoguan Wujian Sub-branch (農業銀行韶關武江支行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2013.7.12	0.00	0.00	20,000.00	Joint obligation guarantee	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)	2014.7.14	0.00	0.00	10,000.00	Joint obligation guarantee	2014.7.14-2015.7.13 Bank of China, Zhuhai Branch (珠海中行)

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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)	2014.5.26	13,017.50 (HKD16,400.00)	13,096.88 (HKD16,500.00)	40,000.00	Joint obligation guarantee	2014.5.26-2015.6.30 HSBC China/ HSBC Hong Kong (匯豐中國/匯豐香港)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2014.3.5	0.00	0.00	8,000.00	Joint obligation guarantee	2014.3.5-2015.3.4 Shanghai Pudong Development Bank, Zhuhai (珠海浦發銀行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	2014.6.24	19,171.44 (HKD24,153.00)	19,764.38 (HKD24,900.00)	37,000.00	Joint obligation guarantee	2014.6.24-2016.6.24 Zhuhai China Resources Bank (珠海華潤銀行)
Total actual amount guaranteed for loans of subsidiaries during the Reporting Period				47,861.26		
Balance of total amount guaranteed for loans of subsidiaries during the end of the Reporting Period				47,028.94		

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For the period from 1 January 2014 to 30 June 2014

(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

January to June 2014

Amount denominated: RMB'0,000

	Fees	Salaries, allowances and benefits in kind	Social insurance, pensions and others	Total in January to June 2014
Directors				
Zhu Baoguo (朱保國)	4.50	0.00	0.00	4.50
Liu Guangxia (劉廣霞)	3.60	0.00	0.00	3.60
An Ning (安寧)	1.28	9.48	2.70	13.46
Tao Desheng (陶德勝)	3.60	23.22	4.89	31.71
Fu Daotian (傅道田)	0.00	9.85	1.79	11.64
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	3.60
Zhong Shan (鍾山)	3.60	0.00	0.00	3.60
Independent Directors				
Luo Xiaosong (羅曉松)	4.80	0.00	0.00	4.80
Yang Bin (楊斌)	4.80	0.00	0.00	4.80
Guo Guoqing (郭國慶)	4.80	0.00	0.00	4.80
Wang Xiaojun (王小軍)	4.80	0.00	0.00	4.80
Yu Xiong (俞雄)	4.80	0.00	0.00	4.80
Xu Yanjun (徐焱軍)	0.00	0.00	0.00	0.00
Supervisors				
Wang Maolin (汪卯林)	1.80	11.35	3.38	16.53
Yuan Huasheng (袁華生)	2.10	0.00	0.00	2.10
Huang Huamin (黃華敏)	1.80	0.00	0.00	1.80
Total	49.88	53.90	12.76	116.54

Mr. Wang Xiaojun (王小軍先生) and Mr. Yu Xiong (俞雄先生) were appointed on 16 September 2013; Mr. Fu Daotian (傅道田先生) and Mr. Xu Yanjun (徐焱軍先生) were appointed on 30 June 2014;

Mr. An Ning (安寧先生) resigned on 5 March 2014; Mr. Luo Xiaosong (羅曉松先生) retired on 30 June 2014. Ms. Liu Guangxia (劉廣霞女士) resigned on 21 August 2014.

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(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 *(continued)*

January to June 2013

Amount denominated: RMB'0,000

	Fees	Salaries, allowances and benefits in kind	Social insurance, pensions and others	Total in January to June 2013
Directors				
Zhu Baoguo (朱保國)	4.50	0.00	0.00	4.50
Liu Guangxia (劉廣霞)	3.60	0.00	0.00	3.60
An Ning (安寧)	3.60	27.65	5.17	36.42
Tao Desheng (陶德勝)	3.60	23.28	4.67	31.55
Qiu Qingfeng (邱慶豐)	3.60	0.00	0.00	3.60
Zhong Shan (鍾山)	3.60	0.00	0.00	3.60
Independent Directors	0.00	0.00	0.00	0.00
Wang Junyan (王俊彥)	4.00	0.00	0.00	4.00
Luo Xiaosong (羅曉松)	4.80	0.00	0.00	4.80
Yang Bin (楊斌)	4.80	0.00	0.00	4.80
Guo Guoqing (郭國慶)	0.80	0.00	0.00	0.80
Supervisors	0.00	0.00	0.00	0.00
Cao Pingwei (曹平偉)	1.75	0.00	0.00	1.75
Wang Maolin (汪卯林)	1.80	10.04	3.16	15.00
Pang Datong (龐大同)	1.50	0.00	0.00	1.50
Yuan Huasheng (袁華生)	0.35	0.00	0.00	0.35
Huang Huamin (黃華敏)	0.30	0.00	0.00	0.30
Total	<u>42.60</u>	<u>60.97</u>	<u>13.00</u>	<u>116.57</u>

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

During the Reporting Period, no remuneration was paid by the Company to any directors and supervisors as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which any directors and supervisors waived any remuneration.

For the period from 1 January 2014 to 30 June 2014

(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)*

2 Individuals with highest emoluments

The emoluments of two and two of the five highest paid individuals were directors of the Company from January to June 2013 and from January to June 2014, respectively. Their remuneration were already disclosed in Note VIII. 5.(5) Remuneration of key management personnel. The aggregate emoluments of the remaining (three from January to June 2013 and three from January to June 2014) were disclosed as follows:

Amount denominated: RMB'0,000

	Total in January to June 2014	Total in January to June 2013
Salaries and allowances	72.60	72.74
Social insurance, pensions and others	12.79	12.34
Total	85.39	85.08
Of which: Number of individuals whose emoluments fell within RMB1,000,000	3	3
Number of individuals whose emoluments fell within the range of RMB1,000,000 to RMB2,000,000	—	—

During the Reporting Period, 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.

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(6) Other affiliated transactions**

On 3 June 2013, it was resolved in the First Extraordinary General Meeting in 2013 of Livzon MABPharm Inc. 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. For the first instalment of contribution amounting to RMB100 million and the second instalment of contribution amounting to RMB100 million, the Company and Joincare Pharmaceutical Industry Group Co., Ltd. contributed RMB102 million and RMB98 million on 9 June 2013 and 26 March 2014, respectively. The proportion of contribution remained unchanged.

On 15 May 2014, it was resolved in the general meeting of Livzon MABPharm Inc. that its registered capital would be increased to RMB500 million, for which the first instalment of contribution amounting to RMB100 million should be paid before 30 June 2014 and the remaining balance shall be paid up within 36 months after 30 June 2017. For the first instalment of contribution amounting to RMB100 million, the Company and Joincare Pharmaceutical Industry Group Co., Ltd. contributed RMB51 million and RMB49 million on 27 May 2014, respectively. The proportion of contribution remained unchanged.

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(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	At the end of the period		At the beginning of the period	
		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)	7,200,000.00	360,000.00	4,399,251.20	219,962.56
Accounts receivables	Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	120,193.48	6,009.67	39,288.71	1,964.44
Accounts receivables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	0.00	0.00	508,604.00	25,430.20
Sub-total		<u>7,320,193.48</u>	<u>366,009.67</u>	<u>4,947,143.91</u>	<u>247,357.20</u>
Other receivables	Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	26,386.94	1,319.35	12,994.47	649.72
Other receivables	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	8,329.00	416.45	16,658.00	832.90
Other receivables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	50,005.81	2,500.29	210,401.51	10,520.08
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	942,760.04	47,138.00	545,153.86	27,257.69
Sub-total		<u>1,027,481.79</u>	<u>51,374.09</u>	<u>785,207.84</u>	<u>39,260.39</u>

For the period from 1 January 2014 to 30 June 2014
(Unless specified otherwise, all amounts are denominated in RMB)

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	At the end of the period	At the beginning of the period
Accounts payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	0.00	4,380.00
Accounts payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	0.00	6,269,102.56
Accounts payables	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	234,972.00	0.00
Accounts payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	74,755,500.56	55,703,992.40
Sub-total		74,990,472.56	61,977,474.96
Bills payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	25,021,815.50	0.00
Bills payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	11,590,000.00	0.00
Sub-total		36,611,815.50	
Other payables	Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	0.00	12,482.17
Other payables	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	1,208,064.00	1,537,536.00
Sub-total		1,208,064.00	1,550,018.17

IX. CONTINGENCIES

As at 30 June 2014, there was no significant contingencies that required to be disclosed by the Company.

For the period from 1 January 2014 to 30 June 2014

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

X. COMMITMENTS**1. Significant commitments****(1) Capital commitments**

Item	At the end of the period	At the beginning of the period
Contracted but not recognised in the financial statements		
– Commitments in relation to acquisition of long-term assets	423,505,660.33	276,172,853.42
Total	423,505,660.33	276,172,853.42

(2) Operating lease commitments

As at the balance sheet date, the Company signed the non-cancellable operating leases as follows:

Item	At the end of the period	At the beginning of the period
Minimum lease payments under non-cancellable operating leases payable:		
Within 1 year	4,404,576.98	4,379,985.00
1 to 2 years	1,532,831.40	2,474,882.50
2 to 3 years	674,037.40	187,856.40
Over 3 years	0.00	8,404.20
Total	6,611,445.78	7,051,128.10

(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 2013 and the other commitments.

XI. POST BALANCE SHEET DATE EVENTS

As at the date of this report, there is no other non-adjusting post balance sheet event that should be disclosed by the Company.

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

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

XII. OTHER SIGNIFICANT MATTERS

1. Assets and liabilities measured at fair value

Amount denominated: RMB'000

Item	Balance at the beginning of the period	Change in fair value for the Current Period	Accumulated change in fair value in equity	Provision of impairment for the Current Period	Balance at the end of the period
Financial assets					
Financial assets at fair value through profit or loss for the Current Period (excluding derivative financial assets)	11,335.13	-868.47	0.00	0.00	10,565.25
Derivative financial assets	0.00	0.00	0.00	0.00	0.00
Available-for-sale financial assets	10,041.56	0.00	-2,140.24	0.00	4,944.19
Sub-total for financial assets	21,376.69	-868.47	-2,140.24	0.00	15,509.44
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	21,376.69	-868.47	-2,140.24	0.00	15,509.44
Financial liabilities	0.00	0.00	0.00	0.00	0.00

2. Financial assets and liabilities in foreign currencies

Amount denominated: RMB'000

Item	Balance at the beginning of the period	Change in fair value for the Current Period	Accumulated change in fair value in equity	Provision of impairment for the Current Period	Balance at the end of the period
Financial assets					
Financial assets at fair value through profit or loss for the Current Period (excluding derivative financial assets)	10,739.90	-868.99	0.00	0.00	9,969.50
Derivative financial assets	0.00	0.00	0.00	0.00	0.00
Loans and receivables	100,108.91	0.00	0.00	-1,068.06	81,661.17
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	110,848.81	-868.99	0.00	-1,068.06	91,630.67
Financial liabilities	245,537.94	0.00	0.00	0.00	440,421.09

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 unforeseeability of the financial market in order to minimise the potential adverse impacts on the financial performance of the Company.

(1) Foreign exchange risks

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Company still has certain import and export 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. At the end of the period, the balance of loans in Hong Kong dollars amounted to HK\$547.6635 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.

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XII. OTHER SIGNIFICANT MATTERS *(continued)*

3. Management objectives and policies of financial risks *(continued)*

(1) Foreign exchange risks *(continued)*

Financial assets and liabilities in foreign currencies held by the Company expressed in Renminbi are stated below:

1 30 June 2014

Amount denominated: RMB'000

Item	Hong Kong dollars items	U.S. dollars items	Euro items	Japanese Yen items	Pound Sterling items	Macau dollars items
Financial assets in foreign currencies–						
Cash at bank and on hand	22,450.75	14,905.84	821.62	7,189.69	0.00	0.00
Accounts receivables	0.00	83,478.07	47.45	397.17	0.00	0.00
Prepayments	0.00	1,897.15	0.00	0.00	0.00	0.00
Other receivables	321.47	0.00	0.00	0.00	0.00	0.00
Sub-total :	<u>22,772.22</u>	<u>100,281.06</u>	<u>869.07</u>	<u>7,586.86</u>	<u>0.00</u>	<u>0.00</u>
Financial liabilities in foreign currencies–						
Short-term loans	434,707.90	0.00	0.00	0.00	0.00	0.00
Accounts payables	0.00	166.17	0.00	0.00	2,282.21	0.00
Receipts in advance	0.00	1,610.74	0.00	0.00	0.00	0.00
Interest payables	1,531.63	0.00	0.00	0.00	0.00	0.00
Other payables	122.45	0.00	0.00	0.00	0.00	0.00
Sub-total :	<u>436,361.98</u>	<u>1,776.91</u>	<u>0.00</u>	<u>0.00</u>	<u>2,282.21</u>	<u>0.00</u>

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(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 30 June 2013

Amount denominated: RMB'000

Item	Hong Kong dollars items	U.S. dollars items	Euro items	Japanese Yen items	Pound Sterling items	Macau dollars items
Financial assets in foreign currencies–						
Cash at bank and on hand	48,311.81	8,620.90	237.06	0.00	0.00	2,030.00
Accounts receivables	0.00	66,305.56	0.00	1,328.79	0.00	73.64
Prepayments	0.00	19,341.91	0.00	0.00	0.00	0.00
Other receivables	325.42	0.00	0.00	0.00	0.00	0.00
Sub-total :	<u>48,637.23</u>	<u>94,268.37</u>	<u>237.06</u>	<u>1,328.79</u>	<u>0.00</u>	<u>2,103.64</u>
Financial liabilities in foreign currencies–						
Short-term loans	242,716.77	0.00	0.00	0.00	0.00	0.00
Accounts payables	0.00	15,640.68	1,324.41	0.00	2,043.01	0.00
Receipts in advance	0.00	876.88	0.00	0.00	0.00	0.00
Interest payables	2,158.42	0.00	0.00	0.00	0.00	0.00
Other payables	122.88	0.00	0.00	0.00	0.00	199.42
Sub-total :	<u>244,998.07</u>	<u>16,517.56</u>	<u>1,324.41</u>	<u>0.00</u>	<u>2,043.01</u>	<u>199.42</u>

As at 30 June 2014, in respect of Group's financial assets and liabilities denominated in Hong Kong dollar, U.S. dollar, Euro, Japanese Yen, Pound Sterling, Macau dollar, should the value of RMB appreciate or depreciate by 5% against the Hong Kong dollar, U.S. dollar, Euro, Japanese Yen, Pound Sterling, Macau dollar, and other factors remain unchanged, the Group would be subject to an increase or decrease in profit of RMB15.44559 million (30 June 2013: RMB5.92537 million).

XII. OTHER SIGNIFICANT MATTERS *(continued)***3. Management objectives and policies of financial risks** *(continued)***(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.

(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.

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

XII. OTHER SIGNIFICANT MATTERS *(continued)*

3. Management objectives and policies of financial risks *(continued)*

(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.

XIII. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES

1. Net current assets

Item	At the end of the period	At the beginning of the period
Current assets	3,230,665,841.46	2,980,726,564.42
Less: Current liabilities	2,651,545,388.75	2,329,680,971.69
Net current assets	<u>579,120,452.71</u>	<u>651,045,592.73</u>

2. Total assets less current liabilities

Item	At the end of the period	At the beginning of the period
Total assets	7,145,024,917.97	6,566,006,124.91
Less: Current liabilities	2,651,545,388.75	2,329,680,971.69
Total assets less current liabilities	<u>4,493,479,529.22</u>	<u>4,236,325,153.22</u>

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For the period from 1 January 2014 to 30 June 2014

(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	At the end of the period			
	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	718,494,505.33	100.00	38,213,577.96	5.32
Accounts receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00
Total	<u>718,494,505.33</u>	<u>100.00</u>	<u>38,213,577.96</u>	<u>5.32</u>
Type	At the beginning of the period			
	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>

For the period from 1 January 2014 to 30 June 2014
(Unless specified otherwise, all amounts are denominated in RMB)

XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

1. Accounts receivables *(continued)*

(2) The ageing analysis of accounts receivables

Item	At the end of the period		At the beginning of the period	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	711,442,589.18	99.02	560,624,817.56	98.37
1 to 2 years	2,226,468.95	0.31	4,774,385.48	0.84
2 to 3 years	2,463,906.92	0.34	2,691,011.67	0.47
3 to 4 years	999,173.93	0.14	518,046.08	0.09
4 to 5 years	467,091.16	0.07	464,429.25	0.08
Over 5 years	895,275.19	0.12	873,356.37	0.15
Total	718,494,505.33	100.00	569,946,046.41	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	At the end of the period			At the beginning of the period		
	Gross amount		Provision for bad debts	Gross amount		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	711,442,589.18	99.02	35,572,129.46	560,624,817.56	98.37	28,031,240.88
1 to 2 years	2,226,468.95	0.31	133,588.14	4,774,385.48	0.84	286,463.13
2 to 3 years	2,463,906.92	0.34	492,781.38	2,691,011.67	0.47	538,202.33
3 to 4 years	999,173.93	0.14	699,421.75	518,046.08	0.09	362,632.26
4 to 5 years	467,091.16	0.07	420,382.04	464,429.25	0.08	417,986.33
Over 5 years	895,275.19	0.12	895,275.19	873,356.37	0.15	873,356.37
Total	718,494,505.33	100.00	38,213,577.96	569,946,046.41	100.00	30,509,881.30

(4) Status of accounts receivables reversed or recoverable for the Current Period

Nil

(5) Status of large sum of accounts receivables actually written off during the Reporting Period

Nil

For the period from 1 January 2014 to 30 June 2014

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

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 end of the period.

(7) **Status of accounts receivables due from top five customers at the end of the period**

Name of unit	Relationship with the Company	Amount	Nature or description	Term	Proportion to total accounts receivables (%)
Liao Ning Hengsong Pharmaceutical Co., Ltd. (遼寧恒松醫藥有限公司)	Non-related party	18,407,986.02	Sale of goods	Within 1 year	2.56
Shanghai SiFu Pharmaceutical Co., Ltd. (上海思富醫藥有限公司)	Non-related party	17,747,018.00	Sale of goods	Within 1 year	2.47
Sinopharm Holding Hubei Co., Ltd. (國藥控股湖北有限公司)	Non-related party	15,222,437.32	Sale of goods	Within 1 year: RMB15,216,226.12; Over 5 years: RMB6,211.20	2.12
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	14,711,270.60	Sale of goods	Within 1 year	2.05
Guangzhou Pharmaceutical Company Limited (廣州醫藥有限公司)	Non-related party	14,253,585.53	Sale of goods	Within 1 year	1.98
Total		<u>80,342,297.47</u>			<u>11.18</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

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XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

2. Other receivables

(1) Other receivables presented by types

Type	At the end of the period			
	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	18,156,442.05	1.48	5,058,044.97	27.86
Receivables from each company in the scope of combination	1,204,806,987.52	98.52	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>1,222,963,429.57</u>	<u>100.00</u>	<u>5,058,044.97</u>	<u>0.41</u>
Type	At the beginning of the period			
	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>

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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	At the end of the period		At the beginning of the period	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	1,214,941,147.21	99.34	1,307,278,655.38	99.38
1 to 2 years	1,294,320.93	0.11	1,634,216.87	0.12
2 to 3 years	761,692.09	0.06	813,087.83	0.06
3 to 4 years	5,331,725.74	0.44	5,514,199.78	0.42
4 to 5 years	454,123.15	0.04	160,499.77	0.01
Over 5 years	180,420.45	0.01	106,514.29	0.01
Total	<u>1,222,963,429.57</u>	<u>100.00</u>	<u>1,315,507,173.92</u>	<u>100.00</u>

(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	At the end of the period			At the beginning of the period		
	Gross amount		Provision for bad debts	Gross amount		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	10,134,159.69	55.82	506,707.98	4,864,816.57	37.16	243,240.83
1 to 2 years	1,294,320.93	7.13	77,659.26	1,634,216.87	12.48	98,053.01
2 to 3 years	761,692.09	4.19	152,338.42	813,087.83	6.21	162,617.57
3 to 4 years	5,331,725.74	29.37	3,732,208.02	5,514,199.78	42.11	3,859,939.85
4 to 5 years	454,123.15	2.50	408,710.84	160,499.77	1.23	144,449.79
Over 5 years	180,420.45	0.99	180,420.45	106,514.29	0.81	106,514.29
Total	<u>18,156,442.05</u>	<u>100.00</u>	<u>5,058,044.97</u>	<u>13,093,335.11</u>	<u>100.00</u>	<u>4,614,815.34</u>

2 Receivables from each of the companies in the scope of combination

Other receivables description	Carrying amount	Provision for bad debts	Percentage of provision (%)	Rationale
Current account	1,204,806,987.52	0.00	0.00	The debtor is a subsidiary of the Company and there is no provision for bad debts.

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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 Current Period

Nil

(5) Status of large sum of other receivables actually written off during the Reporting Period

Nil

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

(7) Status of other receivables due from top five customers at the end of the period

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	424,330,377.95	Current account	Within 1 year	34.70
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Subsidiary	378,690,723.89	Current account	Within 1 year	30.97
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	167,467,374.99	Current account	Within 1 year	13.69
Ando Development Limited (安滔發展有限公司)	Subsidiary	123,857,335.92	Current account	Within 1 year	10.13
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	44,914,697.31	Current account	Within 1 year	3.67
Total		<u>1,139,260,510.06</u>			<u>93.16</u>

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(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	424,330,377.95	34.70
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Subsidiary	378,690,723.89	30.97
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	167,467,374.99	13.69
Ando Development Limited (安滔發展有限公司)	Subsidiary	123,857,335.92	10.13
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	44,914,697.31	3.67
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Subsidiary	36,477,440.76	2.98
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Subsidiary	18,100,000.00	1.48
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Subsidiary	10,919,036.70	0.89
Macau (Livzon) Co., Ltd. (澳門(麗珠)有限公司)	Subsidiary	50,000.00	0.01
Total		<u>1,204,806,987.52</u>	<u>98.52</u>

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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 period	Additions for the Current Period	Disposal for the Current Period	At the end of the period
Investments in subsidiaries	1,636,423,366.22	109,890,690.87	21,823,492.11	1,724,490,564.98
Investments in associates	14,061,444.09	673,340.48	0.00	14,734,784.57
Less: Long-term equity investments provision for impairment	19,671,307.03	0.00	0.00	19,671,307.03
Total	1,630,813,503.28	110,564,031.35	21,823,492.11	1,719,554,042.52

(2) Breakdown of long-term equity investments

Name of investee	Accounting method	Investment cost	At the beginning of the period	Changes	At the end of the period
Zhuhai Livzon Baiameng Biological Materials Co., Ltd. (珠海麗珠-拜阿蒙生物材料有限公司)	Cost method	3,934,721.95	3,934,721.95	0.00	3,934,721.95
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	361,060,443.85	353,169,752.98	7,890,690.87	361,060,443.85
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	31,438,404.00	53,261,896.11	-21,823,492.11	31,438,404.00
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

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XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

3. Long-term equity investments

(2) Breakdown of long-term equity investments

Name of investee	Accounting method	Investment cost	At the beginning of the period	Changes	At the end of the period
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 Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	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	280,769,410.50	280,769,410.50	0.00	280,769,410.50
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Cost method	204,000,000.00	102,000,000.00	102,000,000.00	204,000,000.00
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	900,000.00	0.00	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	8,185,803.82	652,408.22	8,838,212.04
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	4,675,640.27	20,932.26	4,696,572.53
Total		1,762,277,551.15	1,650,484,810.31	88,740,539.24	1,739,225,349.55

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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 Current Period	Cash dividend for the Current Period
Zhuhai Livzon Baiaimeng 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)	51.00	51.00		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

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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 Current Period	Cash dividend for the Current Period
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	12,750,000.00
Livzon Group Livzon Pharmaceutical Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	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
Livzon MABPharm Inc. (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	5,100,000.00
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				<u>19,671,307.03</u>	<u>0.00</u>	<u>17,850,000.00</u>

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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 period	Additions for the Current Period	Disposal for the Current Period	At the end of the period	Reason for provision made
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
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	19,671,307.03	0.00	0.00	19,671,307.03	

4. Operating income, operating cost

(1) Operating income, operating cost

Item	Current Period	Previous Period
Income from principal activities	1,392,644,607.19	1,010,391,794.58
Income from non-principal activities	1,125,767.65	1,172,877.27
Operating income in aggregate	1,393,770,374.84	1,011,564,671.85
Cost of principal activities	602,766,183.52	415,982,757.28
Cost of non-principal activities	56,329.68	58,560.41
Operating cost in aggregate	602,822,513.20	416,041,317.69

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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	Current Period		Previous Period	
	Operating income	Operating cost	Operating income	Operating cost
Western drug preparation products	730,175,599.69	371,739,118.22	404,009,429.39	230,496,992.19
Of which: Gastrointestinal drugs	181,289,128.28	84,508,433.13	148,571,457.48	91,831,780.61
Cardio-cerebralvascular drugs	50,532,768.52	15,818,658.34	39,848,839.12	22,212,604.78
Antibiotic drugs (including imported drugs)	156,545,566.81	104,228,880.80	114,598,454.40	79,570,856.33
Gonadotropic hormones	168,118,711.87	120,879,720.17	1,304,516.26	1,024,558.72
Others	173,689,424.21	46,303,425.78	99,686,162.13	35,857,191.75
Chinese drug preparation products	662,469,007.50	231,027,065.30	606,382,365.19	185,485,765.09
Total	1,392,644,607.19	602,766,183.52	1,010,391,794.58	415,982,757.28

(3) Principal activities (by geographical regions)

Name of geographical regions	Current Period		Previous Period	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	1,388,081,644.50	599,795,761.75	1,007,800,535.50	414,423,908.95
Overseas	4,562,962.69	2,970,421.77	2,591,259.08	1,558,848.33
Total	1,392,644,607.19	602,766,183.52	1,010,391,794.58	415,982,757.28

(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 (%)
From January to June 2014	163,430,801.84	11.73
From January to June 2013	125,220,929.00	12.38

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XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

5. Business taxes and surcharges

Item	Tax rate	Current Period	Previous Period
Urban maintenance and construction tax payable	7%	8,030,915.69	6,816,473.76
Education surcharges payable	5%	5,736,368.40	4,868,909.82
Flood prevention fee payable	0.07%	416,424.49	303,160.71
Total		<u>14,183,708.58</u>	<u>11,988,544.29</u>

6. Investment income

(1) Breakdown of investment income item

Name of investee	Current Period	Previous Period
Long-term equity investments income under cost method	17,850,000.00	0.00
Long-term equity investments income under equity method	673,340.48	240,336.33
Investment income generated from disposal of long-term equity investments	-1,258,197.53	0.00
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	64,091.30	343,750.00
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	3,364,181.22	0.00
Others	0.00	0.00
Total	<u>20,693,415.47</u>	<u>584,086.33</u>

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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	Current Period	Previous Period	The reason for changes in the Current Period as compared to the Previous Period
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	12,750,000.00	0.00	Dividends to subsidiaries for the Current Period
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	5,100,000.00	0.00	Dividends to subsidiaries for the Current Period
Total	<u>17,850,000.00</u>	<u>0.00</u>	

(3) Long-term equity investments income under equity method

Name of investee	Current Period	Previous Period	The reason for changed in the Current Period as compared to the Previous Period
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	652,408.22	419,575.62	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	20,932.26	-179,239.29	Changes in income for investee
Total	<u>673,340.48</u>	<u>240,336.33</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

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XIV. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS *(continued)*

7. Supplemental information to income statement

Item	Current Period	Previous Period
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	71,625,386.96	62,093,211.50
Add: Provision for impairment of assets	13,477,294.09	2,586,122.93
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	7,790,684.54	7,594,617.04
Amortisation of intangible assets	4,248,243.80	4,250,714.47
Amortisation of long-term expense	60,000.00	0.00
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains)	-72,775.36	-281,669.95
Losses on write-off of fixed assets ("—" represents gains)	0.00	935.00
Losses from changes in fair value ("—" represents gains)	0.00	0.00
Financial expenses("—" represents gains)	-8,899,293.91	14,654,248.47
Investments losses ("—" represents gains)	-20,693,415.47	-584,086.33
Decrease in deferred tax assets ("—" represents increase)	-1,118,529.89	-25,125.76
Increase in deferred tax liabilities ("—" represents decrease)	0.00	0.00
Decrease in inventories ("—" represents increase)	-54,344,928.71	10,391,613.26
Decrease in trade receivables ("—" represents increase)	-177,945,971.06	-143,800,976.06
Increase in trade payables ("—" represents decrease)	230,127,200.43	39,181,314.58
Others	0.00	0.00
Net cash flows from operating activities	64,253,895.42	-3,939,080.85
(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	640,833,507.44	1,237,451,812.51
Less: Cash at the beginning of the year	605,176,378.73	1,099,218,893.89
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	35,657,128.71	138,232,918.62

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XV. SUPPLEMENTAL INFORMATION

1. Breakdown of extraordinary gains or losses

Item	Current Period	Previous Period
Gains or losses from the disposal of non-current assets	-494,642.81	325,316.11
Ultra vires or without official approval documents, or incidental tax rebate or relief	0.00	0.00
Government grants included in the profit or loss for the Current 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	22,037,802.08	12,883,755.38
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the Current 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 for the Current Period 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)	2,839,072.06	135,791.51
Reversal of impairment of receivables on individual basis	0.00	0.00
Gains or losses from external entrusted loans	0.00	0.00

For the period from 1 January 2014 to 30 June 2014
(Unless specified otherwise, all amounts are denominated in RMB)

XV. SUPPLEMENTAL INFORMATION *(continued)*

1. Breakdown of extraordinary gains or losses *(continued)*

Item	Current Period	Previous Period
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 Current 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	804,284.92	367,300.32
Items of gains or losses as defined meeting the definition of extraordinary gains or losses	0.00	0.00
Sub-total	25,186,516.25	13,712,163.32
Effect of income tax	3,666,538.13	2,189,657.60
Effect of non-controlling interests (after tax)	1,562,054.83	593,262.42
Total	19,957,923.29	10,929,243.30

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.

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

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XV. SUPPLEMENTAL INFORMATION *(continued)*

2. Rate of return on net assets and earnings per share

January to June 2014

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	8.34%	0.98	0.98
Net profit attributable to shareholders of ordinary shares before extraordinary gains or losses	7.77%	0.92	0.92

January to June 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	8.27%	0.88	0.88
Net profit attributable to shareholders of ordinary shares before extraordinary gains or losses	7.92%	0.84	0.84

Please see Note VII.49 for the calculation basic earnings per share and diluted earnings per share.

For the period from 1 January 2014 to 30 June 2014
(Unless specified otherwise, all amounts are denominated in RMB)

XV. SUPPLEMENTAL INFORMATION *(continued)*

3. Abnormal situations and reasons for the key components of the consolidated financial statements of the Company

Statements	Balances at the end of the period or amounts for the Current Period	Balances at the beginning of the period or amounts for the Previous Period	Change	Reason for changes
Balance Sheet Items:				
Other receivables	56,615,414.49	39,477,295.95	43.41%	Mainly attributable to an increase in business advances and an increase in export tax rebate receivables during the Current Period
Available-for-sale financial assets	180,452,289.93	92,294,668.60	95.52%	Mainly attributable to an increase in investment during the Current Period
Construction supplies	732,723.27	481,529.20	52.17%	Mainly attributable to an increase in construction supplies for use during the Current Period
Short-term loans	684,707,900.18	491,084,453.79	39.43%	Mainly attributable to an increase in borrowings during the Current Period
Employee benefits payables	49,920,862.56	90,493,756.24	-44.84%	Mainly attributable to the payment of year-end bonus for last year during the Current Period
Taxes payables	39,509,141.54	89,414,763.31	-55.81%	Mainly attributable to the payment of enterprise income tax for last year during the Current Period
Dividends payables	150,392,910.46	2,531,984.46	5,839.72%	Mainly attributable to the distribution of dividends during the Current Period
Non-controlling interests	382,769,564.49	259,870,907.39	47.29%	Mainly attributable to an increase of capital contribution by the non-controlling shareholders

NOTES TO INTERIM FINANCIAL REPORT (UNAUDITED)

For the period from 1 January 2014 to 30 June 2014

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

XV. SUPPLEMENTAL INFORMATION *(continued)*

3. Abnormal situations and reasons for the key components of the consolidated financial statements of the Company *(continued)*

Statements	Balances at the end of the period or amounts for the Current Period	Balances at the beginning of the period or amounts for the Previous Period	Change	Reason for changes
Income Statement and Cash Flow Statement Items:				
Financial expenses	12,739,496.67	-10,796,789.08	217.99%	Mainly attributable to the increase in borrowings, higher interest expenses and change of exchange rates which resulted in an increase in exchange losses derived from borrowings denominated in foreign currency for the Current Period. On the other hand, financing interest for the Current Period was lower than the same period last year.
Losses from impairment of assets	34,101,943.96	16,030,577.83	112.73%	Mainly attributable to an increase of inventory impairment provision during the Current Period.
Gain from changes in fair value	-868,465.62	-1,242,332.26	30.09%	Mainly attributable to the an increase of market value of stocks held at the end of the Current Period.
Investment income	6,664,307.02	3,086,974.76	115.88%	Mainly attributable to the gain from disposal of certain available-for-sale financial assets during the Current Period.
Non-operating income	23,405,956.79	15,038,795.39	55.64%	Mainly attributable to the an increase in government subsidies received during the Current Period.

For the period from 1 January 2014 to 30 June 2014
(Unless specified otherwise, all amounts are denominated in RMB)

XV. SUPPLEMENTAL INFORMATION *(continued)*

3. Abnormal situations and reasons for the key components of the consolidated financial statements of the Company *(continued)*

Statements	Balances at the end of the period or amounts for the Current Period	Balances at the beginning of the period or amounts for the Previous Period	Change	Reason for changes
Non-controlling interests	20,203,010.98	10,365,229.26	94.91%	Mainly attributable to the share transfer during the Current Period, resulting in an increase of gains and losses of non-controlling interests.
Other comprehensive income	-3,010,861.87	-2,050,147.10	-46.86%	Mainly attributable to the disposal of certain available-for-sale financial assets during the Reporting Period and their fair value was changed when they were transferred from capital reserve into investment gain.
Net cash flow from financing activities	236,690,286.38	547,516,524.88	-56.77%	Mainly attributable to lower funds financed when compared to the same period last year and an increase in interest payment for the Current Period which resulted in a decrease in net cash flow from financing activities.

- I. They include a copy of the 2014 interim report of the Company which is signed by the legal representative.
- II. They include the the Company's unaudited financial report for the six months ended 30 June 2014 prepared in accordance with the China Accounting Standards for Business Enterprises which is signed and sealed by the legal representative, the person-in-charge of the Company's financial affairs (mainly responsible for accounting work), the person-in-charge of the accounting department (accounting supervisor).
- III. They include the original copies of all of the documents and announcements of the Company which have been disclosed in the designated newspaper as approved by CSRC during the Reporting Period.
- IV. They include both English and Chinese versions of the 2014 interim report of the Company published on the website of Hong Kong Exchanges and Clearing Limited.

Livzon Pharmaceutical Group Inc.

Zhu Baoguo

Chairman

26 August 2014