



丽珠医药
LIVZON

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

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

Annual Report 2014



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2 IMPORTANT

The board of directors, the Supervisory Committee and the Directors, Supervisors and senior management of Livzon Pharmaceutical Group Inc.* guarantee that the information in this annual 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 financial report of the Group and the Company for the year ended 31 December 2014, which had been prepared in accordance with China Accounting Standards for Business Enterprises, was audited by Ruihua Certified Public Accountants (LLP), and a standard unqualified audit report thereon was issued.

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 duties), and Ms. Zhuang Jianying (莊健瑩女士), the person-in-charge of the accounting department, declare that they guarantee the truthfulness, accuracy and completeness of the financial statements in this annual report.

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

The Board proposes the 2014 Annual Profit Distribution Plan as follows: to distribute cash dividend of RMB1 (including taxes) for every 10 shares held to all shareholders of the Company and make a bonus issue by way of capitalizing our capital reserve on the basis of 3 shares for every 10 shares held to all shareholders of the Company, based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2014 Annual Profit Distribution Plan (the "Dividend Distribution Plan for the Year"). The Dividend Distribution Plan for the Year is subject to approval at the 2014 annual general meeting of the Company (the "AGM").

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

This annual 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 actual outcomes may be substantially different from these statements. Investors should exercise caution that inappropriate reliance on and usage of such information may be subject to investment risks.

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

* For identification purpose only

In this annual 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 the Main Board of the 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;
"B Share(s)"	domestically listed foreign shares issued by the Company;
"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;
"Year"	the twelve months from 1 January to 31 December 2014;
"Same Period Last Year" or "Last Year"	the twelve months from 1 January to 31 December 2013;
"End of Last Year" or "Beginning of the Year"	31 December 2013;
"End of the Year"	31 December 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(2014年修訂)》(the Stock Listing Rules of the Shenzhen Stock Exchange (2014 Revision));
"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;
"Joincare"	健康元藥業集團股份有限公司 Joincare Pharmaceutical Industry Group Co., Ltd.* (Shanghai Stock Exchange stock code: 600380), a joint stock company incorporated in the PRC and listed on the Shanghai Stock Exchange in 2001 and one of the Company's controlling shareholders; and
"B-TO-H Share Conversion"	the domestically listed foreign shares ("B Shares") of the Company to be converted into H Shares by way of introduction for listing and trading on the Main Board of the Hong Kong Stock Exchange.

* For identification purpose only

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 People's Republic of China ("China" or "PRC") in respect of their trading of H Shares of the Company after H Shares of the Company were listed on the Hong Kong Stock Exchange.

* For identification purpose only

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	

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

INFORMATION DISCLOSURE AND PLACE WHERE COPIES OF THIS REPORT ARE AVAILABLE

Newspapers for information disclosure:	China Securities Journal, Securities Times, Hong Kong Wen Wei Po
Website for publishing this report:	A Shares: www.cninfo.com.cn H Shares: www.hkexnews.hk
Place where copies of this report are available:	Secretariat to the Board of the Company

OTHER RELEVANT INFORMATION

Name and address of the accounting firm appointed	Ruihua Certified Public Accountants (LLP) No. 215, Xingye Road, Zhuhai, Guangdong Province, China
Name of signing accountants of the accounting firm appointed	Wang Shuyan, Li Encheng
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

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

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 2nd Meeting for the Eighth Session of the Board.

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

(1) Consolidated statement

<i>Amount denominated: RMB</i>			
		Adjusted Amount for the Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long-term Equity Investment)	Opening balance after adoption
2014	Opening balance before 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
		Adjustment for the Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long-term Equity Investment)	Opening balance after adoption
2013	Opening balance before 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

		Adjustment for the Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long-term Equity Investment)	Opening balance after adoption
2014	Opening balance before 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
		Adjustment for the Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Long-term Equity Investment)	Opening balance after adoption
2013	Opening balance before 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

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

Amount denominated: RMB'000

Items	2014	2013	Year-on-year change (%)	2012	2011	2010
Operating income	5,544,233.78	4,618,680.04	20.04%	3,943,525.31	3,162,915.29	2,726,718.90
Net profit attributable to shareholders of the Company	515,978.43	487,502.35	5.84%	441,671.52	359,369.88	418,180.83
Net profit attributable to the shareholders of the Company after deducting the extraordinary gain or loss	463,031.47	462,159.19	0.19%	396,190.25	341,610.16	392,186.22
Net cash from operating activities	717,393.89	439,986.53	63.05%	593,964.66	708,201.34	633,296.31
Total profit	652,025.03	628,940.45	3.67%	560,312.74	463,151.23	533,667.30

Items	At the end of 2014	At the end of 2013	Change compared with the end of last year (%)	At the end of 2012	At the end of 2011	At the end of 2010
Total assets	7,302,605.06	6,566,006.12	11.22%	5,633,753.96	4,602,908.98	3,661,991.63
Total liabilities	3,220,183.53	2,961,486.64	8.74%	2,453,634.71	1,591,291.15	1,022,841.04
Net assets attributable to the shareholders of the Company	3,696,516.57	3,344,648.58	10.52%	3,008,015.81	2,843,169.71	2,517,438.11
Share capital	295,721.85	295,721.85	0.00%	295,721.85	295,721.85	295,721.85
Shareholders' equity per share attributable to the shareholders of the Company	12.50	11.31	10.52%	10.17	9.61	8.51

PRINCIPAL FINANCIAL INDICATORS

Amount denominated: RMB

Items	2014	2013	Year-on-year Change (%)	2012	2011	2010
Basic earnings per share	1.74	1.65	5.45%	1.49	1.22	1.41
Diluted earnings per share	1.74	1.65	5.45%	1.49	1.22	1.41
Basic earnings per share after deducting extraordinary gain or loss	1.57	1.56	0.64%	1.34	1.16	1.33
Weighted average return on net assets (%)	14.66%	15.34%	A decrease of 0.68 percentage points	15.17%	13.41%	17.94%
Return on total equity attributable to shareholders of the Company (%)	13.96%	14.58%	A decrease of 0.62 percentage points	14.68%	12.64%	16.61%
Total equity attributable to shareholders of the Company to total assets ratio (%)	50.62%	50.94%	A decrease of 0.32 percentage points	53.39%	61.77%	68.75%

ITEMS AND AMOUNTS OF EXTRAORDINARY GAINS OR LOSSES

Items	2014	Amount denominated: RMB	
		2013	2012
Gains and losses from disposal of non-current assets (including those already written off in the provision for impairment of assets as provided)	-999,029.93	180,148.18	-69,242.34
Tax rebate or relief that is beyond the power or without official approval documents		362,000.00	
Government grants included in the profit or loss for the current period (save as those government grants closely associated to the operations of the Company, being entitled at a certain standard amount or certain level in accordance with the national standards)	66,827,495.36	38,842,657.52	42,064,456.38
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the effective hedging activities of the normal operations of the Company)	-1,497,131.42	499,437.51	18,086,042.35
Reversal of provision for impairment of receivables on the basis of individual impairment test			636,406.43
Other non-operating income and expenses apart from the above	1,688,027.35	-1,001,272.08	-435,271.79
Total extraordinary gains and losses (affecting gross profit)	66,019,361.36	38,882,971.13	60,282,391.03
Less: Effect on income tax	9,666,588.14	7,150,619.26	8,151,476.68
Effect on non-controlling interests (after tax)	3,405,813.53	6,389,185.80	6,649,649.17
Total	52,946,959.69	25,343,166.07	45,481,265.18

Note: Prepared according to the "Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No.1 – Extraordinary Gains or Losses" issued by CSRC.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Item	At the beginning of the year	Change in fair value for the year	Accumulated change in fair value in equity	Impairment provision for the year	Amount denominated: RMB		
					Amount purchased during the year	Amount sold during the year	At the end of the year
Financial assets							
1. Financial assets at fair value through profit or loss for the current period (excluding derivative financial assets)	11,335,125.54	-4,911,553.77	-	-	-	-	6,423,571.77
2. Derivative financial assets	-	-	-	-	-	-	-
3. Available-for-sale financial assets	92,294,668.60	-	-38,317,044.94	-	93,254,995.09	5,829,845.76	141,402,772.99
Sub-total for financial assets	103,629,794.14	-4,911,553.77	-38,317,044.94	-	93,254,995.09	5,829,845.76	147,826,344.76
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	103,629,794.14	-4,911,553.77	-38,317,044.94	-	93,254,995.09	5,829,845.76	147,826,344.76
Financial liabilities	-	-	-	-	-	-	-



Mr. Zhu Baoguo

Dear shareholders,

In 2014, as the world economy continuously recovered and people's living standard constantly improved, the medical expenses were increasing, making the global medical market bigger than ever. This has come along with continuous growth in the export of medical products from China and prosperous development of the pharmaceutical industry in China. At the same time, the new round of national medical reform unveiled new opportunities and challenges for the industry. Under the Company's sustainable development strategy boasting research innovation and market orientation, the Company actively deepened its reform in respect of the marketing mechanism and improved the research system and the Group's governance mode, thereby delivering continuous growth in its operating results.

Chairman of the Board
Mr. Zhu Baoguo

2014 REVIEW

During the reporting period, the operating income of the Group was RMB5,544,230,000, representing year-on-year growth of 20.04%. The net profit was RMB553,620,000, showing year-on-year growth of 5.66%, and the net profit attributable to the shareholders of the Company was RMB515,980,000, registering year-on-year growth of 5.84%.

Based on the operating results of the Group for 2014, taking into account the overall financial position and cash flow of the Group, the Board of the Company proposed the 2014 Annual Profit Distribution Plan as follows: to distribute cash dividend of RMB1 (including taxes) for every 10 shares held to all shareholders of the Company and make a bonus issue by way of capitalizing our capital reserve on the basis of 3 shares for every 10 shares held to all shareholders of the Company. The 2014 Annual Profit Distribution Plan is subject to shareholders' approval at the 2014 Annual General Meeting of the Company.

The year of 2014 has witnessed several milestones that prompted the strategic development of Livzon. Firstly, the Company's H Shares were listed on the main board of the Hong Kong Stock Exchange at the beginning of the year, thus connecting the Company to an international platform for financing and capital utilization. Secondly, one type of monoclonal antibodies, namely AT132, started the first phase of clinical test, representing a big and fast stride towards in the Company's road of converting to a biopharmaceutical corporation. Thirdly, the Company implemented the first Equity Incentive Scheme for the management after its listing, thus optimizing the internal management incentive system and stimulating the initiative and passion of our management.

As the Company further implemented the marketing reform, the synergy effect of developing several key products simultaneously started to take effect. Meanwhile, the improvement in the production process of preparation drugs and the continuous upgrading and introduction of environmental facilities helped the Company to go from strength to strength in terms of production quality management. With the management principle of "streamlining mechanism, delegating power, strengthening risk management and supporting front-line staff" proposed by the new management of the Group, the Company was endowed with enhanced competitiveness and creativity.

The Company Management Team



Mr. Tao Desheng
Vice Chairman, President



Mr. Yang Daihong
Executive Directors,
Vice President



Mr. Fu Daotian
Executive Directors,
Vice President



Mr. Xu Guoxiang
Vice President



Mr. Lu Wenqi
Vice President



Ms. Si Yanxia
Vice President,
Chief Financial Officer



Mr. Yang Liang
Company Secretary

PROSPECTS

2015 is a significant year for the Group as it is our 30th anniversary. Looking back our history for 30 years, no single achievement and milestone has come easily.

It has been more important that the Group has stuck to its sustainable development strategy boasting research innovation and market orientation for the sake of delivering stable growth. Since 2002 when Joincare invested in the Group, the size of the Group increased by 5 times. Financial indicators showed that the earnings per share of the Group for 2014 boosted by 10 times when compared with that of 2001 and the net profit of the Group for 2014 also increased by 8 times when compared with that of 2001. We are way more than pleasant to see such achievement that we have made so far. However, the above is only a comparison within the Group. When comparing with our peers in the industry from another aspect, we still notice gaps do exist in respect of research, development, sales and promotion, which are, of course, our focus of development for the next stage.

It is worth mentioning that the penetration of mobile Internet into the economy is influencing our thinking, lifestyle and ways of doing business. The combination of on-line and off-line medical marketing has already made its debut. We will embrace such transformation with an open mind, and plan ahead of, and act early amid, the development trend of the industry. When changes come, we will be well-positioned and be able to react with full preparation. Standing on a new historical point, it is reasonable for us to be confident that Livzon will only grow prosperously in its fourth decade.

With Internet thoughts, we will strive to develop our business with an international vision, enabling us to become the leader of the industry and realizing our vision of "Livzon, Cultivate Nourished Lives!"

My gratitude goes to all shareholders, members of the Board and the management, all staff members and business partners of the Group.

Zhu Baoguo

Chairman of the Board

23 March 2015



丽珠医药集团股份有限公司
Livzon Pharmaceutical Group Inc.

精彩历程

THANK YOU FOR

感谢有您

BEING WITH US

MANAGEMENT DISCUSSION AND ANALYSIS

Operating activities

During the Year, there was no change to the core business of the Group. The Group is primarily engaged in 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 Mouse Nerve Growth Factor for Injection (麗康樂); bulk medicines and intermediates such as Mevastatin (美伐他汀), Colistin (硫酸粘菌素), Phenylalanine (苯丙氨酸), Ceftriaxone Sodium (頭孢曲松鈉); 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)).

Business review

During the Year, the Group reported an operating income of RMB5,544.23 million, representing an increase of 20.04% as compared with RMB4,618.68 million of the previous year. Net profit was RMB553.62 million, representing an increase of 5.66% over RMB523.99 million of the previous year. Net profit attributable to shareholders of the Company was RMB515.98 million, up by 5.84% as compared with RMB487.50 million of the previous year. Excluding extraordinary gains and losses, the Company's net profit attributable to its shareholders generated from principal activities in 2014 was RMB463.03 million, representing an increase of 0.19% when compared with RMB462.16 million of the previous year.

Segmental information

The Group has been operating in one single operating segment in the PRC, which is pharmaceutical manufacturing. Hence, the Group did not state the information of operating segments.

MAIN PRODUCTS



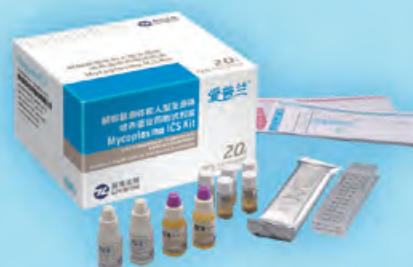
Qianlie Suppository



Ilaprazole Enteric Coated Tablets



Leuporelin Acetate Microspheres for Injection



Mycoplasma ICS Kit



Shenqi Fuzheng Injection



Anti-HIV Elisa Kit



Urofollitropin for Injection



Mouse Nerve Growth Factor for Injection



Anti-viral Granules



Bismuth Potassium Citrate Granules

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Analysis of Principal Activities

Operating income and costs of principal activities

		<i>Amount denominated: RMB</i>					
		Operating income in 2014	Operating costs in 2014	Gross profit margin in the year (%)	Year-on-year change in operating income (%)	Year-on-year change in operating costs (%)	Year-on-year change in gross profit margin (%)
By sector							
Western drug preparation products	Gastrointestinal	431,037,680.54	48,309,794.40	88.79%	20.17%	17.58%	Up by 0.25 percentage points
	Cardio-cerebral vascular	156,759,171.09	37,145,130.55	76.30%	5.86%	5.13%	Up by 0.16 percentage points
	Antibiotics	336,583,358.97	81,528,860.24	75.78%	20.55%	13.33%	Up by 1.55 percentage points
	Gonadotropic hormones	750,123,661.00	268,389,602.81	64.22%	23.88%	31.38%	Down by 2.04 percentage points
	Others	450,784,204.64	82,342,408.68	81.73%	44.92%	9.26%	Up by 5.96 percentage points
Chinese drug preparation products		1,739,731,105.27	372,565,292.41	78.58%	4.87%	12.36%	Down by 1.43 percentage points
Bulk medicines and intermediates		1,139,189,704.02	984,279,668.37	13.60%	42.65%	38.01%	Up by 2.91 percentage points
Diagnostic reagents and equipment		440,787,403.63	193,250,926.60	56.16%	19.54%	18.64%	Up by 0.33 percentage points
Others		11,215,684.96	16,019,948.82	-42.84%	-72.40%	-9.37%	Down by 99.33 percentage points
Total		5,456,211,974.12	2,083,831,632.88	61.81%	19.41%	26.04%	Down by 2.01 percentage points
By product							
Shengqi Fuzheng Injection		1,311,116,228.83	214,037,211.46	83.68%	2.62%	10.92%	Down by 1.22 percentage points
By region							
Domestic		4,979,167,204.77	1,682,696,490.71	66.21%	17.78%	22.45%	Down by 1.28 percentage points
Overseas		477,044,769.35	401,135,142.17	15.91%	39.48%	43.72%	Down by 2.48 percentage points
Total		5,456,211,974.12	2,083,831,632.88	61.81%	19.41%	26.04%	Down by 2.01 percentage points

During the Year, the Group's principal activities generated an operating income of RMB5,456.21 million, representing an increase of RMB886.82 million or 19.41% as compared with RMB4,569.39 million of the previous year. Among which, the sales growth in bulk medicines and intermediates was significant and recorded a year-on-year increase of 42.65%. The increase in sales of those products has primarily reflected the continuous improvement in product quality of the Company as well as ongoing enhancement of market competitiveness.

During the Year, the Group's operating costs of principal activities amounted to RMB2,083.83 million, representing an increase of RMB430.49 million or 26.04% as compared with RMB1,653.34 million of the previous year, which was mainly due to a rise in sale raw materials of proportion of bulk medicines and intermediates with lower profit margins, coupled with a shortage in raw materials of certain hormone-kind products resulting in an increase in costs.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Analysis of Principal Activities** *(continued)***Operating income of principal activities by regions**

Regions	Amount incurred for the Year		<i>Amount denominated: RMB</i> Amount incurred for last year	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	4,979,167,204.77	1,682,696,490.71	4,227,365,211.44	1,374,235,382.17
Overseas	477,044,769.35	401,135,142.17	342,022,777.22	279,108,729.89
Total	5,456,211,974.12	2,083,831,632.88	4,569,387,988.66	1,653,344,112.06

Major customers and suppliers

During the Year, the sales to the five largest customers contributed to 7.51% (2013: 7.56%) of the total operating income of the Group, while the purchases from the five largest suppliers of the Group contributed to approximately 33.84% (2013: 27.39%) of the Group's total purchase of raw materials.

Major Suppliers of the Company for the Year

Total purchase amount from top five suppliers (RMB)	539,560,964.47
Percentage of purchase amount from top five suppliers to annual total purchase (%)	33.84%

Top Five Suppliers of the Company for the Year

No.	Name of supplier	Purchase amount (RMB)	Percentage of purchase amount to annual total purchase (%)
1	First	224,993,163.26	14.11%
2	Second	100,581,806.66	6.31%
3	Third	96,164,161.77	6.03%
4	Fourth	65,780,348.18	4.13%
5	Fifth	52,041,484.60	3.26%
Total		539,560,964.47	33.84%

Note: The information in this table is based on the purchase for principal business activities.

The largest supplier to the Company, Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司) ("Jiaozuo Joincare") is a wholly-owned subsidiary of Joincare, therefore Mr. Zhu Baoguo, the Chairman of the Board, is deemed to be interested in Jiaozuo Joincare. For details of such interests, please see chapter IX "changes in shareholdings of directors, supervisors and senior management" of this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Analysis of Principal Activities *(continued)*

Expenses

During the Year, the Group's three major expense items (selling expenses, administrative expenses and financial expenses) amounted to RMB2,693.37 million, representing an increase of RMB460.41 million or 20.62% year-on-year. Details are as follows:

Items	2014	2013	Amount denominated: RMB
			Year-on-year change (%)
Selling expenses	2,208,218,745.28	1,810,747,376.60	21.95%
Administrative expenses	464,522,751.34	437,293,065.57	6.23%
Financial expenses	20,631,590.86	-15,076,696.90	236.84%

- (1) Selling expenses rose by 21.95% year-on-year, mainly due to putting more efforts in market development;
- (2) Administrative expenses rose by 6.23% year-on-year, mainly due to the increase of investment in research and development for new products; and
- (3) Financial expenses rose by 236.84% year-on-year, affected mainly by a decrease in capitalised interests and an increase in cost interests as a result of constructions in process gradually converted into fixed assets, changes in exchange rates leading to a higher exchange loss, etc.

During the Year, the total income tax expenses were RMB98.40 million, representing a decrease of RMB6.55 million or 6.24% year-on-year, mainly due to an increase in tax credits and the recognition of some deductible tax losses, which were expected to be recoverable, as deferred tax assets.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Analysis of Principal Activities** *(continued)***Research and development expenditure**

During the Year, the Group's expenditures related to research and development amounted to RMB290.02 million (2013: RMB233.06 million), representing an increase of 24.44% year-on-year. The amount accounted for approximately 7.85% of net assets attributable to shareholders of the Company and approximately 5.23% of the Group's total operating income for the Year.

The analysis of overall progress of the Group's research and development by field during the Year is set out below: in respect of chemical drug and Chinese drug preparation products, a total of 15 projects began preclinical studies with formal registration, 8 projects were reported to competent authorities for preclinical studies, 3 projects were undergoing clinical studies and 8 projects were reported to competent authorities for production; in respect of biomedicine, Livzon MAB had a total of 4 projects for preclinical studies, 2 projects were reported to competent authorities for preclinical studies, 1 project was undergoing clinical studies and 4 outstanding overseas science experts were recruited; in respect of vaccine division, a production registration was made; in respect of diagnostic reagent, 11 laboratory researches were done, of which 2 had its clinical studies completed and were ready for registration, 3 were undergoing registration procedures and 3 obtained registration certificates.

The progress of major research and development projects during the Year is set out below: (1) chemical and Chinese drug preparation products: the phase II clinical research of Ilaprazole Sodium Injection project was completed and the phase III clinical test was begun; Ilaprazole enteric-coated tablets (for new indication), dantrolene sodium, sodium hydrochloride pramipexole sustained-release tablets, high purity HMG for injection, blonanserin tablets, acarbose tablets and clopidogrel bisulfate tablets completed the filing for production; for the Sanhuafen Injection project, the phase IIa clinical trial proposal was prepared, testing samples for clinical trials were available, an ethical meeting was convened and the phase IIa clinical trial was about to begin; (2) biopharmaceutical drug preparation products: the phase Ia clinical trial of Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody for Injection was completed and the recruitment of human test subjects for phase Ib clinical trial was done simultaneously; for the recombinant biosimilar human chorionic gonadotropin (rhCG) project, with its preclinical studies and clinical drug production completed, the clinical application was submitted and on-site review was done; for the anti-CD20 biosimilar monoclonal antibody project, with its preclinical studies and clinical drug production completed, clinical application was being fine-tuned; the professional assessment of the production registration of Encephalitis B Vaccine (Vero cells) was completed and was pending for the conclusion from CDE ((Center for Drug Evaluation) of China Food and Drug Administration); (3) diagnostic reagents: both of HIV fluorescence quantitative PCR reagents and adenovirus gold standard rapid reagent were developed and their clinical trials were completed; they were undergoing registration; the clinical trials for both of B19 virus IgM enzyme-linked immune detection reagent and B19 virus IgG enzyme-linked immune detection reagent were completed and they were ready for registration; for MYCOII IgM antibody fast-testing reagent, the registration certificate was granted and commercial production was commenced; for hepatitis C virus enzyme-linked immune detection reagent, the registration certificate was granted and commercial production was ready.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Analysis of Principal Activities *(continued)*

Research and development expenditure *(continued)*

The major technical prizes and subsidies awarded or granted to the Group during the Year are set out below:

In 2014, a book named "Digital Exploration of Traditional Chinese Medicine 2 - Research on Market Response of Shenqi Fuzheng Injection" (《數字化中藥探索2-參芪扶正注射液上市後在評價研究》) was published by the Group; the project of "R&D and Commercialisation of Innovative Ilaprazole series (原創新藥艾普拉唑的研發與產業化)" won a first class prize in Guangdong Province Technological Advancement in 2013, which is the second award following the one granted for Shenqi Fuzheng Injection (參芪扶正注射液) in 2009; the project of "Technological Invention and Application of Anti-viral Granules in Fighting Against Emerging Infectious Diseases (抗病毒顆粒抗新發傳染性疾病的技術發明及其應用)" was awarded a first class technology prize by the China Association of Chinese Medicine in 2014, anti-viral granule products won a third class prize in Guangdong Province Technological Advancement in 2013 and the project of "Technological Invention and Applications of Anti-viral Granules in Fighting Against Emerging Infectious Diseases (抗病毒顆粒抗新發傳染性疾病的技術發明及其應用)" was also awarded a first class prize in technological achievement by the China Association of Chinese Medicine in 2014; the Group's tender submission for a Guangdong and Hong Kong cooperation project known as "Studies on Industrialisation of Chinese Injection Medicine (《中藥注射劑產業化研究》)" went through the inspection and acceptance procedures and was awarded a first class prize in Zhuhai City Technology Advancement in 2014.

In respect of government subsidies, the Ilaprazole project was regarded as a 2014 major project in the 12th Five Year Plan by the Ministry of Technology of China and received government subsidies amounted to RMB3,270,000; the project of "Development of Technological Platform for Long-acting Release Microspheres and R&D and Commercialisation of Related New Products (長效緩釋微球技術平台建設及新品種研發及產業化)" was also approved and granted subsidies of RMB3,000,000 by the government; the annual review for the project of "Production Facilities for the GAP Commercialisation of Astragalus (《黃芪GAP基地建設》)" by the Ministry of Industry and Information Technology of China was completed and the project was granted revolving government subsidies of RMB3,500,000; the application of the project of "2014 Trial Concentrations of Strategic Emerging Industries in Guangdong Province (2014年度廣東省戰略性新興產業區域集聚試點)" was completed and subsidies amounted to RMB22,000,000 were granted.

During the Year, for intellectual rights and international authorisations, the Group applied for a total of 37 domestic invention patents and 1 foreign invention patent, and obtained 18 domestic and foreign invention patent authorisations. The Group was granted subsidies of RMB179,200 for 2 domestic and foreign patents and 7 design patents, and was granted two trademark registration certificates. It completed the renewal of 30 domestic and foreign registered trademarks and filed 12 trademark licenses.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Analysis of Financial Conditions****Material changes in assets**

	At the end of 2014		Amount denominated: RMB		
	Amount	Percentage in total assets (%)	At the end of 2013 Amount	Percentage in total assets (%)	Year-on-year change (%)
Financial assets at fair value (the change of which is included in the profit or loss for the current period)	6,423,571.77	0.09%	11,335,125.54	0.17%	-43.33%
Other receivables	52,132,444.90	0.71%	39,477,295.95	0.60%	32.06%
Inventories	847,479,822.39	11.61%	641,649,965.85	9.77%	32.08%
Available-for-sale financial assets	141,402,772.99	1.94%	92,294,668.60	1.41%	53.21%
Fixed assets	2,943,569,643.19	40.31%	1,976,910,773.96	30.11%	48.90%
Construction in progress	561,716,329.53	7.69%	1,082,419,104.88	16.49%	-48.11%
Construction supplies	121,472.17	0.00%	481,529.20	0.01%	-74.77%
Long-term deferred expenses	25,569,660.19	0.35%	13,914,408.10	0.21%	83.76%
Deferred tax assets	65,254,992.11	0.89%	50,190,408.52	0.76%	30.01%

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

- (1) Financial assets measured at fair value (the change of which is included in the profit or loss for the current period) decreased by 43.33% year-on-year, which was mainly attributable to the fluctuation of market value of the financial assets measured at fair value (the change of which is included in the profit or loss for the current period);
- (2) Other receivables increased by 32.06% year-on-year, which was mainly attributable to the increase of reserved fund contribution and the increase of export tax rebates receivables;
- (3) Inventories increased by 32.08% year-on-year, which was mainly attributable to the stocking of some manufacturers due to, among others, the GMP certification;
- (4) Available-for-sale financial assets increased by 53.21% year-on-year, which was mainly attributable to the increase of equity investment;
- (5) Fixed assets increased by 48.90% year-on-year, which was mainly attributable to the transfer of investment in construction project into fixed assets;
- (6) Construction in progress decreased by 48.11% year-on-year, which was mainly attributable to the transfer of investment in construction project into fixed assets;
- (7) Construction supplies decreased by 74.77% year-on-year, which was mainly attributable to the decrease of construction supplies for use;
- (8) Long-term deferred expenses increased by 83.76% year-on-year, which was mainly attributable to the increase of expenses on office renovation; and
- (9) Deferred tax assets increased by 30.01% year-on-year, which was mainly attributable to the increase of deductible temporary difference arising from the fair value change of available-for-sale financial assets, and the recognition of some deductible tax losses, which were expected to be recoverable, as deferred tax assets.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Analysis of Financial Conditions** *(continued)***Material changes in liabilities**

	At the end of 2014		Amount denominated: RMB		
	Amount	Percentage in total assets (%)	At the end of 2013 Amount	Percentage in total assets (%)	Year-on-year change (%)
Accounts payables	598,748,939.78	8.20%	435,966,092.72	6.64%	37.34%
Tax payables	33,211,993.26	0.45%	89,414,763.31	1.36%	-62.86%
Dividends payables	5,049,329.12	0.07%	2,531,984.46	0.04%	99.42%
Long-term borrowings	66,500,000.00	0.91%	149,900,000.00	2.28%	-55.64%
Deferred tax liabilities	7,241,263.39	0.10%	2,834,136.62	0.04%	155.50%

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

- (1) Accounts payables increased by 37.34% year-on-year, which was mainly attributable to the growth of sales, expansion of production scale and increase of purchases;
- (2) Tax payables decreased by 62.86% year-on-year, which was mainly attributable to the increase of prepaid enterprise income tax;
- (3) Dividends payables increased by 99.42% year-on-year, which was mainly attributable to a portion of dividends distributed this year was unpaid;
- (4) Long-term borrowings decreased by 55.64% year-on-year, which was mainly attributable to the repayment of some long-term borrowings; and
- (5) Deferred tax liabilities increased by 155.50% year-on-year, which was mainly attributable to the increase of time difference of tax payables, which resulted in the increase of deferred tax liabilities recognized.

Debt ratio

As at 31 December 2014 and 31 December 2013, the debt ratios were calculated by dividing the Group's total liabilities at each respective date by the total assets. The Group's debt ratio decreased to 44.10% as at 31 December 2014 from 45.10% as at 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Analysis of Financial Conditions** *(continued)***Material changes in income statement items**

	At the end of 2014		<i>Amount denominated: RMB</i>		
	Amount	Percentage in total assets (%)	At the end of 2013 Amount	Percentage in total assets (%)	Year-on-year change (%)
Financial expenses	20,631,590.86	0.28%	-15,076,696.90	-0.23%	236.84%
Gain from changes in fair value	-4,939,260.57	-0.07%	-1,236,410.63	-0.02%	-299.48%
Investment income	8,223,836.93	0.11%	4,539,511.05	0.07%	81.16%
Non-operating income	70,113,415.16	0.96%	43,108,434.91	0.66%	62.64%
Non-operating expenses	2,596,922.38	0.04%	4,724,901.29	0.07%	-45.04%

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

- (1) Financial expenses increased by 236.84% year-on-year, which was mainly attributable to the impact from a decrease in capitalised interests and an increase in cost interests as a result of constructions in process gradually converted into fixed assets, changes in exchange rates leading to a higher exchange loss, etc.;
- (2) Gain from changes in fair value decreased by 299.48% year-on-year, which was mainly attributable to the lower market value of stocks held at the end of this year as compared to that of last year;
- (3) Investment income increased by 81.16% year-on-year, which was mainly attributable to the increase of income from disposals of some available-for-sale financial assets;
- (4) Non-operating income increased by 62.64% year-on-year, which was mainly attributable to the increase of government grant received; and
- (5) Non-operating expenses decreased by 45.04% year-on-year, which was mainly attributable to the decrease of donation expense this year as compared to that of last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Analysis of Financial Conditions** *(continued)***Material changes in cash flow items**

	At the end of 2014		Amount denominated: RMB		
	Amount	Percentage in total assets (%)	At the end of 2013 Amount	Percentage in total assets (%)	Year-on-year change (%)
Net cash flows from operating activities	717,393,893.55	9.82%	439,986,525.69	6.70%	63.05%
Sub-total of cash inflows from investing activities	29,024,256.39	0.40%	54,459,643.16	0.83%	-46.71%
Net cash flows from financing activities	-20,882,108.37	-0.29%	7,766,397.47	0.12%	-368.88%
Net increase in cash and cash equivalents	-41,814,307.14	-0.57%	-427,707,567.21	-6.51%	90.22%

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

- (1) The increase of net cash flows from operating activities by 63.05% year-on-year was mainly attributable to the increase of sales receipts this period;
- (2) The decrease of sub-total of cash inflows from investing activities by 46.71% year-on-year was mainly attributable to cash realised from disposal of most of the financial assets held for trading last year, which has not taken place for the Year;
- (3) The decrease of net cash flows from financing activities by 368.88% year-on-year was mainly attributable to the decrease of funds financed this year as compared to that of last year; and
- (4) 90.22% of net increase in cash and cash equivalents year-on-year was mainly attributable to the increase of net cash flows from operating activities.

Liquidity and financial resources

As at 31 December 2014, the Group's cash at bank and on hand amounted to RMB715.71 million (31 December 2013: RMB761.04 million).

As at 31 December 2014, the Group's borrowings from banks amounted to RMB742.42 million (31 December 2013: RMB640.98 million), accounting for 10.17% of total assets (31 December 2013: 9.76%), of which short-term borrowings to mature within one year amounted to RMB675.92 million (31 December 2013: RMB491.08 million), accounting for 9.26% of total assets (31 December 2013: 7.48%) and long-term borrowings to mature after one year amounted to RMB66.50 million (31 December 2013: RMB149.90 million), accounting for 0.91% of total assets (31 December 2013: 2.28%). Repayments of borrowings denominated in RMB and borrowings denominated in Hong Kong dollars during the Year amounted to RMB732.60 million and HK\$548.16 million, respectively.

The Group's debt ratio is calculated by dividing the Group's total liabilities at each respective date by its total assets. The debt ratio of the Group decreased from 45.10% as at 31 December 2013 to 44.10% as at 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Analysis of Financial Conditions** *(continued)***Capital structure**

The Group's capital structure comprises shareholders' equity and liabilities. As at 31 December 2014, the shareholders' equity amounted to RMB4,082.42 million, the total liabilities amounted to RMB3,220.18 million and total assets amounted to RMB7,302.60 million. Among which, the current liabilities of the Group amounted to RMB2,669.17 million (31 December 2013: RMB2,329.68 million), which increased by 14.57% from the end of previous year; the long term liabilities amounted to RMB551.01 million (31 December 2013: RMB631.81 million), which decreased by 12.79% from the end of previous year. During the Year, the Group repaid liabilities of RMB1,167.40 million (31 December 2013: RMB1,235.16 million).

Equity attributable to shareholders of the Company amounted to RMB3,696.52 million (31 December 2013: RMB3,344.65 million), which increased by 10.52% from the end of previous year. Minority interests of the Group amounted to RMB385.90 million (31 December 2013: RMB259.87 million), which increased by 48.50% from the end of previous year.

Currency structure

Item	At the end of 2014 (31 December 2014)			<i>Amount denominated: RMB</i> At the end of 2013 (31 December 2013)		
	Foreign currency amount	Translation rate	Amount in RMB	Foreign currency amount	Translation rate	Amount in RMB
Cash on hand:						
–RMB	–	–	177,881.98	–	–	176,402.83
Bank deposits:			708,388,606.07			747,677,597.88
–RMB	–	–	679,527,879.52	–	–	694,716,070.22
–HK dollar	7,018,811.61	0.78887	5,536,929.91	39,298,550.07	0.78623	30,897,699.02
–U.S. dollar	2,593,865.03	6.119	15,871,860.12	2,969,157.58	6.0969	18,102,656.85
–Japanese Yen	105,263,476.00	0.051371	5,407,490.03	47,462,411.00	0.057771	2,741,950.95
–Euro	28,511.82	7.4556	212,572.73	24,046.87	8.4189	202,448.19
–MOP	2,357,320.50	0.7771	1,831,873.76	1,339,974.50	0.7588	1,016,772.65
Other monetary fund:			7,139,115.75			13,190,134.83
Total			715,705,603.80			761,044,135.54

Interest rate

As at 31 December 2014, total interest-bearing bank borrowings and other borrowings were RMB441.72 million (2013: RMB491 million), among which RMB375.92 million was carried out variable interest rate and RMB65.80 million was carried out fixed interest rate.

As at 31 December 2014, the Group issued 3-year mid-term notes with an aggregate amount of RMB400.00 million and 270-day super short-term financing bills with an aggregate amount of RMB300.00 million, both with fixed-interest rate.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Analysis of Financial Conditions** *(continued)***Ageing analysis of outstanding liabilities**

	<i>Amount denominated: RMB '000,000</i>	
	31 December 2014	31 December 2013
Within one year	1,028.94	867.26
1-2 years	465.80	—
2-5 years	—	549.20
Over 5 years	0.70	0.70
Total	1,495.44	1,417.16

Capital commitments

As at 31 December 2014, the Group's capital commitments contracted in relation to the purchase of long-term assets amounted to RMB218.29 million (31 December 2013: RMB276.17 million).

Bank borrowings and other borrowings

Details of the bank borrowings and other borrowings of the Company and the Group as at 31 December 2014 are set out in Notes VI. 18, 19, 20, 27, 28, 29 and 30 to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises.

Issue of super short-term financing bills

During the Year, for the purposes of satisfying capital requirement and optimising financing structure, the Company issued the 2014 first tranche of super short-term financing bills on 22 September 2014 with par value of RMB300 million with a term of 270 days and an interest rate of 5.16% which accrues from 23 September 2014, and the payment due date is 20 June 2015 with non-recurring repayment with interests at the maturity date. This tranche of super short-term financing bills were issued to institutional investors in the domestic interbank debenture market (excluding purchasers prohibited by the national laws or regulations). This tranche of super short-term financing bills was available for trading and transfer among domestic interbank debenture market institutional investors on the business day following the registration date.

Gearing ratio

As at 31 December 2013 and 31 December 2014, the gearing ratios were calculated by dividing the Group's total debts as at each respective date by shareholders' equity. The gearing ratio was 39.31% as at 31 December 2013 and decreased to 36.63% as at 31 December 2014.

Interest expenses and capitalisation

	<i>Amount denominated: RMB</i>	
	2014	2013
Interest expenses	26,855,257.66	9,063,185.39
Capitalised interest	32,627,626.68	41,723,173.32
Total interest expenses	59,482,884.34	50,786,358.71

Foreign exchange risks

Details of foreign exchange risks of the Group are set out in Note IX – Risks associated with the financial instruments to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises.

Contingent liabilities

As at 31 December 2014, the Group had no significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Analysis of Financial Conditions** *(continued)***Pledge of assets**

As at 31 December 2014, the Group's pledged assets under restrictions were as follows:

	31 December 2014 (RMB)	Reasons for restriction
Assets pledged:		
Other cash fund	69,091.76	Deposits under guarantees for letters of credit
Other cash fund	6,522,085.87	Deposits for bank acceptance bills
Total	6,591,177.63	

Staff, Remuneration and Pension Scheme

As at 31 December 2014, the Group had 5,544 staff (31 December 2013: 5,058 staff). During the Year, the total wages, bonuses, allowances, compensation, welfare, housing funds and social insurance paid to the employees by the Group amounted to RMB442.16 million (31 December 2013: RMB374.31 million). Remuneration of our staff was determined by the Group based on the State policies and linked to the Company's performance with reference to general remuneration level in the society.

During the Year, there was no change in the employees remuneration policies and training programs. The employees of the Group participated in the social basic pension insurances organized by local labor and social security authorities. Upon retirement, the employees are entitled to the payment of social basic pensions from local labor and social security authorities. The Group is required to contribute certain social basic pension insurance fees for the employees at a specified rate of the employees' salaries to fund the pension benefits. The sole obligation of the Group with respect to the contribution of social basic pension insurance fees for the employees is to make the required contributions under the scheme. There was no change in the details of the pension welfare. During the Year, the Group charged RMB32.79 million as social basic pension insurance fees in the income statement.

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) 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.

On 24 September 2014, Livzon MAB entered into an "Exclusive License and Collaboration Agreement" with Epirus in respect of cooperation in research, development, manufacturing and commercialization of products within mutually agreed scopes to implement exclusive collaboration in joint development and global commercialization of a biosimilar infliximab and other 4 types of Monoclonal Antibodies or related biological compounds. Livzon MAB would be the most preferred supplier of the said 5 collaborative products in the PRC, Hong Kong, Macau and Taiwan and jointly responsible to commercialize these products in these regions.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Core competitiveness analysis

During the Year, the Group's core competitiveness was primarily reflected in the following aspects:

- (1) Diversified product mix and core products with leading market share. The Group's products cover a variety of pharmaceutical sectors, including drug preparation products, bulk medicines and intermediaries as well as diagnostic reagents and equipment. It has had a relatively comprehensive and strategic balanced portfolio in segments of Chinese traditional anti-tumor auxiliary medicine, assisted reproduction, gastrointestinal drugs and others, which provides a rather strong competitiveness in the industry. The Group also actively extends its reach into biomedicine field with a focus on monoclonal antibodies. Thanks to its diversified product portfolio and its strengths in patents on and quality of key products, the Group can overcome periodic fluctuation and also diversify risks, putting the Company at an advantageous position amid the reform of the industry.
- (2) Well established marketing network and relatively strong promotion capabilities. The Group has a well established, nationwide marketing network with a sales force of over 4,000 members for preparation drugs, bulk drugs and diagnostic reagents business. The network covers the majority of leading medical institutions, chain drugstores, pharmaceutical companies, disease control centers and health care authorities. The Group has a mature sales system that focuses on its own sales personnel with support from sales agents. The Group pays great attention to personnel, product and pharmaceutical coverage in our sales efforts. Additionally, the Group implements detailed management, resource integration, strict examination and multi-level incentives to continuously develop its sales team and strengthen its capabilities in marketing and sales so as to ensure steady growth in the Company's results.
- (3) Strong R&D capabilities and a global R&D vision. The Group has experienced research and development teams for chemical drugs, drug preparation products for traditional Chinese medicine, biopharmaceutical drugs and diagnostic reagents. Benefited from increasing R&D support and further optimised management and operation systems, they diligently pursue for technological advancement in the fields. Meanwhile, the Group is actively pushing forward its R&D strength in various segments by forming strategic alliances with overseas partners and attracting top innovative talents to join us. For instance, the Group's biopharmaceutical sector has recruited nine returned talents or experts with extensive experience in the biopharmaceutical field. Some of them have over 15 years working experience specialising in R&D and commercialization in global biopharmaceutical giants.
- (4) High-quality products and comprehensive quality management system. The Group's core products, namely Shenqi Fuzheng Injection, Ilaprazole Enteric-coated Tablets, anti-virus granules, Urofollitropin for Injection, Leuprolide and others, are all featured with their own features in safety, effectiveness and patented technologies, and have won numerous national, provincial and municipal technology awards. As of 31 December 2014, the Company has a total of 20 production lines for drug preparation products that passed the new GMP verification, 15 bulk medicines received the new GMP certification, 14 bulk medicines passed on-site inspections by the FDA to obtain FDA registration numbers; and four have passed the EU-GMP inspection and obtained CEP certificates.

Investment analysis

Outbound Investment

Outbound Investment		
Investment during the year (RMB)	Investment during the same period in the previous year (RMB)	Change in %
15,000,000.00	8,500,000.00	76.47%

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Investment analysis (continued)

Outbound Investment (continued)

Invested company		
Company	Main business	Share of equity owned by the listed company in the total equity of invested company (%)
Zhuhai Lihe Medical Diagnostic Product Company Limited (珠海麗禾醫療診斷產品有限公司)	Research, development and sales for type III in vitro diagnostic reagents, type III clinical testing instruments and diagnostic reagents, extracorporeal circulation and blood processing equipment, disinfection and sterilization equipment and apparatus, equipment and apparatus for operating room, emergency room and clinics room; type II optical equipment for medical use, instruments and endoscopic equipment; R&D and sales of medical polymer materials and products; R&D, production and sales of biologically active proteins, antigenic proteins, antibody protein, antigen ELISA protein and antibody ELISA protein; import and export business.	51.00%

Shareholdings in Financial Institutions

Company names	Company categories	Initial investment cost (RMB)	Number of shares held at the beginning of the year (Shares)	Percentage of shares held at the beginning of the year (%)	Number of shares held at the end of the year (Shares)	Percentage of shares held at the end of the year (%)	Carrying amount at the end of the year (RMB)	Profit or loss for the year (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		Financial assets held-for-sale	Investee company
Guangdong Development Bank Co., Ltd.	Commercial bank	177,348.84	68,854	0.0004%	68,854	0.0004%	177,348.84		Financial assets held-for-sale	Investee company
合計		95,503,108.84	85,004,854	-	85,004,854	-	75,503,108.84	-	-	-

Investment in Securities

Types of securities	Securities codes	Securities abbreviations	Initial investment cost (RMB)	Number of shares held at the beginning of the year (Shares)	Number of Shares held at the end of the year (Shares)	Carrying amount at the end of the year (RMB)	Profit or loss for the year (RMB)	Accounting items	Sources of shares
Shares	00135	Kunlun Energy	6,516,232.42	1,000,000	1,000,000	5,782,417.10	-4,985,191.50	Financial assets for trading	Purchased in market
Funds	206001	Penghua Fund	150,000.00	619,573	619,573	641,154.67	45,930.93	Financial assets for trading	Purchased in market
Total			6,666,232.42	1,619,573.00	1,619,573.00	6,423,571.77	-4,939,260.57	-	-

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

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Investment analysis** *(continued)***Shareholdings in other listed companies**

(1) Shareholdings in other listed companies by the year end

Amount denominated: RMB

Securities codes	Securities abbreviations	Initial investment amount	Proportion of shareholding in such company	Carrying amount at the end of the year	Profit or loss for the year	Change in the equity attributable to the owner for the year	Accounting items	Sources of shares
000963	Huadong Medicine	39,851.86	–	4,816,918.99	64,091.30	514,424.24	Available-for-sale financial assets	Investee
EPRS	Epirus	93,254,995.09	12.14%	54,332,745.16	–	-29,191,687.45	Available-for-sale financial assets	Investee
Total		93,294,846.95		59,149,664.15	64,091.30	-28,677,263.21	–	–

(2) Trading in the equity of other listed companies by the Company during the year:

Amount denominated: RMB

Stock name	Number of Shares held at the beginning of the year (Shares)	Number of Shares purchased during the year (Shares)	Number of Shares sold during the year (Shares)	Number of Shares held at the end of the year (Shares)	Fund utilized	Investment gain realized
Bank of Communications	1,518,189	0	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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Investment analysis (continued)

Analysis of Major Subsidiaries and Investee Companies

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

Amount denominated: RMB

Company names	Company categories	Industry	Major products or services	Registered capital	Total assets	Net assets	Net profits
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Subsidiary	Pharmaceutical	Principally engaged in production and sale of self-made chemical drugs, biochemical drugs, microbiological preparations, antibiotics, etc.	450,000,000.00	2,163,648,794.34	1,309,770,401.19	141,840,556.30
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in R&D, production and sale of traditional Chinese medicine, major products include Anti-viral Granules, Dexamethasone Oral Paste, etc.	149,000,000.00	630,723,547.77	567,309,401.60	90,047,696.80
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Subsidiary	Pharmaceutical	Principally engaged in production and operation of Chinese drug preparations and pharmaceutical raw materials, etc., major products include Shenqi Fuzheng Injection, Xueshuantong, etc.	61,561,014.73	723,192,591.55	467,014,592.21	102,854,627.68
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production of biochemical and polypeptide bulk medicines, major products include biochemical bulk medicines such as Human Menopausal Gonadotropin and Human Chorionic Gonadotropin.	87,328,900.00	247,078,637.99	169,258,861.90	42,129,177.68
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production and operation of chemical bulk medicines, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium, etc.	128,280,000.00	613,287,821.60	214,264,254.80	17,815,136.65
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Subsidiary	Pharmaceutical	Principally engaged in sale of bulk medicines, intermediate products and export of related technologies, major products include Pravastatin, Mevastatin, Salinomycin, etc.	134,925,200.00	371,836,894.22	253,750,795.52	29,353,091.08
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production of antibiotics bulk medicines, intermediate and drug preparation products and chemical raw materials for pharmaceutical production, major products include Colistin, Vancomycin, Phenylalanine, etc.	USD41,700,000.00	511,232,257.37	412,322,206.40	18,494,221.28

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Investment analysis *(continued)*

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

Company names	Company categories	Industry	Major products or services	Registered capital	Total assets	Net assets	Net profits
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Subsidiary	Pharmaceutical	Principally engaged in production and sale of diagnostic reagents, major products include Chlamydia Trachomatis Antigen Diagnostic Kit and ELISA HIV Testing Reagents Kit.	46,450,837.00	469,993,492.10	302,326,464.60	85,603,683.30
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Subsidiary	Pharmaceutical	Principally engaged in technological R&D for biopharmaceutical products and antibiotics.	500,000,000.00	314,553,681.00	292,432,635.02	-45,476,858.07
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Subsidiary	Pharmaceutical	Principally engaged in technological R&D for biopharmaceutical products and vaccines	65,000,000.00	30,356,175.19	13,823,041.36	-11,922,711.76

Significant investment projects not financed by fund raising

Amount denominated: million RMB

Project name	Planned total investment	Amount invested during the year	Accumulated actual investment amount as of the end of the year	Project status	Project revenue
Livzon (Ningxia) Pharmaceutical Group Industrial Park	724.00	3.28	723.78	Completed	-38.58
Relocation project of a new factory of Livzon Pharmaceutical Factory	887.23	41.79	885.80	Completed	This project is not audited seperately
Total	1,611.23	45.07	1,609.58	–	–

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Details of material investments and capital asset acquisition plan**

Save as disclosed in this report, during the year, the Group did not have any material investment or any material acquisition of subsidiaries and associated companies or any disclosable major event. The Group does not have any other future plan on material investments or capital assets.

Details of subsequent events with material impact on the Group

as at the date of this report, the Company has no material or contingent event that is required to be disclosed.

PROSPECTS FOR FUTURE DEVELOPMENT**Pharmaceutical industry development in 2015**

2015 is the last year of the 12th Five-Year Plan for Pharmaceutical Industry (《醫藥工業「十二五」發展規劃》). We will continue to see gradual increase in healthcare demand as a result of growing population, rapidly aging demographics, an improving medical security system, a stronger purchasing power and a rising awareness of personal health. The pharmaceutical industry is expected to continue to expand in 2015 but more efforts should be required to gain fruitful results as before, against the backdrop of slow-paced growth of overall economy, medical insurance cost controls as well as reforms in pricing of medicines and tender arrangements. Given the introduction of environment protection and resource conservation regulations, the increasing production cost and the downward price trend of drugs and the difficulties in developing new drugs, the development of the pharmaceutical industry is still facing quite a lot of difficulties and subject to many constraints.

Key opportunities and challenges and relevant solutions in 2015

In 2015, against the background of an expected upward trend, the pharmaceutical industry in China is faced with a number of uncertainties, such as anti-corruption campaigns, restrictions on medical insurance reimbursement, price-setting for medical insurance payment, changes to tender policies and so on. It is expected that the dropping drug prices will become normal. Above said, the Company keeps a close look at policy changes and new trends, makes use of new technologies and tool, innovates management modes and taps on the edges of its varied product portfolio and high product quality in an aim to expand its sales, improve market admission preparation work, implement strict control on quality, risks and costs. The Company also endeavors to build on competitiveness of its products, step up R&D efforts and gain new competitive advantages so as to establish a secured leading position with its core competitiveness in a changing market.

Future development strategy of the Company

The Company sticks to its long-term strategic goal of becoming a specialized pharmaceutical company with global competence in terms of manufacturing, technology and management as well as leading innovation capacity in China. In the next three years, under the requirement of its A Share Restricted Incentive Scheme, the Company will actively explore internal and external opportunities to further enlarge its sales volume and drives for continuous profit growth.

PROSPECTS *(continued)*

Business Plan

2015 is the first year for the Company to implement the share restricted incentive scheme. The Company will continue to enhance its management and control efficiency and governance quality with the management principal of “streamlining mechanism, delegation of power and strengthening of risk management”. The Company will consolidate its risk management mechanism across sales, R&D, manufacture and general administration, activate the wisdom and passion from all staff and ultimately guarantee the realization of year-end performance goals. The specific working plan for the Company in 2015 is as follows:

- (a) To deepen the reform on marketing modes and sales approaches, with an emphasis on sales team building

In 2015, the general guideline for bulk medicine sales is to coordinate with production. The key to the sales lies in production, i.e. low cost, good quality and high popularity in the market. The sales and production of preparation drugs and diagnostic reagents are supposed to be mutually enhanced so as to make full use of productivity, lower costs, increase sales and strengthen competitiveness. The Company will also strengthen the sales channel and personnel for prescription drugs and diagnostic reagents, establish and improve the differentiated sales approach for other sectors, innovate marketing promotion and sales management methods by using mobile internet platforms and new technologies, so as to strike a perfect balance between product resources and sales channel resources.

In respect of the job performance assessment of marketing staff, the Company will introduce a more scientific, standardized and systematic appraisal scheme to enhance the enthusiasm of sales personnel, and gradually optimize the system so that only the fittest will survive.

- (b) To actively promote specialized R&D technological platform with enhanced international cooperation to further develop core competitiveness

In 2015, the Company put more efforts in innovative research and development in drug preparation products, bulk medicine and diagnostic reagents to accelerate the development of new drugs, specialized bulk medicine and self-produced diagnostic reagents and the grant of approvals for existing product items. In building its core competitiveness, the Company pursues to consolidate international cooperation channels to facilitate the development of potential strategic products, improve R&D management system for every single field, control R&D costs, increase R&D efficiency, uplift R&D capacity and be abreast of the international standard.

The R&D planning is as follows: for drug preparation products, the Company upholds the idea of “quality product” and an international R&D vision when further developing existing key products. The Company will focus on setting up a platform for sustained release microspheres technology and monoclonal antibodies biopharmaceuticals, with continuous international cooperation for mutual development, patent registration, and international certification for manufacturing facilities, in order to establish a R&D and manufacturing system that completely live up to international standards. For bulk medicine, the Company will keep its “advantage” and “specialty” in developing and nurturing new potential products and let current productivity work in full swing. For diagnostic reagents and equipment, more efforts will be given to the R&D of self-developed products. It is estimated that there will be eight additional R&D projects coming up in 2015. For the R&D of diagnostic reagents and equipment, our strategy will be a combination of three approaches: independent R&D, cooperation and project acquisition. A new scientific research centre will be established in Shanghai.

PROSPECTS *(continued)***Business Plan** *(continued)*

- (c) To perform strict production management and quality control, strengthen risk management mechanism, upgrade “audit, supervise and improve” working system

Production and quality are the foundation for a pharmaceutical company, and will continue to be the focus of management in 2015. With the “audit, supervise and improve” management and control philosophy, the Company will continue to make use of its production quality audit, training programs and supervised adjustment to facilitate sound operation for the sake of eliminating systematic risks in respect of product quality and preventing EHS material incidents. The Group will perfect the supervision of production, sales management, technical support and EHS supervision, and will fully implement the EHS audit plan and the EHS veto system.

- (d) To strengthen financial management and minimize financial risks

For capital management, given the gradual decrease in investment in fixed assets and the stable cash inflow from operation, the Company will continue to utilize internet applications, like online banking, to further centralize our capital management and enhance the efficiency of fund application as well as the control of financial expenses in 2015. In respect of auditing and accounting, with the belief of “drawing sales by production” and the commitment to enhance the utilization rate of productivity, the Group formulates corresponding costs calculation and analysis methods to provide accurate operating cost data required for production in a timely manner. In financing, the Group will actively develop channels for ultra short-term loans, short-term loans, mid-term notes and corporate debts to work alongside with funding arrangement, including internal resource consolidation and outbound investment, in an effective way. In respect of financial team building, we will strengthen the training and appraisal of expatriate finance staff to help them play an active role in the Group’s management.

- (e) Taking the relocation of headquarter as an opportunity to strengthen function management and enhance internal management efficiency

In 2015, after the relocation of the plant, the headquarter will be entirely relocated to Livzon Industrial Park. While ensuring a smooth relocation, the Company will actively push forward the “3 old transformations” project as required by the government. In the Company’s functional headquarter, with the management principle of “streamlining mechanism, delegation of power and strengthening risk management”, each department of the Company will continue to work in streamlining the mechanism, delegating power, enhancing efficiency and supporting front-line staff. It will also explore scientific management approaches, adopt new management concepts and strengthen functional management.

The Group must have the proper understanding of and adopt the approach of “service-oriented management”, and strike a perfect balance among shareholders’ interests, employees’ rights and social responsibilities. We shall always consider that a corporation’s core competitiveness is derived from its manpower and lies in its services to individuals, thus the Company can satisfy the genuine needs of employees, front-line staff, markets and customers.

OTHER EVENTS

Reserves

Details of the amount and movements in the reserves of the Group during the Year are set out in the Consolidated Statement of Changes in Shareholders' Equity and Note VI.35 – Surplus reserve to the financial statements of this annual report.

Distributable Reserves

As at 31 December 2014, the distributable reserves of the Company calculated in accordance with China Accounting Standards for Business Enterprises amounted to RMB478 million (31 December 2013: RMB515 million).

Fixed Assets

Details of the movements in fixed assets during the Year are set out in Note VI.10 – Fixed assets to the financial statements in this annual report.

Connected/Related Party Transactions

Details of the connected/related party transactions are set out in the chapter headed “Major Events” in this annual report.

Management Contracts

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

AUDITORS

During the Year, the financial statements of the Company were audited by Ruihua Certified Public Accountants (LLP), and a standard unqualified audit report thereon was issued.

As for explanation of changes in accounting policies, accounting estimates and accounting methods as compared with the financial report of previous year, please refer to related contents in Section III “Changes of significant accounting policies, accounting estimates and correction to accounting errors” of this annual report.

There has been no change to the auditor of the Company in the last three years.

EXPLANATION TO THE CHANGE IN THE SCOPE OF CONSOLIDATED FINANCIAL STATEMENT COMPARED WITH THAT OF THE PREVIOUS YEAR

Company name	Date of registration	Registered capital	Nature of contribution	Amount denominated: RMB	
				Net assets by the year end	Profit for the year
Zhuhai Lihe Medical Diagnostic Product Company Limited (珠海麗禾醫療診斷產品有限公司)	21 May 2014	15,000,000.00	Cash	14,937,228.26	-62,771.74

PROPOSED PROFIT DISTRIBUTION PLAN

The Board has proposed a profit distribution plan for 2014 as follows: based on the Company's total share capital as at the registration date of shareholding determined by implementation of the 2014 Annual Profit Distribution Plan, to distribute cash dividend of RMB1.00 (tax inclusive) (the "Cash Dividend") for every 10 shares held to all shareholders of the Company and make a bonus issue by way of capitalizing our capital reserve on the basis of 3 shares for every 10 shares held (the "Bonus Issue") to all shareholders of the Company. Based on the total issued share capital of the Company of 295,721,852 shares as at the end of the Year, it is expected that the Company will pay about RMB29,572,185.20 on profit distribution, and will capitalize about RMB88,716,555.60 of its capital reserve for the bonus issue. All remaining undistributed profits and capital reserve will be carried forward to next year.

The above proposed dividend distribution is subject to the approval at the AGM. A circular containing, among other things, further information in respect of the AGM, the Cash Dividend and the Bonus Issue will be dispatched to the shareholders of the Company as soon as practicable.

Cash Dividend Distribution of the Company in Recent Three Years

Distribution years	Cash dividend amount (taxes inclusive)	Amount denominated: RMB	
		Net profit attributable to shareholders of the Company as stated in the consolidated financial statements for the year	Proportion of net profit attributable to shareholders of the Company as stated in the consolidated financial statements (%)
2014 (Proposed) <i>(Note)</i>	29,572,185.20	515,978,431.82	5.73%
2013	147,860,926.00	487,502,351.80	30.33%
2012	147,860,926.00	441,671,519.69	33.48%

Note: By now calculated on 295,721,852 shares of the Company in issue as at the end of the year.

TAXATION AND TAX RELIEF

Shareholders are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. The following cited laws, regulations and stipulations are all relevant provisions issued during the year ended 31 December 2014. Shareholders, if necessary, shall seek professional advice from their tax and legal advisors for advices relating to tax payment or its impact:

A Shareholders

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

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

H Shareholders

In accordance with the “Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法》) (the “CIT Law”) and the “Rules for the Implementation of the Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法實施條例》) (the “Implementation Rules of CIT Law”), both effective on 1 January 2008, and the “Notice of the State Administration of Taxation on Issues Relevant to the Withholding of Enterprise Income Tax on Dividends Paid by PRC Enterprises to Offshore Non-resident Enterprise Holders of H Shares” (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) promulgated by the State Administration of Taxation on 6 November 2008, the Company is obliged to withhold and pay the PRC enterprise income tax on behalf of non-resident enterprise(s) at a tax rate of 10% when the Company distributes any dividends to non-resident enterprise shareholder(s) whose names appear on the register of members for H Shares of the Company. Accordingly, any H Shares which are not registered under the name(s) of individual(s) (which, for this purpose, include H Shares registered under the name of HKSCC Nominees Limited, other nominees, trustees, or other organisations or groups) shall be deemed to be H Shares held by non-resident enterprise shareholder(s), and the PRC enterprise income tax shall be withheld from dividends payable thereon. Non-resident enterprise shareholders are eligible to apply for a tax refund (if any) in accordance with relevant tax requirements, such as tax agreements (arrangements), upon receipt of any dividends.

TAXATION AND TAX RELIEF *(continued)***H Shareholders** *(continued)*

In accordance with the “Circular on Certain Issues Concerning the Policies of Individual Income Tax” (Cai Shui Zi [1994] No. 020) (《關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)) promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are exempted from the PRC individual income tax for dividends or bonuses received from foreign-invested enterprises. As the Company is a foreign-invested enterprise, the Company will not withhold and pay the individual income tax on behalf of overseas individual shareholders whose names appear on the register of members for H Shares of the Company when the Company distributes dividends to those shareholders.

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

Each of the Directors and Supervisors has entered into a respective Director and Supervisor service contract with the Company. Contents of such contracts are the same in all material respects. The service contracts of the Directors and Supervisors will expire upon the expiry of the term of the current Board in place (i.e. 30 June 2017). Save as the aforesaid, no service contract that cannot be terminated within one year without payment of compensation (other than statutory compensation) has been or proposed to be entered into between the Company and the Directors or the Supervisors.

Save for the service contracts, none of the Directors or Supervisors of the Company had a material interest, whether direct or indirect, in any other contracts of significance which had been entered into by the Company, any of its subsidiaries, or its holding company or the holding company's subsidiaries for the year ended 31 December 2014.

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

As at 31 December 2014, to the best knowledge of the Board, except for Mr. Zhu Baoguo (朱保國先生) (the ultimate beneficial owner of the Company) and Ms. Liu Guangxia (劉廣霞女士) (see the Chapter headed “Directors, Supervisors, Senior Management and Employees”), none of the Directors, Supervisors and senior management of the Company or their associate(s) had any individual, family, company or other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of Securities and Futures Ordinance (the “SFO”), (including those interests or short positions which they are taken or deemed to have under such requirements of the SFO), which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or were required to be recorded in the register required to be kept pursuant to section 352 of the SFO; or were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES BY DIRECTORS

Except for the Restricted A Shares Incentive Scheme disclosed in the Chapter headed “Major Events”, the Company or its subsidiaries or the holding company of the Company or its subsidiaries did not enter into any arrangement at anytime during the Year that enabled the Directors, Supervisors and senior management of the Company or their respective associates to acquire benefits by means of purchasing shares or debentures of the Company or any other body corporate or by means of exercising rights to acquire relevant shares or debentures.

PRE-EMPTIVE RIGHTS

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

CHARITABLE DONATION

During the Year, the expenditure of charitable donation of the Group amounted to RMB757,010 (2013: RMB2,126,090).

LIST OF DIRECTORS OF THE COMPANY DURING THE YEAR AND UP TO THE DATE OF THIS ANNUAL REPORT

Executive Directors

Mr. An Ning (安寧先生) (resigned on 5 March 2014)
Mr. Tao Desheng (陶德勝先生) (Vice Chairman and President)
Mr. Fu Daotian (傅道田先生) (Vice President) (appointed on 30 June 2014)
Mr. Yang Daihong (楊代宏先生) (Vice President) (appointed on 24 October 2014)

Non-Executive Directors

Ms. Liu Guangxia (劉廣霞女士) (resigned on 21 August 2014)
Mr. Zhu Baoguo (朱保國先生) (Chairman)
Mr. Qiu Qingfeng (邱慶豐先生)
Mr. Zhong Shan (鍾山先生)

Independent Non-Executive Directors

Mr. Luo Xiaosong (羅曉松先生) (retired upon expiry of tenure of service on 30 June 2014)
Mr. Xu Yanjun (徐焱軍先生) (appointed on 30 June 2014)
Mr. Yang Bin (楊斌先生)
Mr. Guo Guoqing (郭國慶先生)
Mr. Wang Xiaojun (王小軍先生)
Mr. Yu Xiong (俞雄先生) (resigned on 27 February 2015)

By order of the Board

Chairman

Zhu Baoguo

23 March 2015

BASIC CORPORATE GOVERNANCE

During the year ended 31 December 2014, in strict accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Guidelines for Corporate Governance of Listed Companies, the Guidelines of the Shenzhen Stock Exchange for Standardised Operation of Companies Listed on the Main Board and other requirements of normative documents relating to the governance of listed companies announced by the CSRC and the Shenzhen Stock Exchange, the Company constantly enhanced the corporate governance structure and strengthened the internal control systems of the Company to achieve higher corporate governance standards. The Board believed that the actual conditions of corporate governance of the Company are compliant with the rules and requirements of normative documents including the Guidelines for Corporate Governance of Listed Companies without deviation.

Annual General Meeting and Extraordinary General Meetings Convened during the Year

Annual general meeting held during the Year

Session of meeting	Date of meeting	Resolution(s)
2013 Annual General Meeting	30 June 2014	"Directors' Work Report for the year 2013", "Supervisory Committee's Work Report for the year 2013", "Financial account report for the year 2013", "Annual profit distribution plan for the year 2013", "the reappointment of Ruihua Certified Public Accountants (LLP) (瑞華會計師事務所(特殊普通合夥)) as the auditor of the Company for the year 2014 and fix its remuneration", "Annual Report of Livzon Pharmaceutical Group Inc. for the year 2013", "the re-election and appointment of the Directors for the eighth session of the Board", "the re-election of the Supervisors of the eighth session of the Supervisory Committee", "the Company's facility financing and provision of financing guarantees to its subsidiaries", "the amendments to the Articles of Association and "the application for the issue of super short-term financing bills by the Company"

Extraordinary general meeting held during the Year

Session of meeting	Date of meeting	Resolution(s)
First Session of the Extraordinary General Meeting for the year 2014	24 October 2014	"the Company to enter into a three-year continuing connected transactions framework agreement for 2014-2016 with Joicare Pharmaceutical Industry Group Co., Ltd.* (健康元藥業集團股份有限公司)", "the appointment of Mr. Yang Daihong (楊代宏) as an executive director of the Company for the eighth session of the board of directors of the Company" and "the Company's provision of a guarantee in respect of its wholly-owned subsidiary's application of a credit facility"

During the Year, all resolutions considered at the two general meetings convened by the Company were approved and were effectively implemented.

* For identification purpose only

BASIC CORPORATE GOVERNANCE *(continued)***Performance of Duties by Independent Directors****Attendance of Board meetings and general meetings by Independent Directors**

Name of Independent Director	Attendance of Board meetings during their term of office					Attendance of general meeting(s) during their term of office
	Required attendance at Board meetings during the Year	Attendance in person	Attendance by proxy	Absence	Unable to attend in person for two consecutive meetings	Attendance of general meeting(s)/ Number of general meetings convened
Luo Xiaosong (羅曉松) <i>(note 2)</i>	8	8	0	0	No	N/A
Yang Bin (楊斌)	13	13	0	0	No	1/2
Guo Guoqing (郭國慶)	13	13	0	0	No	2/2
Wang Xiaojun (王小軍) <i>(note 2)</i>	13	12	1	0	No	0/2
Yu Xiong (俞雄) <i>(note 2)</i>	13	13	0	0	No	1/2
Xu Yanjun (徐焱軍) <i>(note 2)</i>	5	5	0	0	No	1/1

Notes:

- (1) The above table is compiled according to the relevant requirements under CSRC and the Shenzhen Stock Exchange.
- (2) Mr. Luo Xiaosong (羅曉松先生) retired upon expiry of tenure of service on 30 June 2014. Mr. Yu Xiong resigned on 27 February 2015. Mr. Xu Yanjun (徐焱軍) was appointed as Independent Director of the Company on 30 June 2014. Mr. Wang Xiaojun (王小軍先生) could not attend the 15th Meeting of the Seventh Session of the Board of the Company in person due to work engagement, and authorised Mr. Guo Guoqing (郭國慶先生), being Independent Non-executive Director, to attend the meeting on his behalf and exercise voting rights.

Independent Directors have no objection to any matters related to the Company during the Year.

BASIC CORPORATE GOVERNANCE *(continued)***Performance of Duties by Independent Directors** *(continued)***Other explanations about performance of duties by Independent Directors**

During the year, there is no opinions from the Independent Directors of the Company that are not adopted.

Competing Business

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

Each of the Covenantors hereby confirmed that from the date of the "non-competition undertaking" (i.e. 10 January 2014) up to the date of this annual report (i.e. 23 March 2015), the Covenantor and the companies under his/her/its control (other than the Company and its subsidiaries) have strictly complied with and enforced the terms of the "non-competition undertaking" without breaching any terms of the "non-competition undertaking" under any circumstances.

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

Internal Control

During the year, the Board had conducted a review of effectiveness of the internal control of the Group, including the supervision on finance, operation, and compliance, as well as an assessment on internal environment and risks. The review had shown no significant and important default that indicates inefficient internal control of the Group.

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES

Compliance with the Corporate Governance Code

The Company's H Shares were listed on the Main Board of the Hong Kong Stock Exchange on 16 January 2014 (the "H Shares Listing Date"). The Company strictly complied with principles and all of the code provisions in the Corporate Governance Code as set out in Appendix 14 of Hong Kong Listing Rules since the H Shares Listing Date and up to 31 December 2014.

The board of directors of the Company regularly monitors and reviews the implementation on corporate governance practices of the Group so as to ensure compliance with such code. On 31 December 2013, the Company convened the 26th Meeting for the Seventh Session of the Board during which the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules were approved, confirmed and adopted as the Corporate Governance Code of the Company.

Securities Transactions of Directors and Supervisors

The Company adopted the Model Code as set out in Appendix 10 of the Hong Kong Listing Rules as its own code of conduct regarding the securities transactions in the H Shares of the Company by the Company's Directors, Supervisors and the "Relevant Employees" as defined in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. After making sufficient and specific enquiries to all of the Directors and Supervisors of the Company, the Company was not informed of any information which reasonably revealed that each of the Directors and Supervisors had not complied with the standard required by the above codes since the H Shares Listing Date. All Directors and Supervisors have confirmed that they had complied with the standards as set out in the above codes since the H Shares Listing Date. The Company also made specific enquiry to all of the employees in respect of the codes in the above mentioned Code by the employees, and note that there has been no incident of non-compliance with the codes in the above mentioned Code.

Board of Directors

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

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***Board of Directors** *(continued)*

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

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code to ensure that the Company establishes good corporate governance practices and procedures. During the Reporting Period, the Board:

- (1) formulated and reviewed the Company's policies and practices on corporate governance;
- (2) reviewed and monitored the training and continuous professional development of directors and senior management;
- (3) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- (4) formulated, reviewed and monitored the code of conduct of directors and employees; and
- (5) reviewed the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

As of the date of this report, the Board of the Company has a total of ten members, of which three Executive Directors are Tao Desheng (Vice Chairman and President), Fu Daotian (Vice President), Yang Daihong (Vice President); three Non-executive Directors are Zhu Baoguo (Chairman), Qiu Qingfeng and Zhong Shan; and four Independent Non-executive Directors are Xu Yanjun, Yang Bin, Guo Guoqing, and Wang Xiaojun. For details of the biographies of the above Directors, please refer to the Chapter headed "Directors, Supervisors, Senior Management and Employees" of this annual report.

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

Board of Directors *(continued)*

During the Year, the Company convened a total of thirteen Board meetings and two shareholders' general meetings. Attendance of the Directors of the Company is as follows:

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office	
		Board meetings	Shareholders' general meetings (including class meetings)
I. Executive Directors			
Tao Desheng (陶德勝) <i>(Note 1)</i>	Vice Chairman and President	13/13	2/2
Fu Daotian (傅道田) <i>(Note 1)</i>	Vice President	5/5	0/1
Yang Daihong (楊代宏) <i>(Note 1)</i>	Vice President	2/2	N/A
An Ning (安寧) <i>(Note 1)</i>	Director	N/A	N/A
II. Non-executive Directors			
Zhu Baoguo (朱保國)	Chairman	13/13	1/2
Qiu Qingfeng (邱慶豐)	Director	13/13	2/2
Zhong Shan (鍾山)	Director	13/13	0/2
Liu Guangxia (劉廣霞)	Director	9/9	0/1
III. Independent Non-executive Directors			
Xu Yanjun (徐焱軍) <i>(Note 1)</i>	Independent Director	5/5	1/1
Yang Bin (楊斌)	Independent Director	13/13	1/2
Guo Guoqing (郭國慶)	Independent Director	13/13	2/2
Wang Xiaojun (王小軍) <i>(Note 2)</i>	Independent Director	12/13	0/2
Yu Xiong (俞雄) <i>(Note 1)</i>	Independent Director	13/13	1/2
Luo Xiaosong (羅曉松) <i>(Note 1)</i>	Independent Director	8/8	N/A

Notes: (1) Mr. An Ning (安寧先生) resigned on 5 March 2014, Mr. Luo Xiaosong (羅曉松先生) retired upon expiry of tenure of service on 30 June 2014, and Ms. Liu Guangxia (劉廣霞女士) resigned on 21 August 2014; Mr. Fu Daotian (傅道田先生) was appointed as Executive Director of the Company on 30 June 2014, Mr. Xu Yanjun (徐焱軍先生) was appointed as Independent Non-executive Director of the Company on 30 June 2014, Mr. Tao Desheng (陶德勝先生) was appointed as President of the Company on 10 March 2014 and as Vice Chairman of the Company on 26 August 2014, and Mr. Yang Daihong (楊代宏先生) was appointed as Executive Director of the Company on 24 October 2014; Mr. Yu Xiong resigned on 27 February 2015.

(2) Mr. Wang Xiaojun (王小軍先生), being Independent Non-executive Director, could not attend the fifteenth Meeting of the Seventh Session of the Board of the Company in person due to work engagement, and authorised Mr. Guo Guoqing (郭國慶先生), being Independent Non-executive Director, to attend the meeting on his behalf and exercise voting rights.

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

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***Board of Directors** *(continued)*

Prior notice are given for meetings convened during the Year in accordance with requirements, as to ensure all Directors have the opportunity to attend meetings, and propose matters for discussion to be incorporated into agenda. All of the Directors may obtain opinions and services provided by the Secretary to the Board, as to ensure compliance with Board procedures and all applicable rules and regulations. The Company purchased liability insurance for Directors, Supervisors and senior management.

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

Chairman and President

As required by the Company, the positions of Chairman and President are held by different persons and there is a clear division of work between the two roles. As of the date of this annual report, the Chairman of the Company is Mr. Zhu Baoguo and the President of the Company is Mr. Tao Desheng.

The Chairman mainly exercises the following duties and powers: to preside over shareholders' general meetings and to convene and preside over Board meetings; to supervise and monitor the implementation of resolutions of board meetings; to sign share certificates, debentures and other quoted securities of the Company; to sign important documents of the Board and other documents which should be signed by the Company's legal representative; to exercise the authority and powers of a legal representative; to exercise special discretionary power on corporate affairs in accordance with laws and in the Company's interests in case of emergency situations such as the occurrence of natural disasters of an exceptional scale and other force majeure events, and provide aftermath reports to the Board and shareholders' general meeting; perform other duties and powers authorised by the Board.

The President is accountable to the Board and exercises the following duties and powers: to direct the production, operation and management of the Company, to arrange for the implementation of Board resolutions and report to the Board; to organise and implement the annual business plans and investment proposals of the Company; to draft proposals in connection with the set up of internal management departments of the Company; formulate the fundamental administration system of the Company; to formulate the Company's detailed rules; to recommend the appointment and dismissal of the Vice President and chief financial officer to the Board; decide on appointment or dismissal of other administration officers (other than those required to be appointed or dismissed upon decision of the Board); perform other duties and powers authorised by the Articles of Association or the Board.

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***Independent Non-Executive Directors**

The Board comprises of four Independent Non-executive Directors, in compliance with the minimum requirement under the Hong Kong Listing Rules in relation to the number of Independent Non-executive Directors. Mr. Xu Yanjun, being an Independent Non-executive Director of the Company, possesses appropriate accounting and financial management expertise, in compliance with the requirements under Rule 3.10 of the Hong Kong Listing Rules, the biography of whom is set out in the Chapter VIII "Directors, Supervisors, Senior Management and Employees" of this annual report. The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to independence guidelines set out in Rule 3.13 of the Hong Kong Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

Directors' Term of Office

Pursuant to the requirements under the Articles of Association, all of the Directors (including Non-executive Directors) are elected in shareholders' general meetings, with a three-year term of office from 30 June 2014 to 30 June 2017. Directors can be re-elected upon expiry of their term. The term of office of each Independent Non-executive Director shall not be more than six years.

Directors' Responsibility for the Financial Statements

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

Special Committees of the Board

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

Audit Committee

The term of office of the Audit Committee under the Seventh Session of Board has expired on 30 June 2014, and members of the Audit Committee under the Eighth Session of Board were appointed on the same day, comprising three Independent Non-executive Directors of the Company. The Chairman of committee is Mr. Xu Yanjun, and other committee members include Mr. Yang Bin and Mr. Guo Guoqing. Mr. Xu Yanjun possesses appropriate accounting and financial management expertise as required under Rule 3.10 of the Hong Kong Listing Rules. The key responsibilities of the Audit Committee are to review the Company's financial reports; oversee the Company's financial reporting and internal control system; study the Company's relationships with the external auditors and consider the annual audit plans submitted by external auditors; examine reports submitted in confidence by the Company's employees in relation to concern of possible improprieties in financial reporting, internal control or other aspects, and give relevant suggestions.

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***Special Committees of the Board** *(continued)***Audit Committee** *(continued)*

During the Year, the Audit Committee had discussed the Group's annual, interim and quarterly financial statements, review the accounting principles and practices, internal supervision system and consider audit conducted and fees charged by auditors. On 5 March 2014, the Committee reviewed the 2014 Self-Evaluation Report on Internal Control.

During the Year, six meetings convened by the Audit Committee, details are were as follows:

- (1) On 26 February 2014 the Ninth Meeting of the Audit Committee of the Seventh Session of the Board of the Company was held in the conference room on the 9th floor of the office building, during which the resolution on consideration of the draft financial auditors' report for the year 2013 was considered and approved.
- (2) On 14 March 2014 the Tenth Meeting of the Audit Committee of the Seventh Session of the Board of the Company was held in the conference room on the 9th floor of the office building, during which the resolution on consideration of the financial auditors' report for the year 2013, the results announcement for the year 2013 and the annual report for the year 2013, the report on conclusion of the audit work carried out by Ruihua Certified Public Accountants (LLP) for the year 2013 and the resolution in relation to the re-appointment of Ruihua Certified Public Accountants (LLP) as the audit firm of the Company for the year 2014 were considered and approved.
- (3) On 28 April 2014 the Eleventh Meeting of the Audit Committee of the Seventh Session of the Board of the Company was held through written communication and voting, during which the resolution on consideration of the Company's and its subsidiaries' unaudited consolidated financial statements and the quarterly results announcement for three months ended 31 March 2014 were considered and approved.
- (4) On 22 August 2014 the First Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held in the conference room on the 9th floor of the office building, during which the resolution on consideration of the Company's unaudited consolidated financial reports, half-yearly results announcement and the half-yearly report for the six months ended 30 June 2014 were considered and approved.
- (5) On 23 October 2014 the Second Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held through written communication and voting, during which the resolution on consideration of the Company's and its subsidiaries' unaudited consolidated financial statements and the quarterly results announcement for nine months ended 30 September 2014 were considered and approved.
- (6) On 26 December 2014 the Third Meeting of the Audit Committee of the Eighth Session of the Board of the Company was held in the conference room on the 9th floor of the office building, during which the resolution on consideration of the Financial Audit Plan of Livzon Pharmaceutical Group Inc. for the year 2014 was considered and approved.

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***Special Committees of the Board** *(continued)***Remuneration and Assessment Committee**

The term of office of the Remuneration and Assessment Committee under the Seventh Session of Board has expired on 30 June 2014, and members of the Remuneration and Assessment Committee under the Eighth Session of Board were appointed on the same day, comprising of three Directors. The Chairman of the committee is Mr. Guo Guoqing (Independent Non-executive Director), and other committee members are Mr. Xu Yanjun (Independent Non-executive Director) and Mr. Tao Desheng (Executive Director). The member composition is in compliance with the requirements under Rule 3.25 of the Hong Kong Listing Rules. The key responsibilities of the Remuneration and Assessment Committee are to assess and review the remuneration packages for the Chairman of the Board, Executive Directors and senior management of the Company, and to make recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, so as to ensure that any Director or any of their associates shall not be involved in fixing their remuneration etc.

During the Year, the Remuneration and Assessment Committee held one meeting to assess, review and make recommendations to the Board on remuneration, remuneration policy and framework of the Directors and senior management of the Company and the interests of the Company as a whole.

Nomination Committee

The term of office of the Nomination Committee under the Seventh Session of Board has been expired on 30 June 2014, and members of the Nomination Committee under the Eighth Session of Board were appointed on the same day, comprising three Directors. The Chairman of the committee is Mr. Yang Bin (Independent Non-executive Director), and other committee members are Mr. Guo Guoqing (Independent Non-executive Director) and Mr. Tao Desheng (Executive Director). The member composition is in compliance with the requirements under code provision A.5.1 of the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. The key responsibilities of the Nomination Committee are to review the structure, number of members and composition of the Board (including gender, ages, cultural and education background, skills, knowledge and experience); study the criteria and procedures for selection and appointment of Directors and senior management, and give recommendations to the Board; recommend the Board on the appointment or re-appointment of Directors, and succession plan for Directors (particularly the Chairman and the President); and evaluate the independence of the Independent Non-executive Directors.

During the Year, the Nomination Committee held two meetings to formulate the Board Diversity Policy of Livzon Pharmaceutical Group Inc., review the Board Diversity Policy and monitor its implementation, evaluate the independence of Independent Non-executive Directors, review the structure, number of members and composition of the Board and make recommendations on its size and composition, and consider matters on re-election and appointment of Directors.

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***Special Committees of the Board** *(continued)***Nomination Committee** *(continued)*

The Nomination Committee has adopted a set of nomination procedures. The Committee may search extensively for candidates for directorship and senior management from the Company, its subsidiaries or investees and the job market, in compliance with the relevant laws and regulations and the relevant provisions in the Articles of Association, and in consideration of the Company's actual circumstances, election criteria, selection procedures and term of service for Directors and senior management of the Company, submit the resolution to the Board for approval. The Nomination Committee may select candidates for Directors and Senior Management of the Company according to the Company's needs within the extent permitted by statutory requirements, Laws and regulations by making reference to their occupations, education, job titles, detailed work experience and their part-time jobs.

The Company is of the view that the diversity of the Board is one of the essential factors in sustaining the competitive edge of the Company and facilitating the sustainable development of the Company. The Board Diversity Policy (the "Policy"), formulated by the Company was considered and approved by the Nomination Committee held on 10 January 2014. Under the Policy, when considering the composition of the Board, various aspects would be considered for the Board Diversity Policy, including but not limited to gender, age, cultural and education, background, professional qualifications, skills and knowledge etc. On top of the above basis, in accordance with several objective conditions such as comprehensive values that the candidates can bring to the business and development of the Company, contributions that the candidates can make to the Board whilst ensuring the diversity of the Board, decisions can be made thereafter. In order to ensure the effectiveness of the Policy, the Nomination Committee will periodically monitor and review the Policy. The Company is of the view that the current composition of the Board is a balanced and diversified mix that is suitable for the Company's business development.

Strategic Committee

The term of office of the Strategic Committee under the Seventh Session of Board expired on 30 June 2014, and members of the Strategic Committee under the Eighth Session of Board were appointed on the same day, comprising three Directors. The Chairman of the committee is Mr. Zhu Baoguo (Non-executive Director), and other committee members are Mr. Tao Desheng (Executive Director) and Mr. Zhong Shan (Non-executive Director). The key responsibilities of the Strategic Committee are to conduct research on the Company's long term development strategy and major investment decisions, and give recommendations thereon. During the year, the Strategic Committee did not convene any meeting.

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

Special Committees of the Board *(continued)*

Attendance of Special Committees of the Board

During the year, attendance of special committees of the Board was as follows:

Name	Position	Attendance of relevant meetings during their term of office/ Number of relevant meetings held during their term of office			
		Meetings of Audit Committee	Meetings of Nomination Committee	Meetings of Remuneration and Assessment Committee	Meetings of Strategic Committee
Mr. An Ning (安寧) <i>(Note)</i>	Executive Director	N/A	1/1	N/A	0/0
Mr. Tao Desheng (陶德勝) <i>(Note)</i>	Executive Director/Vice Chairman and President	N/A	1/1	2/2	0/0
Mr. Zhu Baoguo (朱保國)	Non-executive Director/Chairman	N/A	N/A	N/A	0/0
Mr. Zhong Shan (鍾山先生)	Non-executive Director	N/A	N/A	N/A	0/0
Mr. Luo Xiaosong (羅曉松先生) <i>(Note)</i>	Independent Non-executive Director	0/0	N/A	0/0	N/A
Mr. Xu Yanjun (徐焱軍先生) <i>(Note)</i>	Independent Non-executive Director	3/3	N/A	2/2	N/A
Mr. Yang Bin (楊斌先生)	Independent Non-executive Director	3/3	2/2	N/A	N/A
Mr. Guo Guoqing (郭國慶先生) <i>(Note)</i>	Independent Non-executive Director	3/3	2/2	1/1	N/A

Note: Mr. Guo Guoqing (郭國慶先生) served as a committee member of the Audit Committee, the Nomination Committee, and the Chairman of the Remuneration and Assessment Committee from 10 January 2014. Mr. An Ning (安寧先生) resigned on 5 March 2014. Mr. Tao Desheng (陶德勝先生) served as authorised representative of the Company and a committee member of the Strategic Committee, the Remuneration and Assessment Committee and the Nomination Committee from 10 March 2014. Mr. Luo Xiaosong (羅曉松先生) retired upon expiry of tenure of service on 30 June 2014. Mr. Xu Yanjun (徐焱軍先生) served as the chairman of the Audit Committee and a committee member of the Remuneration and Assessment Committee of the Company from 30 June 2014.

Auditors and Remuneration

On 30 June 2014, after consideration and approval at the Shareholders' general meetings of the Company for the year 2013, the Company consented to the appointment of Ruihua Certified Public Accountants (LLP) as the auditors firm of the Company for the year 2014. As at the end of the Year, remunerations payable to Ruihua Certified Public Accountants (LLP) for its audit services and non-audit services to the Group in 2014 amounted to RMB1.6962 million (tax inclusive) and RMB570,000.00 (tax inclusive), respectively. The non-audit services remunerations were composed of review charges of RMB210,000.00 (tax inclusive) for half yearly financial statements and internal control audit charges of RMB360,000.00 (tax inclusive).

Declaration of responsibility borne by Ruihua Certified Public Accountants (LLP) for financial reporting of the Company is set out in the "Auditors' Report" in Chapter IX "Financial Report" of this annual report.

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

Supervisors and Supervisory Committee

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

Communication with Shareholders

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

Information disclosure on the Company's website

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

Convening of shareholders' general meetings

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

Shareholders' Rights

Procedure for convening shareholders' general meetings by shareholders

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

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

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)***Shareholders' Rights** *(continued)***Procedure for convening shareholders' general meetings by shareholders** *(continued)*

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

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

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

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

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

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

To convene a Supervisory Committee meeting or a shareholders' general meeting, corresponding supporting materials shall be submitted to the local office of CSRC and the stock exchange when issuing the notice of convening a shareholders' general meeting and declaring the resolution of shareholders' general meeting.

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

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

Procedure for delivering shareholders' inquiries to the Board

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

CORPORATE GOVERNANCE SITUATION DISCLOSED PURSUANT TO THE HONG KONG LISTING RULES *(continued)*

Shareholders' Rights *(continued)*

Procedure for submission of shareholders' proposals to shareholders' general meetings

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

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

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

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

Investors' relations

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

Articles of Association

During the year, in order to satisfy the relevant requirements of "The No. 3 Guideline for the Supervision of Listed Companies – Cash Dividends of Listed Companies (《上市公司監管指引第3號—上市公司現金分紅》)" issued by the CSRC in November 2013, as well as to clearly define the approval rights over making external investments by the Company, the Company amended relevant provisions in the Articles of Association. The amendment has been implemented upon consideration and approval by the shareholders' general meeting of the Company for the year 2013 held on 30 June 2014. Details for the amendment is available for inspection as set out in the circular of the Company dated 15 May 2014 on the websites of the Company and the Hong Kong Stock Exchange.

Company Secretary

Ms. Cheng Pik Yuk of Tricor Services Limited, an external service provider of the Company, has been engaged by the Company as Assistant Company Secretary. The primary contact person at the Company is Mr. Yang Liang, the Secretary to the Board of the Company (Company Secretary).

Mr. Li Rucai served as Company Secretary and authorised representative of the Company from 16 January 2014 (the H Shares Listing Date) to 24 June 2014. Mr. Yang Liang has been appointed as Company Secretary and authorised representative of the Company from 24 June 2014. Both Mr. Yang Liang and Ms. Cheng Pik Yuk took no less than 15 hours of relevant professional training during the Year.

SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES

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 transaction (RMB '0,000)	Proportion to transaction amount of the same category	Settlement method of the connected transactions	Date of disclosure	Index of disclosure
Zhuhai Jincare 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	1.49	0.00%	By bank		
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	2,766.18	0.51%	By bank		
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sale of commodities	Sale of finished goods	Determined by negotiation based on market price	12.12	0.00%	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	528.21	93.86%	By bank		
Zhuhai Jincare 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	30.16	5.36%	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	51.54	0.03%	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	1,226.98	0.77%	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	4.27	0.00%	By bank	25 March 2014; 6 September 2014	Announcement No.:2014-25; 2014-59; Website for publication: CNINFO
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	26.25	0.02%	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	24.83	0.02%	By bank		
Jiaozuo Jincare 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	22,499.32	14.11%	By bank		
Zhuhai Jincare 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	52.81	10.66%	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	9.99	2.02%	By bank		
Jiaozuo Jincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Hiring of assets	Renting out of office premises	Determined by negotiation based on market price	4.20	2.31%	By bank		
Jincare	Controlling shareholder	Hiring of assets	Renting out of office premises	Determined by negotiation based on market price	65.89	36.27%	By bank		
Total					27,304.24	-	-	-	-

Substantial amount of returned products

Necessity, continuity for the connected transaction, reasons to transact with connected parties (instead of other market players)

Impact of connected transaction to the dependence of listed company

Degree of reliance to connected party, relevant counter-measures (if any)

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

Reason for the significant difference between the transaction amounts and referential projection amounts (if applicable)

Not applicable

Above mentioned connected transactions are necessary for the production and operation of the Group and are likely to continue in the future.

Above mentioned connected transactions do not affect the independence of the Company

Not applicable

During the year, transactions between the Company and its controlling shareholder and its subsidiaries amounted to RMB238 million; transaction with other connected parties (Blue Treasure Company) is RMB33million. None of these transactions exceed the amount approved by the general meeting of shareholders, board meeting and the operation management.

Not applicable

SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)*

Connected Transactions relating to Acquisition and Disposal of Assets

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

Major Connected Transactions on Joint External Investment

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	Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Research and development of technologies for biopharmaceutical products and vaccines	50,000.00	31,455.37	29,243.27	-4,547.68

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. The construction has been completed during the year and is in production.

Credits and Debts with Connected Persons

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 year (RMB '0,000)	Amount incurred during the Current Period (RMB '0,000)	Balance at the year end (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	627.73	1,067.66
Jiaozuo Joincare 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 Joincare 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	-2.32	1.61
Zhuhai Joincare 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	1.73	3.03
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	-0.84	0.83
Jiaozuo Joincare 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 Joincare 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	0.00	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	54.5	33.13	87.63
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	3.97	4.41

SUBSTANTIAL CONNECTED TRANSACTION DISCLOSED PURSUANT TO THE SHENZHEN LISTING RULES *(continued)*

Credits and Debts with Connected Persons *(continued)*

Connected parties	Relationships with connected parties	Type of creditors' or debtors' rights	Reason for occurrence	Use of extraordinary capital	Balance at	Amount incurred during	Balance at
					the beginning of the year (RMB '0,000)	the Current Period (RMB '0,000)	the year end (RMB '0,000)
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	-626.91	-
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	0.00	5.55	5.55
Jiaozuo Jincare 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	2,853.92	8,424.32
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	Subsidiary of the controlling shareholder	Creditors arisen from connected transactions	Procurement of goods	No	0.00	0.50	0.50
Jiaozuo Jincare 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	4.20	5.45
Jincare 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	-153.75	-

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 ordinary course of business of the Company. There is no significant effect on the operating results and financial position of the Company.

Other Major Connected Transactions

During the year, the Group had no other major connected transaction.

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

Connected Persons

As the controlling shareholder of the Company, Joicare and the subsidiaries under its control (excluding the Group) are connected persons of the Company under the provisions of Rule 14A.13(1) and Rule 19A.04(b) of Hong Kong Listing Rules.

One-Off Connected Transactions

Capital Increase to Livzon MAB

In order to satisfy the future working capital requirement of Livzon MAB, to ensure the smooth operation of its ongoing research and development projects and to facilitate the implementation of the Company's strategic objective in relation to its bio-pharmaceutical development, the Company and Joicare have entered into the "Agreement on Capital Increase in Zhuhai Livzon MAB Biological Technology Co., Ltd" on 23 May 2014. The Company and Joicare increased their joint capital contribution to Livzon MAB by a total amount of approximately RMB200,000,000 (the "Capital Increase"), on a pro-rata basis of RMB102,000,000 and RMB98,000,000 respectively. Upon completion of the Capital Increase, the registered capital of Livzon MAB will be increased to RMB500,000,000. The shareholding of the Company and Joicare in Livzon MAB will remain unchanged, representing 51% and 49% of the registered capital respectively. The Capital Increase has been completed by the end of this year.

As Joicare is the controlling shareholder of the Company, and directly holds 49% equity interest in Livzon MAB, Joicare and Livzon MAB are connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules. Therefore, the Capital Increase constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

For details of the transaction mentioned above, please refer to the announcement of the Company dated 23 May 2014.

The Grant of the Restricted Shares under the Restricted A Shares Incentive Scheme

The grant of the Restricted Shares under the Restricted A Shares Incentive Scheme to connected persons of the Company will constitute a non-exempt connected transaction of the Company, and will be subject to reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Mr. Tao Desheng and Mr. Yang Daihong, both being executive Directors and Incentive Participants under the Restricted A Shares Incentive Scheme, have abstained from voting at the Board meeting to approve the proposed adoption of the Restricted A Shares Incentive Scheme and the Proposed Grant.

For details of the Restricted A Shares Incentive Scheme, please refer to the section headed "adoption of the restricted a shares incentive scheme and the first grant" under this Chapter.

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES*(continued)***Continuing Connected Transactions**

As the market demand for the Group's antibiotics related products exceeds the original projections, the aggregate amounts of the products and raw materials to be procured from the Joincare Group for the year ending 31 December 2014 is expected to exceed the original annual cap. With the continuous business development of the Group, the Group will further develop and manufacture various antibiotics related products and new products from time to time.

In view of the above, the Company and Joincare entered into the New Joincare Purchases Agreement on 5 September 2014 to revise the existing annual caps for the two years ending 31 December 2014 and 2015 and to agree on the annual cap for the year ending 31 December 2016 in order to comply with Rule 14A.54 of the Listing Rules. The Agreement has been approved and effective during the first extraordinary general meeting in 2014 held on 24 October 2014, under which the total purchases for each of the three years ending 31 December 2014, 2015 and 2016 will not exceed RMB260.00 million, RMB280.00 million and RMB460.00 million respectively.

At the time when the Agreement was entered into, Joincare directly and indirectly owned 89,462,538 A shares of the Company and 50,660,052 H shares of the Company, representing in aggregate approximately 47.38 % of the total issued share capital of the Company and therefore Joincare is the controlling Shareholder of the Company. Accordingly, Joincare and its associates are connected persons of the Company and the transactions contemplated under the New Joincare Purchases Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. For details of the transaction mentioned above, please refer to the announcement dated 5 September 2014 and the Circular dated 7 October 2014 of the Company, respectively.

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

Continuing Connected Transactions (continued)

The annual cap of transactions for the year ending 31 December 2014 is RMB260.00 million, while the aggregate amount arising from the transaction between the Company and Joicare constituting "continuing connected transactions" under Chapter 14A of the Listing Rules was RMB239.58 million.

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Pricing principle of connected transactions	Amount of connected transactions in 2014 (RMB'0,000)	Proportion to transaction amount of the same category (%)
Zhuhai Joicare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Subsidiary of the controlling shareholder	Sales of commodities	Determined by negotiation based on market price	1.49	0.00%
Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Subsidiary of the controlling shareholder	Sales of commodities	Determined by negotiation based on market price	12.12	0.00%
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	Determined by negotiation based on market price	30.16	5.36%
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	1,226.98	0.77%
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	Determined by negotiation based on market price	4.27	0.00%
Xinxiang Haibin Pharmaceutical Industry Co., Ltd. (新鄉海濱藥業有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	26.25	0.02%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Procurement of goods	Determined by negotiation based on market price	24.83	0.02%

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

Continuing Connected Transactions (continued)

Transactions with connected persons	Relationships with connected persons	Type of connected transactions	Pricing principle of connected transactions	Amount of connected transactions in 2014 (RMB'0,000)	Proportion to transaction amount of the same category (%)
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	Determined by negotiation based on market price	22,499.32	14.11%
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	Determined by negotiation based on market price	52.81	10.66%
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Subsidiary of the controlling shareholder	Renting out of assets	Determined by negotiation based on market price	9.99	2.02%
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	Hiring of assets	Determined by negotiation based on market price	4.20	2.31%
Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Hiring of assets	Determined by negotiation based on market price	65.89	36.27%
Total				23,958.31	

Confirmation from Independent Non-Executive Directors in Respect of the Above Connected Transactions

In respect of the continuing connected transactions between the Group and Joicare together with its subsidiaries in 2014, the Independent Non-executive Directors of the Company have reviewed and confirmed under Rule 14A.55 of the Hong Kong Listing Rules that:

- such transactions were in the Group's ordinary and usual course of business;
- such transactions were conducted on normal commercial terms or on terms which are no less favourable than those offered by the Group to or from (as the case may be) independent third parties; and
- such transactions were conducted in accordance with the terms of the agreements in relation thereto, which are fair and reasonable and in the interests of the Company and shareholders as a whole.

CONNECTED TRANSACTIONS DEFINED IN HONG KONG LISTING RULES

(continued)

Continuing Connected Transactions *(continued)*

Confirmation from the Auditors in Respect of the Above Connected Transactions

The auditors of the Company have examined the above continuing connected transactions, and provided a letter to the Board under Rule 14A.56 of Hong Kong Listing Rules stating that:

- The auditors did not notice any matter which caused them to believe that the above continuing connected transactions had not been approved by the Board of the Company;
- In respect of transactions for provision of goods or services by the Group, the auditors did not notice any matter which caused them to believe that the above continuing connected transactions had not been conducted in accordance with the pricing policies of the Group;
- The auditors did not notice any matter which caused them to believe that the above continuing connected transactions had not been conducted in accordance with the relevant agreements governing such transactions; and
- The auditors did not notice any matter which caused them to believe that the amounts of such transactions had exceeded the annual cap of transactions for the year ending 31 December 2014.

Connected Transactions and Related Party Transactions

Details of the connected transactions and related party transactions of the Group during the year are set out in "Note 11" of the financial statements of this annual report prepared in accordance with the China Accounting Standards for Business Enterprises. Other than connected transactions disclosed as above, there is no other related party transaction that need to be disclosed as connected transactions under Chapter 14A of the Listing Rules.

MAJOR CONTRACTS AND ITS ENFORCEMENT

Custody, Hiring and Leasing Matters

During the Year, 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.

Guarantees

During the Year, the Company had no guarantee provided for companies other than its subsidiaries. The total guarantee for its subsidiaries amounted to RMB385.7105 million. For the details, please refer to the relevant content in "Note XI. Related Parties and Related Party Transactions" as set out in the section headed "Financial Report" in the Report.

Other Major Contracts

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

Other Material Transactions

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

NON-OPERATIONAL CAPITAL OCCUPIED BY CONTROLLING SHAREHOLDER AND ITS CONNECTED PARTIES

Shareholder or connected party	Occupation time	Reason	Balance at the beginning of the year	Amount newly occupied during the year (RMB0,000)	Amount repaid during the year (RMB0,000)	Balance at the end of the year	Expected repayment method	Expected repayment amount	Expected repayment time (month)
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Less than six months	Outlay for salary and social insurance contribution	16.04	45.2	61.24	0	Not applicable	Not applicable	Not applicable
Total			16.04	45.2	61.24	0	–	–	–

Proportion of total amount by the end of the year to the latest audited net asset

0.00

Relevant decision procedure

Nil

Reasons for new occupation of non-operational capital by controlling shareholder and its subsidiaries during the period; responsibility investigation; and measures proposed to be taken by the Board

The amount of the above described capital occupation is not significant. The occupation has been repaid during the year by the occupier. The Company will strengthen its monitoring on capital and prevent capital occupation

Reasons for no-repayment for non-operational capital occupied as scheduled; responsibility investigation; and measures proposed to be taken by the Board

Not applicable

Disclosure date of specific auditing opinion by CPA on occupied capital

24 March 2015

Disclosure index for specific auditing opinion by CPA on occupied capital

Announcement: Specific Auditing Report on Non-operational Capital Occupied by Connected Parties of Livzon Pharmaceutical Group Inc. by Ruihua Certified Public Accountants (LLP); Website for publication: CNINFO

PUNISHMENT AND RECTIFICATION

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

CHANGES IN NEWSPAPERS SELECTED FOR INFORMATION DISCLOSURE OF THE COMPANY

As B-H Share conversion was finished, the Company no longer needs to disclose its information on foreign newspapers. Therefore, from the date of this annual report, Wenwei Po will stop being the newspaper for the information disclosure of the Company. The newspapers selected by the Company for information disclosure are China Securities Journal and Securities Times.

MATTERS OF COMMITMENTS

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), Joincare, Zhu Baoguo (朱保國), Liu Guangxia (劉廣霞) (collectively, the "Covenantors").

Date of undertakings and their duration: 10 January 2014; these undertakings will be effective continuously.

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, the Covenantors have provided the non-competition undertakings as follows:

MATTERS OF COMMITMENTS *(continued)***Undertakings during the IPO issuance or re-financing** *(continued)*

- “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 Activities 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.

MATTERS OF COMMITMENTS *(continued)***Undertakings during the IPO issuance or re-financing** *(continued)*

6. The Covenantors and their subsidiaries thereof further undertake:
 - a) The Covenantors and their 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 their subsidiaries thereof (excluding the Group);
 - b) The Covenantors and their 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 their subsidiaries thereof (excluding the Group), after reviewed by Independent Directors of the Company;
 - d) The Covenantors (on behalf of their 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 their subsidiaries thereof cease as controlling shareholders of the Company;
 - b) The shares of the Company are no longer listed on the Hong Kong 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.

MATTERS OF COMMITMENTS *(continued)***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 Hong Kong 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 Hong Kong 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: it was fulfilled and completed

MATTERS OF COMMITMENTS *(continued)***Other undertakings to minority shareholders of the Company** *(continued)*

Convenantor: Joincare

Date of undertakings and their duration: 17 December 2008; these undertakings will be effective continuously.

Details of the Undertakings: “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. 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.”

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.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

Throughout the period from the H Shares Listing Date to 31 December 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

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 Joincare, 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 Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司), another wholly-owned subsidiary of Joincare. 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 this report, Joincare, 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.

ADOPTION OF THE RESTRICTED A SHARES INCENTIVE SCHEME AND THE FIRST GRANT

On 15 December 2014, the Board considered and approved the resolution in respect of the Restricted A Shares Incentive Scheme, in order to further establish and improve the Company's long-term incentive mechanism, attract and retain outstanding employees, fully motivate The Company's core staffs. The Incentive Participants of the Restricted A Shares Incentive Scheme include Directors, mid and senior-level management, core technical (business) personnel, and relevant staff who, in the opinion of the Board, are eligible for incentives, excluding independent directors and supervisors of the Company.

Pursuant to the Restricted A Shares Incentive Scheme, the Incentive Participants will be granted 10,000,000 Restricted A Shares, of which 9,000,000 Shares will be granted under the First Grant and 1,000,000 Shares will be reserved. The Restricted A Shares Incentive Scheme shall be effective for no longer than five years, commencing from the date of granting the Restricted Shares and ending on the date on which all the Restricted Shares granted to the Incentive Participants have been unlocked or otherwise repurchased and cancelled.

The Company announced on 13 January 2015 that China Securities Regulatory Commission ("CSRC") had confirmed that it had no objection to the Draft Scheme and has filed the Draft Scheme and its amendments submitted by the Company for records.

The Restricted A Shares Incentive Scheme has been approved by the Shareholders at the first extraordinary general meeting in 2015, the first class meeting of H Shareholders in 2015 and the first class meeting of A Shareholders in 2015 of the Company held on 13 March 2015.

ADOPTION OF THE RESTRICTED A SHARES INCENTIVE SCHEME AND THE FIRST GRANT *(continued)*

On 27 March 2015, the Directors of the Company considered and approved the First Grant of restricted shares to incentive participants with adjustment to the participants and the number of restricted shares, and 27 March 2015 as the First Grant Date. After the adjustment, the number of participant changed from 484 to 458, and the number of restricted shares under the First Grant changed from 9,000,000 to 8,660,400.

On 9 April 2015, all procedures related to the First Grant of Restricted A Share Incentive Scheme, including verification of subscribed capital, had been finished pursuant to the requirements by China Securities Regulatory Commission, Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited.

For details about the Restricted A Share Incentive Scheme and the First Grant, release refer to announcements of the Company dated 15 December 2014, 13 January 2015, 26 January 2015, 13 March 2015, 30 March 2015 and 10 April 2015 respectively, and the circular of the Company dated 5 February 2015.

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

OTHER SIGNIFICANT EVENT

Asset Disposal

Other party of transaction	Asset disposed	Date of disposal	Transaction price (RMB 0,000)	Net profit contributed from the disposed asset to the listed company from the beginning of the period to the date of disposal (RMB 0,000)	Impact of disposal on the Company	Proportion of net profit contribute from disposed asset to net profit of the listed company	Pricing principal for asset disposal	Connected transaction	Ownership of involved asset transferred	Credit and debt of involved asset transferred
英屬維爾京群島統一超商藥妝事業中國控股有限公司	統一康是美商業連鎖(深圳)有限公司	July 2014	443.17	2.09	-26.48	-0.05%	Determined by negotiation based on market price	No	Yes	Yes

SHARE CAPITAL

During the Year, the share capital of the Company did not have any changes. As at 31 December 2014, the share capital of the Company was as follows:

	Number (Shares)	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 ^(Note)	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.

NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS OF THE COMPANY

Numbers of Shareholders

As of the end of the Year, the Company had a total of 11,628 Shareholders which included 3 H Shareholders ^(Note 1) and 11,625 A Shareholders. Among them, 11,627 Shareholders have no selling restrictions and 1 Shareholder has selling restrictions.

Shareholdings of Top Ten Shareholders of the Company

Name of shareholder (Full name)	Nature of shareholder	Class of shares	Shareholding percentage (%)	Number of shares held at the end of the Year (Shares)	Change during the Year (Shares)	Number of shares with selling restrictions (Shares)	Pledge or lock up	
							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	–	–	–	–
Industrial and Commercial Bank of China – 廣發聚富開放式證券投資基金	Fund	A Share	1.32	3,899,000	3,899,000	–	–	–
Industrial and Commercial Bank of China – 廣發聚豐股票型證券投資基金	Fund	A Share	1.23	3,633,732	3,633,732	–	–	–
Columbia University	Foreign legal person	A Share	1.12	3,317,433	–	–	–	–
National Social Security Fund 404	Fund	A Share	1.05	3,099,998	3,099,998	–	–	–

Shareholdings of top ten shareholders without selling restrictions

Name of shareholder (Full name)	Number of shares held without selling restriction at the year end (Shares)	Type of shares	
		Category of shares	Number (Shares)
HKSCC Nominees Limited ^(Note 2)	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
Industrial and Commercial Bank of China – 廣發聚富開放式證券投資基金	3,899,000	A Shares	3,899,000
Industrial and Commercial Bank of China – 廣發聚豐股票型證券投資基金	3,633,732	A Shares	3,633,732
Columbia University	3,317,433	A Shares	3,317,433
National Social Security Fund 404	3,099,998	A Shares	3,099,998
Construction Bank of China–Greatwall Consumption Value-added Type Securities Investment Fund	3,082,696	A Shares	3,082,696

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) Agricultural Bank of China – Greatwall Anxin Return Mixed Type Securities Investment Fund and Construction Bank of China – Greatwall Consumption Value-added Type Securities Investment Fund are funds both managed by Great Wall Fund Management Co., Limited (長城基金管理有限公司); Industrial and Commercial Bank of China – 廣發聚富開放式證券投資基金 and Industrial and Commercial Bank of China – 廣發聚豐股票型證券投資基金 are funds both managed by GF Funds Management Limited (4) the Company does not know 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.

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 shareholdings 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 Chapter VI 6 of this annual report for details).

As at 31 December 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%
Ms. Liu Guangxia (劉廣霞女士)	Spouse interest	89,462,538 A Shares ⁽³⁾	48.69%	30.25%
		50,660,052 H Shares ⁽³⁾	45.23%	17.13%
Joincare	Beneficial owner	77,510,167 A Shares	42.19%	26.21%
	Interest of controlled corporations	5,892,943 A Shares ⁽⁴⁾	3.20%	1.99%
	Person having a security interest in shares	6,059,428 A Shares ⁽⁵⁾	3.30%	2.05%
	Interest of controlled corporations	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").
- (2) These shares are held directly by Topsino, a wholly-owned subsidiary of Joincare.
- (3) As Ms. Liu Guangxia is the spouse of Mr. Zhu Baoguo, Ms. Liu Guangxia is deemed to be interested in Mr. Zhu Baoguo's equities in which he is deemed to be interested.
- (4) These shares are held directly by Shenzhen Haibin, a wholly-owned subsidiary of Joincare.
- (5) 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 the share transfer, custody and pledge agreement with Joincare and Zhuhai Lishi Investment Co., Ltd. (珠海市麗士投資有限公司) dated 2 January 2014, the share transfer and custody agreement and the share pledge agreement with Joincare.

CONTROLLING SHAREHOLDER OF THE COMPANY

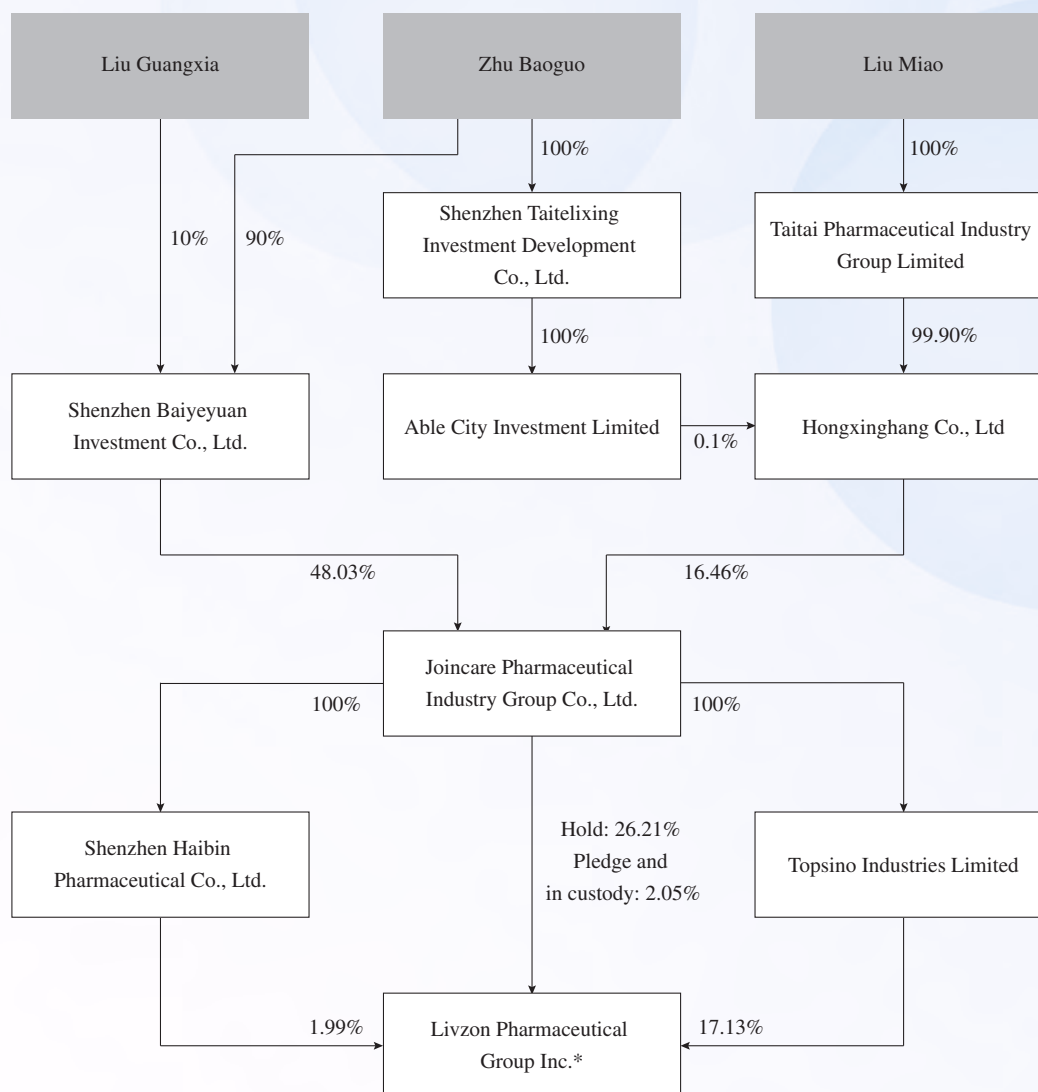
Name of Controlling Shareholder	Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)
Legal representative	Zhu Baoguo (朱保國)
Date of establishment	18 December 1992
Registered capital	RMB1,545,835,892
Principal activities	Research and development of Chinese medicines, chemical bulk medicines,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

ULTIMATE BENEFICIAL OWNER OF THE COMPANY

Name of the ultimate beneficial owner	Zhu Baoguo (朱保國)
Nationality	Chinese
Obtain any right of residence of other countries or regions	No
Careers and duties for the past five years	Please see related details in the section headed "Directors, Supervisors, Senior Management and Employees" in this annual report.
Controlled domestic and overseas listed companies for the past ten years	Joincare

ULTIMATE BENEFICIAL OWNER OF THE COMPANY *(continued)*

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



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

* For identification purpose only

SUFFICIENT PUBLIC FLOAT

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

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Brief Biography of Executive Director

Mr. Tao Desheng (陶德勝先生), aged 50, who joined the Company in 1985 is currently our Executive Director, Vice Chairman, President, authorised representative and a committee member of Strategic Committee, Nomination Committee and Remuneration and Assessment Committee, and also served as a Director in other subsidiaries of the Group. Mr. Tao graduated with a bachelor's degree in chemistry from the faculty of pharmaceutical chemistry of the Nanjing School of Pharmaceutical Sciences (南京藥學院). From 2000 to 2002, Mr. Tao attended a postgraduate advanced course in enterprise management organised by Sun Yat-Sen University (中山大學). Mr. Tao obtained his licensed pharmacist qualification (執業藥師) in October 2002 and the title of senior engineer in pharmaceutical manufacturing (professor) (製藥專業高級工程師(教授)職稱) in 2013. Mr. Tao has been the vice president and president of our Company since June 2005 and March 2014, respectively. He has been our Vice Chairman and our Executive Director from August 2014 and July 2009 onwards, respectively.

Mr. Yang Daihong (楊代宏先生), aged 48, who joined the Company in 1997 is currently our Executive Director, Vice President, pharmaceutical engineer and a licenced pharmacist. He studied at China Pharmaceutical University (中國藥科學) from 1984 to 1988 and was awarded a bachelor's degree in science. From 2000 to 2002, Mr. Yang attended a course in enterprise management organised by the Business School of Sun Yat-Sen University (中山大學). Mr. Yang obtained qualifications as a pharmaceutical engineer and a licenced pharmacist. From 1999 to 2009, Mr. Yang was the deputy factory manager and factory manager of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠). Mr. Yang has been our Vice President and Executive Director from May 2006 to present and from October 2014 to present, respectively.

Mr. Fu Daotian (傅道田先生), aged 52, is currently our Executive Director and Vice President and serves as a Director of the Company's subsidiary. Mr. Fu graduated from Iowa State University and obtained his doctorate degree in 1989, and carried out his postdoctoral research at the Complex Carbohydrate Research Center in University of Georgia in 1990. He served as the analysis and research manager and the quality control manager of Neose Pharmaceuticals from 1992 to 1998, as a director at Primedica division of Genzyme Transgenics Corporation in the United States from 1998 to 2001, as the technology director, senior technology director and deputy president in technology research from 2001 to 2012. He has been the deputy general manager and the general manager of Livzon MAB Biological Pharmaceutical Technology Co., Ltd. from 2012 to present, and our Vice President and our Executive Director from March 2014 and from June 2014 to present, respectively. From July 2014 to present, he has served as a director of EPIRUS BIOPHARMACEUTICALS, INC. (a company which was listed in NASDAQ of the U.S. in July 2014).

Brief Biographies of Non-executive Directors

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

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

Brief Biographies of Non-executive Directors *(continued)*

Mr. Qiu Qingfeng (邱慶豐先生), aged 44, is currently our Non-executive Director. Mr. Qiu obtained his MBA from China Europe International Business School (中歐國際工商學院) in September 2007. Mr. Qiu joined Shenzhen Taitai Pharmaceutical Company Limited (深圳太太藥業有限公司) in 1996 and is currently a director and the secretary to the board of directors of Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司). Mr. Qiu was the Supervisor and the Chief Supervisor of the Company from June 2005 to April 2007. Mr. Qiu has been our Non-executive Director from April 2007 to present.

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

Brief Biographies of Independent Non-executive Directors

Mr. Xu Yanjun (徐焱軍先生), aged 42, is currently our Independent Non-executive Director, chairman of our Audit Committee and a member of our Remuneration and Assessment Committee and an associate professor and a postgraduate tutor at the International Business School and a director at the Education and Training Center of Jinan University (暨南大學), and an external expert of Zhuhai Science, Industry, Trade & Information Technology Bureau as well as Zhuhai Finance Bureau. He is also a member of China Association Promoting Democracy and a Chinese certified public accountant. Mr. Xu graduated from Wuhan University (武漢大學) and obtained his bachelor degree of science in 1995, graduated from Zhongnan University of Economics and Law (中南財經政法大學) and obtained his master degree in accounting in 2003, and graduated from Jinan University (暨南大學) and obtained his doctorate degree in management (accounting) in 2010. He had served as a quality controller at Wuhan Research Institute of Biological Products of Sinopharm Group, a project manager of Huibei An Yong Xin Accounting Firm (湖北安永信會計師事務所), a project manager at Guangdong Branch of Zhongxingcai Guanghua CPA (formerly Zhuhai Yoanda CPA) and the department head of Finance Department at Zhuhai College of Jinan University (暨南大學). He has been an independent director of Zhuhai Hokai Medical Instruments Co., Ltd. (300273.SZ) from April 2013 to present. He has been our Non-executive Director from June 2014 to present.

Mr. Guo Guoqing (郭國慶先生), aged 53, is currently our Independent Non-executive Director, the Chairman of our Remuneration and Assessment Committee and a member of our Audit Committee and Nomination Committee. Mr. Guo obtained his doctoral degree in economics from Renmin University of China (中國人民大學) in January 1998. Mr. Guo is a committee member of 7th All-China Youth Federation (全國青聯會), 8th, 9th and 10th CPPCC National Committee (全國政協), a member of the 11th National People's Congress (全國人民代表大會) and a member of the Democratic League of China (中國民主同盟) Central Committee. He was one of the experts entitled to special subsidy granted by the State Council of the PRC. Mr. Guo has successively been a deputy director of the School of Trade Economics, the vice-president of the Faculty of Business Administration of Renmin University of China and the vice chairman of China Marketing Association of University (中國高校市場學研究會). Mr. Guo is currently a professor and doctoral tutor of the School of Business of Renmin University of China (中國人民大學) and the director of PRC marketing research centre of Renmin University of China (中國人民大學). Mr. Guo is also a consultant of China Marketing Association of University (中國高校市場學研究會), the vice-president of PRC Business History Society (中國商業史學會) and an expert of the National Natural Science Foundation of Management Science Review Panel (國家自然科學基金委員會管理科學部評審組). Mr. Guo has been our Independent Non-executive Director from June 2013 to present.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

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

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

Name of listed company and stock code	Position	Period
Longrun Tea Group Company Limited (龍潤茶集團有限公司) (02898.HK)	Independent Non-executive Director	August 2002 – present
Beijing Wangfujing Department Store (Group) Co., Ltd. (北京王府井百貨(集團)股份有限公司) (600859.SH)	Independent Director	June 2011 – present
Gree Real Estate Co., Ltd. (格力地產股份有限公司) (600185.SH)	Independent Director	August 2010 – present
Sinosteel Jilin Carbon Co., Ltd. (中鋼集團吉林炭素股份有限公司) (000928.SZ)	Independent Director	June 2011 – May 2014
Jiugui Liquor Co., Ltd. (酒鬼酒股份有限公司) (000799.SZ)	Independent Director	July 2008 – August 2014

Mr. Wang Xiaojun (王小軍先生), aged 60, is currently our Independent Non-executive Director. Mr. Wang graduated from Renmin University of China (中國人民大學) majoring in law in July 1983 and graduated from the Graduate School of the Chinese Academy of Social Sciences (中國社會科學院) in December 1986. Mr. Wang qualified as a lawyer in the PRC in 1988, and passed solicitor qualifying examinations in Hong Kong in 1992. Mr. Wang currently holds lawyer licences in Hong Kong, England and the PRC. During the period from 1992 to 2001, Mr. Wang served as an assistant manager in the China Listing Affairs Unit of the Hong Kong Stock Exchange, a solicitor of Richards Butler, an assistant director of Peregrine Capital Limited and a director of ING Barings Investment Bank. In 2001, he established X.J. Wang & Co. 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 from 2008 to 2014. Mr. Wang has been our Independent Non-executive Director from September 2013 to present.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

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

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

Name of listed company and security 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 – April 2014
Zijin Mining Group Co., Ltd. (紫金礦業集團股份有限公司) (02899 HK)	Independent Director	November 2009 – October 2013

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

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)***Brief Biographies of Supervisors of the Company**

Mr. Wang Maolin (汪卯林先生), aged 49, graduated from the Law Department of Anhui University (安徽大學) and was awarded with a bachelor's degree in Law. From January 2001 to present, Mr. Wang has been our Chief Supervisor of the legal supervision head office. Mr. Wang has been the chairman of our labour union and the employee representative supervisor of our Supervisory Committee from January 2010 to present. In January 2012, Mr. Wang was elected as a representative of 8th Zhuhai People's Congress (珠海市第八屆人民代表大會). He has served as the Chief Supervisor of our Supervisory Committee from June 2014 to present.

Mr. Yuan Huasheng (袁華生先生), aged 52, graduated from China Europe International Business School (中國國際工商學院), obtained his master degree in March 1993 and is a senior economist as well as a senior labour relations coordinator. 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 second 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); a 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); a director and 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 December 2014 (and Vice-President of Zhuhai Airport Group Corp. (珠海機場集團)). He has served as the vice-general manager of Zhuhai Urban Construction Group Co., Ltd since January 2015. Mr. Yuan has been the Supervisor of our Supervisory Committee from June 2013 to present.

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

Brief Biographies of Other Senior Management of the Company

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

Mr. Lu Wenqi (陸文岐先生), aged 47, is currently our Vice President. Mr. Lu obtained his bachelor's degree in industrial electrical automation from Huazhong University of Science and Technology (華中理工大學) in 1988. From 1995 to 2006, Mr. Lu worked as the manager of the project development department of Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司) and a director of the research institute of Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司) (600380.SH). Mr. Lu has been our Vice President from October 2006 to present.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

Brief Biographies of Other Senior Management of the Company *(continued)*

Ms. Si Yanxia (司燕霞女士), aged 46, is currently the Vice President and Chief Financial Officer of the Company. She graduated from the Department of Accounting at Shanxi University of Finance and Economics (山西財經學院) with a bachelor degree in July 1990. She is an accountant and finished part-time CFO study at China Europe International Business School (中歐國際工商學院) from July 2005 to November 2005. She joined the Company since April 1993 and was the manager of the Capital Settlement Center and the manager of the Accounting Center of the Finance & Accounting Head Office of the Group. She has been our Director of Finance & Accounting Head Office from April 2004 to June 2014 and our Vice President and Chief Financial Officer since June 2014 to present.

Mr. Yang Liang (楊亮先生), aged 31, is currently the Secretary to the Board, Company Secretary and authorised representative of the Company. In 2006, he graduated from Jinan University with a Bachelor Degree in Management. He then graduated from the College of Business Administration at South China University of Technology (華南理工大學) with a Master Degree in Management in 2008. He has worked as senior investment project manager in the Secretariat of the Board of the Company since August 2011. From July 2010 to July 2011, he served as the strategic performance director in the Department of Enterprises Management of China International Marine Containers (Group) Ltd. (CIMC, 000039.SZ, 02039.HK). From May 2008 to June 2010, Mr. Yang worked successively as strategic development director and investment and acquisition manager in Zhuhai W.S.M Ltd. He has been the Company Secretary and authorised representative of the Company since June 2014 to present.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE YEAR

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

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

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

APPOINTMENT, RESIGNATION AND DISMISSAL OF DIRECTORS AND SUPERVISORS OF THE COMPANY

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 twenty-seventh meeting of the Seventh Session of the Board of the Company, 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, Chairman of the Audit Committee and a member of Remuneration and Assessment Committee	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.
Xu Yanjun (徐焱軍)	Independent non-executive Director	Newly appointed	30 June 2014	Upon consideration and approval by the 2013 annual general meeting of the Company, 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 Board of the Company, he was appointed as the Chairman of the Audit Committee and a member of the Remuneration and Assessment Committee of the Eighth Session of the Board.
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.

APPOINTMENT, RESIGNATION AND DISMISSAL OF DIRECTORS AND SUPERVISORS OF THE COMPANY *(continued)*

Name	Position	Type	Date	Reason
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 Eighth Session 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 of the Company, he was appointed as the Vice Chairman of the Company.
Yang Daihong (楊代宏)	Executive Director	Newly appointed	24 October 2014	Upon consideration and approval by the first meeting of 2014 extraordinary general meeting of the Company, he was appointed as an Executive Director of the Company.
Yu Xiong (俞雄)	Independent Non-Executive Director	Resigned	27 February 2015	Engagement on work from China State Institute of Pharmaceutical Industry (中國醫藥工業研究總院)

CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Year, there were no changes in shareholdings of Directors, Supervisors and senior management of the Company.

As at 31 December 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:

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 (朱保國先生)	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%

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 (朱保國先生)	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 corporations	Joincare ⁽⁴⁾	742,415,520	48.03%
	Interest of controlled corporations	Zhuhai Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司) ^{(1) (5)}	245,000,000	49.00%

Notes:

- (1) Joincare is 48.03% 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) ("Shenzhen Haibin"), respectively.
- (3) These shares are held directly by Topsino Industries Limited ("Topsino"), a wholly-owned subsidiary of Joincare.
- (4) These shares are held by Baiyeyuan.
- (5) These shares are held by Joincare.

EMPLOYEES OF THE COMPANY

As of the end of the Year, the Company, its wholly-owned subsidiaries and subsidiaries had a total of 5,544 current employees, and the Company and its subsidiaries had partial pension distributed to a total of 590 retired employees.

Current employees' speciality composition and education level

Specialty	Number of staff
Production staff	2851
Sales staff	726
Technical staff	937
Administrative staff	876
Financial staff	154
Total	5544

Education level	Number of staff
Below post-secondary	2553
Post-secondary	1388
Undergraduate	1359
Postgraduate	223
Doctor	21
Total	5544

Employees' Remuneration Policies

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

Employees' Training Plan

During the Year, the Company has facilitated the learning structural construction, based on the concept of serving staff. It has built up a learning platform for staff by establishing "Human Policy Self-help Service Platform" and "Continuing Education Organisational Platform", publishing electric magazines which helped staff to get familiar with the frontline trends of production and industry regulations of the Company. The Company optimised the staff's education level and structure and cultivated the staff's consciousness of market competition. Communications and corporations with Guangdong Food and Drug Vocational College and Adult Training Center of China Pharmaceutical University have been beneficial for staffs to enter into trainings and examinations. Trainings for professionals in research and development have been intensified. By relying on the new Livzon Group's platform of continuing education organisation, it strived to develop its professional continuing education and training programs.



通訊地址：北京市海澱區西四環中路16號院2號樓4層
Postal Address : 4th Floor of Tower 2, No.16 Xisihuanzhong Road,
Haidian District, Beijing
郵政編碼 (Post Code) : 100039
電話 (Tel) : +86(10)88219191
傳真 (Fax) : +86(10)88210558

AUDITORS' REPORT

Rui Hua Shen Zi [2015] No. 40030008

To the Shareholders of Livzon Pharmaceutical Group Inc.

We have audited the attached financial statements of Livzon Pharmaceutical Group Inc. (the "Company"), which comprise the consolidated balance sheet and the balance sheet of the Company as at 31 December 2014 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity and the income statement, cash flow statement and statement of changes in equity of the Company for the year 2014 together with the notes thereto.

1. MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

2. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITIES

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

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

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

3. AUDIT OPINIONS

In our opinion, the above mentioned financial statements are, in all material aspects, prepared in accordance with the Accounting Standards for Business Enterprises and give a fair view on the consolidation of Livzon Pharmaceutical Group Inc. as at 31 December 2014 and the financial conditions of the Company and the consolidation for the year 2014 as well as the operation results and cash flows of the Company.

Ruihua Certified Public Accountants (LLP)

Beijing, the People's Republic of China,

23 March 2015

Wang Shuyan

Chinese Certified Public Accountants

Li Encheng

Chinese Certified Public Accountants

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2014	31 December 2013
Current assets:			
Cash at bank and on hand	VI.1	715,705,603.80	761,044,135.54
Financial assets at fair value through profit or loss	VI.2	6,423,571.77	11,335,125.54
Derivative financial assets			
Bills receivables	VI.3	305,315,241.79	271,431,749.11
Accounts receivables	VI.4	1,072,890,517.48	1,053,350,426.59
Prepayments	VI.5	165,935,012.06	202,437,865.84
Interest receivables			
Dividends receivables			
Other receivables	VI.6	52,132,444.90	39,477,295.95
Inventories	VI.7	847,479,822.39	641,649,965.85
Classified as held-for-sale assets			
Non-current assets due within one year			
Other current assets			
Total current assets		3,165,882,214.19	2,980,726,564.42
Non-current assets:			
Available-for-sale financial assets	VI.8	141,402,772.99	92,294,668.60
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	VI.9	37,771,892.70	41,511,757.45
Investment properties			
Fixed assets	VI.10	2,943,569,643.19	1,976,910,773.96
Construction in progress	VI.11	561,716,329.53	1,082,419,104.88
Construction supplies	VI.12	121,472.17	481,529.20
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets	VI.13	258,275,580.98	224,516,411.93
Development costs	VI.14		
Goodwill	VI.15	103,040,497.85	103,040,497.85
Long-term deferred expenses	VI.16	25,569,660.19	13,914,408.10
Deferred tax assets	VI.17	65,254,992.11	50,190,408.52
Other non-current assets			
Total non-current assets		4,136,722,841.71	3,585,279,560.49
Total assets		7,302,605,055.90	6,566,006,124.91

92 CONSOLIDATED BALANCE SHEET

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2014	31 December 2013
Current liabilities:			
Short-term loans	VI.18	375,920,221.10	491,084,453.79
Financial liabilities at fair value through profit or loss			
Derivatives financial liabilities			
Bills payables	VI.19	352,619,794.63	375,775,891.08
Accounts payables	VI.20	598,748,939.78	435,966,092.72
Receipts in advance	VI.21	56,013,777.28	61,780,193.14
Employee benefits payables	VI.22	69,614,375.75	90,493,756.24
Taxes payables	VI.23	33,211,993.26	89,414,763.31
Interest payables	VI.24	17,089,201.23	15,434,979.65
Dividends payables	VI.25	5,049,329.12	2,531,984.46
Other payables	VI.26	860,502,818.73	766,798,857.30
Classified as held-for-sale liabilities			
Non-current liabilities due within one year	VI.27	400,000.00	400,000.00
Other current liabilities	VI.28	300,000,000.00	
Total current liabilities		2,669,170,450.88	2,329,680,971.69
Non-current liabilities:			
Long-term loans	VI.29	66,500,000.00	149,900,000.00
Notes payables	VI.30	400,000,000.00	400,000,000.00
Of which: preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Special payables			
Accrued liabilities			
Deferred gain	VI.31	77,271,812.03	79,071,532.72
Deferred tax liabilities	VI.17	7,241,263.39	2,834,136.62
Other non-current liabilities			
Total non-current liabilities		551,013,075.42	631,805,669.34
Total liabilities		3,220,183,526.30	2,961,486,641.03
Shareholders' equity:			
Share capital	VI.32	295,721,852.00	295,721,852.00
Other equities			
Of which: Preferred shares			
Perpetual bonds			
Capital reserve	VI.33	212,694,714.74	211,945,629.20
Less: Treasury shares			
Other consolidated earnings	VI.34	-33,326,810.31	-16,328,209.99
Special reserve			
Surplus reserve	VI.35	513,472,484.27	501,196,946.97
General risks provision			
Unallocated earnings	VI.36	2,707,954,326.83	2,352,112,358.31
Total equity attributable to shareholders of the parent company		3,696,516,567.53	3,344,648,576.49
Non-controlling interests		385,904,962.07	259,870,907.39
Total shareholders' equity		4,082,421,529.60	3,604,519,483.88
Total liabilities and shareholders' equity		7,302,605,055.90	6,566,006,124.91

Legal representatives:
Zhu Baoguo

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the Year	For the Previous Year
I. Total operating income		5,544,233,777.86	4,618,680,040.86
Including: Operating income	VI.37	5,544,233,777.86	4,618,680,040.86
II. Total operating costs		4,963,009,813.13	4,031,426,221.20
Including: Operating costs	VI.37	2,142,911,022.41	1,694,615,109.00
Business taxes and surcharges	VI.38	69,192,335.88	58,522,104.24
Selling expenses	VI.39	2,208,218,745.28	1,810,747,376.60
Administrative expenses	VI.40	464,522,751.34	437,293,065.57
Financial expenses	VI.41	20,631,590.86	-15,076,696.90
Impairment loss	VI.42	57,533,367.36	45,325,262.69
Add: Gains from changes in fair value ("—" represents losses)	VI.43	-4,939,260.57	-1,236,410.63
Investment income ("—" represents losses)	VI.44	8,223,836.93	4,539,511.05
Including: Income from investment in associates and jointly controlled entities		4,781,707.78	2,803,662.91
III. Operating profit ("—" represents losses)		584,508,541.09	590,556,920.08
Add: Non-operating income	VI.45	70,113,415.16	43,108,434.91
Including: Profit from disposal of non-current assets		355,242.11	359,811.57
Less: Non-operating expenses	VI.46	2,596,922.38	4,724,901.29
Including: Losses from disposal of non- current assets		1,354,272.04	179,663.39
IV. Profit before income tax ("—" represents total losses)		652,025,033.87	628,940,453.70
Less: Income tax expenses	VI.47	98,402,861.09	104,953,936.07
V. Net profit ("—" represents net losses)		553,622,172.78	523,986,517.63
Net profit attributable to the shareholders of the parent company		515,978,431.82	487,502,351.80
Profit or loss from non-controlling interests		37,643,740.96	36,484,165.83

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the Year	For the Previous Year
VI. Other comprehensive net income after taxation	VI.48	-31,281,778.71	-2,765,356.39
Other comprehensive net income after taxation attributable to the shareholders of the parent company		-16,998,600.32	-2,748,485.94
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss			
1. Changes caused by re-measurement of net liabilities or net assets of benefit plans			
2. Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method			
(II) Other comprehensive income items subsequently to be re-classified as profit or loss		-16,998,600.32	-2,748,485.94
1. Other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method			
2. Profit and loss from change of fair value of available-for-sale financial assets		-17,246,053.09	-485,604.92
3. Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss			
4. Portion of the gains or losses arising from cash valid flow hedges instrument			
5. Translation differences of financial statements denominated in foreign currency		247,452.77	-2,262,881.02
6. Others			
Other comprehensive net income after taxation attributable to non-controlling interests		-14,283,178.39	-16,870.45
VII. Total comprehensive income		522,340,394.07	521,221,161.24
Total comprehensive income attributable to the shareholders of the parent company		498,979,831.50	484,753,865.86
Total comprehensive income attributable to non-controlling interests		23,360,562.57	36,467,295.38
VIII. Earnings per share:			
(I) Basic earnings per share	VI.49	1.74	1.65
(II) Diluted earnings per share	VI.49	1.74	1.65

Legal representatives:
Zhu Baoguo

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

CONSOLIDATED CASH FLOW STATEMENT

95

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the Year	For the Previous Year
I. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		5,734,733,028.52	4,456,512,759.42
Refund of taxes		34,804,053.19	18,024,648.66
Cash received relating to other operating activities	VI.51	116,438,994.13	139,596,652.32
Sub-total of cash inflows from operating activities		5,885,976,075.84	4,614,134,060.40
Cash paid for purchasing goods and services		1,631,606,641.93	1,283,593,895.13
Cash paid to and for employees		421,094,103.74	375,282,809.41
Cash paid for all types of taxes		769,748,289.54	637,719,137.22
Cash paid relating to other operating activities	VI.51	2,346,133,147.08	1,877,551,692.95
Sub-total of cash outflows from operating activities		5,168,582,182.29	4,174,147,534.71
Net cash flows from operating activities		717,393,893.55	439,986,525.69
II. Cash flows from investing activities:			
Cash received from disposal of investments		10,181,993.32	46,531,879.23
Cash received from return on investments		4,167,796.06	891,519.24
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,830,255.60	186,298.00
Net cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investing activities	VI.51	11,844,211.41	6,849,946.69
Sub-total of cash inflows from investing activities		29,024,256.39	54,459,643.16
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		665,519,169.35	920,001,234.77
Cash paid for acquisition of investments		93,254,995.09	460,000.00
Net cash paid for acquisition of subsidiaries and other operating entities			
Cash paid relating to other investing activities	VI.51	8,255,955.14	8,563,590.71
Sub-total of cash outflows from investing activities		767,030,119.58	929,024,825.48
Net cash flows from investing activities		-738,005,863.19	-874,565,182.32

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the Year	For the Previous Year
III. Cash flows from financing activities:			
Cash received from investors		98,000,000.00	51,500,000.00
Including: Cash received from non-controlling shareholders of subsidiaries		98,000,000.00	51,500,000.00
Cash received from borrowings		964,948,392.37	947,017,564.37
Cash received from issue of financing bills		300,000,000.00	400,000,000.00
Cash received relating to other financing activities	VI.51		40,666,343.14
Sub-total of cash inflows from financing activities		1,362,948,392.37	1,439,183,907.51
Cash repayments of borrowings		1,167,396,663.73	1,235,160,644.60
Cash paid for dividends, profit distributions or interest		216,433,837.01	192,256,865.44
Including: Dividends and profits paid to non-controlling shareholders of subsidiaries		17,150,000.00	
Cash paid relating to other financing activities	VI.51		4,000,000.00
Sub-total of cash outflows from financing activities		1,383,830,500.74	1,431,417,510.04
Net cash flows from financing activities		-20,882,108.37	7,766,397.47
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-320,229.13	-895,308.05
V. Net increase in cash and cash equivalents		-41,814,307.14	-427,707,567.21
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		709,114,426.17	750,928,733.31

Legal representatives:
Zhu Baoguo

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For the year													Total	
	Attributable to shareholders of the Parent Company													Non-controlling shareholders' interests	Total shareholders' equity
	Share capital	Preferred Shares	Other Equities	Residual Shares	Others	Capital reserve	Treasury shares	Less: Comprehensive income	Other income	Special reserve	Surplus reserve	General risks provision	Retained earnings	Others	
Balance at 31 December 2013	25,721,952.00					201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
Add: effect of change in accounting policies															
Effect of correction on errors in prior years															
Business combination under common control															
Others															
II. Change in equity for the year (-)						201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
1. Appropriation of profits (representers share)						748,085.54		-15,998,861.32			12,275,593.20	353,441,986.52	353,441,986.52	87,767,967.38	
(I) Total comprehensive income						748,085.54		-15,998,861.32			12,275,593.20	353,441,986.52	353,441,986.52	87,767,967.38	
(II) Shareholders' contributions and decrease of capital														36,467,255.38	
1. Ordinary share issued by shareholders														36,467,255.38	
2. Capital contributed by holders of other equities															
3. Increase in shareholders' equity resulted from stock-based payments															
4. Others															
(III) Appropriation of profits															
1. Appropriation of surplus reserve															
2. Appropriation of general risks provision															
3. Contributions to shareholders															
4. Others															
(IV) Transfer of shareholders' equity internally															
1. Capital reserve transferred to capital (or share capital)															
2. Surplus reserve transferred to capital (or share capital)															
3. Surplus reserve transferred to retained earnings for losses incurred															
4. Others															
(V) Special income															
1. Appropriation of special reserve															
2. Utilization of special reserve															
(VI) Others															
Balance at 31 December 2014	25,721,952.00					201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
Add: effect of change in accounting policies															
Effect of correction on errors in prior years															
Business combination under common control															
Others															
II. Change in equity for the year (-)						201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
1. Appropriation of profits (representers share)						748,085.54		-15,998,861.32			12,275,593.20	353,441,986.52	353,441,986.52	87,767,967.38	
(I) Total comprehensive income						748,085.54		-15,998,861.32			12,275,593.20	353,441,986.52	353,441,986.52	87,767,967.38	
(II) Shareholders' contributions and decrease of capital														36,467,255.38	
1. Ordinary share issued by shareholders														36,467,255.38	
2. Capital contributed by holders of other equities															
3. Increase in shareholders' equity resulted from stock-based payments															
4. Others															
(III) Appropriation of profits															
1. Appropriation of surplus reserve															
2. Appropriation of general risks provision															
3. Contributions to shareholders															
4. Others															
(IV) Transfer of shareholders' equity internally															
1. Capital reserve transferred to capital (or share capital)															
2. Surplus reserve transferred to capital (or share capital)															
3. Surplus reserve transferred to retained earnings for losses incurred															
4. Others															
(V) Special income															
1. Appropriation of special reserve															
2. Utilization of special reserve															
(VI) Others															
Balance at 31 December 2015	25,721,952.00					201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
Add: effect of change in accounting policies															
Effect of correction on errors in prior years															
Business combination under common control															
Others															
II. Change in equity for the year (-)						201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
1. Appropriation of profits (representers share)						748,085.54		-15,998,861.32			12,275,593.20	353,441,986.52	353,441,986.52	87,767,967.38	
(I) Total comprehensive income						748,085.54		-15,998,861.32			12,275,593.20	353,441,986.52	353,441,986.52	87,767,967.38	
(II) Shareholders' contributions and decrease of capital														36,467,255.38	
1. Ordinary share issued by shareholders														36,467,255.38	
2. Capital contributed by holders of other equities															
3. Increase in shareholders' equity resulted from stock-based payments															
4. Others															
(III) Appropriation of profits															
1. Appropriation of surplus reserve															
2. Appropriation of general risks provision															
3. Contributions to shareholders															
4. Others															
(IV) Transfer of shareholders' equity internally															
1. Capital reserve transferred to capital (or share capital)															
2. Surplus reserve transferred to capital (or share capital)															
3. Surplus reserve transferred to retained earnings for losses incurred															
4. Others															
(V) Special income															
1. Appropriation of special reserve															
2. Utilization of special reserve															
(VI) Others															
Balance at 31 December 2016	25,721,952.00					201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
Add: effect of change in accounting policies															
Effect of correction on errors in prior years															
Business combination under common control															
Others															
II. Change in equity for the year (-)						201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
1. Appropriation of profits (representers share)						748,085.54		-15,998,861.32			12,275,593.20	353,441,986.52	353,441,986.52	87,767,967.38	
(I) Total comprehensive income						748,085.54		-15,998,861.32			12,275,593.20	353,441,986.52	353,441,986.52	87,767,967.38	
(II) Shareholders' contributions and decrease of capital														36,467,255.38	
1. Ordinary share issued by shareholders														36,467,255.38	
2. Capital contributed by holders of other equities															
3. Increase in shareholders' equity resulted from stock-based payments															
4. Others															
(III) Appropriation of profits															
1. Appropriation of surplus reserve															
2. Appropriation of general risks provision															
3. Contributions to shareholders															
4. Others															
(IV) Transfer of shareholders' equity internally															
1. Capital reserve transferred to capital (or share capital)															
2. Surplus reserve transferred to capital (or share capital)															
3. Surplus reserve transferred to retained earnings for losses incurred															
4. Others															
(V) Special income															
1. Appropriation of special reserve															
2. Utilization of special reserve															
(VI) Others															
Balance at 31 December 2017	25,721,952.00					201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
Add: effect of change in accounting policies															
Effect of correction on errors in prior years															
Business combination under common control															
Others															
II. Change in equity for the year (-)						201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
1. Appropriation of profits (representers share)						748,085.54		-15,998,861.32			12,275,593.20	353,441,986.52	353,441,986.52	87,767,967.38	
(I) Total comprehensive income						748,085.54		-15,998,861.32			12,275,593.20	353,441,986.52	353,441,986.52	87,767,967.38	
(II) Shareholders' contributions and decrease of capital														36,467,255.38	
1. Ordinary share issued by shareholders														36,467,255.38	
2. Capital contributed by holders of other equities															
3. Increase in shareholders' equity resulted from stock-based payments															
4. Others															
(III) Appropriation of profits															
1. Appropriation of surplus reserve															
2. Appropriation of general risks provision															
3. Contributions to shareholders															
4. Others															
(IV) Transfer of shareholders' equity internally															
1. Capital reserve transferred to capital (or share capital)															
2. Surplus reserve transferred to capital (or share capital)															
3. Surplus reserve transferred to retained earnings for losses incurred															
4. Others															
(V) Special income															
1. Appropriation of special reserve															
2. Utilization of special reserve															
(VI) Others															
Balance at 31 December 2018	25,721,952.00					201,945,929.20		-15,128,293.59			510,195,944.57	2,354,123,983.31	2,354,123,983.31	172,183,440.01	
Add: effect of change in accounting policies															
Effect of correction on errors in prior years															
Business combination under common control															
Others															
II. Change in equity for the year (-)															

Name of the accounting firm's principal:
Zhuang Jianying

Principal in charge of accounting work:
Si Yanxia

Legal representatives:
Zhu Baoguo

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2014	31 December 2013
Current assets:			
Cash at bank and on hand		611,639,109.41	605,185,530.12
Financial assets at fair value through profit or loss			
Derivative financial assets			
Bills receivables		181,046,438.78	120,567,146.16
Accounts receivables	XVII.1	593,485,326.96	539,436,165.11
Prepayments		27,017,775.87	20,854,996.19
Interest receivables			
Dividends receivables			
Other receivables	XVII.2	1,480,787,894.81	1,310,892,358.58
Inventories		139,040,977.30	92,506,921.96
Classified as held-for-sale assets			
Non-current assets due within one year			
Other current assets			
Total current assets		3,033,017,523.13	2,689,443,118.12
Non-current assets:			
Available-for-sale financial assets		86,570,027.83	91,794,668.60
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XVII.3	1,714,413,011.87	1,630,813,503.28
Investment properties			
Fixed assets		76,953,739.79	83,633,614.63
Construction in progress			
Construction supplies			
Fixed assets to be disposed			
Bearer biological assets			
Oil and gas assets			
Intangible assets		31,840,732.46	29,475,846.39
Development costs			
Goodwill			
Long-term deferred expenses		240,000.00	
Deferred tax assets		12,042,901.45	16,692,683.03
Other non-current assets			
Non-Total current assets		1,922,060,413.40	1,852,410,315.93
Total assets		4,955,077,936.53	4,541,853,434.05

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	31 December 2014	31 December 2013
Current liabilities:			
Short-term loans		56,009,770.00	362,142,733.79
Financial liabilities at fair value through profit and loss			
Derivative financial liabilities			
Bills payables		369,572,162.56	643,744,938.79
Accounts payables		408,184,644.28	162,503,401.93
Receipts in advance		9,179,615.60	10,149,207.65
Employee benefits payables		10,293,617.42	16,057,652.73
Taxes payables		23,162,584.35	37,262,819.18
Interest payables		16,065,090.02	14,494,945.92
Dividends payables		2,537,519.12	20,174.46
Other payables		1,925,930,936.25	1,437,995,908.72
Classified as held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities		300,000,000.00	
Total current liabilities		3,120,935,939.60	2,684,371,783.17
Non-current liabilities:			
Long-term loans			
Notes payables		400,000,000.00	400,000,000.00
of which: preferred shares			
perpetual bonds			
Long-term payables			
Long-term employee benefits payables			
Special payables			
Accrued liabilities			
Deferred income		11,129,525.60	10,297,117.74
Deferred tax liabilities		2,417,229.95	1,132,729.35
Other non-current liabilities			
Total non-current liabilities		413,546,755.55	411,429,847.09
Total liabilities		3,534,482,695.15	3,095,801,630.26
Shareholders' equity:			
Share capital		295,721,852.00	295,721,852.00
Other equity instruments			
of which: preferred shares			
perpetual bonds			
Capital reserve		334,222,023.09	332,214,740.02
Less: Treasury shares			
Other comprehensive income		4,060,507.07	6,418,799.56
Special reserve			
Surplus reserve		308,509,430.69	296,233,893.39
General risks provision			
Retained earnings		478,081,428.53	515,462,518.82
Total shareholders' equity		1,420,595,241.38	1,446,051,803.79
Total liabilities and shareholders' equity		4,955,077,936.53	4,541,853,434.05

Legal representatives:
Zhu Baoguo

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the Year	For the Previous Year
I. Operating income	XVII.4	3,108,878,505.18	2,189,485,421.69
Less: Operating costs	XVII.4	1,386,595,502.39	847,936,418.27
Business taxes and surcharges	XVII.5	31,831,106.99	26,332,944.59
Selling expenses		1,500,165,448.07	1,050,499,381.91
Administrative expenses		142,780,858.35	149,250,698.10
Financial expenses		-27,122,507.78	-23,719,958.75
Impairment loss		386,925.46	22,026,725.22
Add: Gains from changes in fair value ("—" represents losses)			
Investment income ("—" represents losses)	XVII.6	20,834,109.22	1,278,528.23
Including: Gains from investment in associates and joint ventures		1,078,882.36	570,412.87
II. Operating profit ("—" represents losses)		95,075,280.92	118,437,740.58
Add: Non-operating income		43,729,115.14	8,347,840.13
of which: proceeds from disposal of non-current assets		163,124.00	286,290.00
Less: Non-operating expenses		775,488.63	2,097,854.12
of which: Losses from disposal of non-current assets		90,858.14	179,663.39
III. Total profit ("—" represents total losses)		138,028,907.43	124,687,726.59
Less: Income tax expenses		15,273,534.42	15,908,625.89
IV. Net profit ("—" represents net losses)		122,755,373.01	108,779,100.70
V. Other comprehensive income after tax, net		-2,358,292.49	-485,604.92
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss			
1. Changes caused by re-measurement of net liabilities or net assets of benefit plans			
2. Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method			

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the Year	For the Previous Year
(II) Other comprehensive income items subsequently to be re-classified as profit or loss		-2,358,292.49	-485,604.92
1. Other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method			
2. Profit and loss from change of fair value of available-for-sale financial assets		-2,358,292.49	-485,604.92
3. Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss			
4. Valid portion of the gains or losses arising from cash flow hedges instrument			
5. Translation differences of financial statements denominated in foreign currency			
6. Others			
VI. Total comprehensive income		120,397,080.52	108,293,495.78

Legal representatives:
Zhu Baoguo

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the Year	For the Previous Year
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		3,472,098,691.02	2,193,466,591.99
Refund of taxes			
Cash received relating to other operating activities		239,401,113.82	84,364,389.45
Sub-total of cash inflows from operating activities		3,711,499,804.84	2,277,830,981.44
Cash paid for purchasing goods and services		1,326,639,464.70	967,459,771.66
Cash paid to and for employees		75,918,710.38	78,808,595.73
Cash paid for all types of taxes		308,688,223.78	253,629,400.23
Cash paid relating to other operating activities		1,603,462,957.83	1,072,167,311.74
Sub-total of cash outflows from operating activities		3,314,709,356.69	2,372,065,079.36
Net cash flows from operating activities		396,790,448.15	-94,234,097.92
II. Cash flows from investing activities:			
Cash received from disposal of investments		30,747,287.90	
Cash received from return on investments		18,764,091.30	708,115.36
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		2,464,091.30	
Sub-total of cash inflows from investing activities		52,136,739.94	781,115.36
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		22,883,958.07	22,742,638.91
Cash paid for acquisition of investments		109,890,690.87	51,900,000.00
Cash paid relating to other investing activities		2,400,000.00	
Sub-total of cash outflows from investing activities		135,174,648.94	74,642,638.91
Net cash flows from investing activities		-83,037,909.00	-73,861,523.55

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	Notes	For the Year	For the Previous Year
III. Cash flows from financing activities:			
Cash received from investors			
Borrowings received from subsidiaries		612,806,170.42	321,813,407.55
Cash received from borrowings		456,272,470.00	666,513,754.37
Cash received from issue of bonds		300,000,000.00	400,000,000.00
Cash received relating to other financing activities			40,666,343.14
Sub-total of cash inflows from financing activities		1,369,078,640.42	1,428,993,505.06
Cash repayments of borrowings		761,890,491.44	1,096,531,655.40
Cash paid for dividends, profit distributions or interest		172,320,921.73	176,564,191.21
Advances to subsidiaries			
Cash paid relating to other financing activities		742,148,928.59	481,494,332.78
Sub-total of cash outflows from financing activities		1,676,360,341.76	1,754,590,179.39
Net cash flows from financing activities		-307,281,701.34	-325,596,674.33
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-17,198.89	-350,219.36
V. Net increase in cash and cash equivalents		6,453,638.92	-494,042,515.16
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		611,630,017.65	605,176,378.73

Legal representatives:

Zhu Baoguo

Principal in charge of
accounting work:

Si Yanxia

Name of the accounting firm's
principal:

Zhuang Jianying

Prepared by: Livzon Pharmaceutical Group Inc.

Amount denominated: RMB

Item	For this year										For the previous year									
	Share capital	Other equities Preferred Shares	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserve	General provision	Retained earnings	Total shareholders' equity	Share capital	Other equities Preferred Shares	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserve	General provision	Retained earnings	Total shareholders' equity
I. Balance at 31 December 2013	295,721,852.00		332,714,740.02		6,418,799.56		296,233,893.39		515,462,518.82	1,446,051,803.79	295,721,852.00		332,714,740.02		6,304,404.48		283,553,683.32		565,402,254.19	1,485,619,234.01
Add: effects of changes in accounting policies																				
Effects of corrections on errors in prior years																				
Others																				
II. Balance at 1 January 2014	295,721,852.00		332,714,740.02		6,418,799.56		296,233,893.39		515,462,518.82	1,446,051,803.79	295,721,852.00		332,714,740.02		6,304,404.48		283,553,683.32		565,402,254.19	1,485,619,234.01
III. Changes in equity for the year (= represents decrease)			2,007,283.07		-23,582,92.49		12,275,537.30		-37,841,090.29	-25,665,562.41					-485,604.92		10,877,910.07		-49,559,735.37	-39,577,460.22
(I) Shareholders' contributions and decrease of capital			2,007,283.07		-23,582,92.49				1,122,155,373.01	100,397,080.52					-485,604.92				108,779,100.70	108,293,695.78
1. Ordinary shares issued by shareholders																				
2. Capital contributed by holders of other equities																				
3. Increase in shareholders' equity resulted from share-based payments																				
4. Others			2,007,283.07							2,007,283.07										
(II) Appropriation of profits																				
1. Appropriation of surplus reserve							12,275,537.30		-1,601,196,463.30	-147,860,926.00							10,877,910.07		-138,738,836.07	-147,860,926.00
2. Appropriation of general risks provision							12,275,537.30		-12,275,537.30								10,877,910.07		-10,877,910.07	
3. Distributions to shareholders																				
4. Others																				
(IV) 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																				
(V) Special reserve																				
1. Appropriation of special reserve																				
2. Utilisation of special reserve																				
(VI) Others																				
IV. Balance at 31 December 2014	295,721,852.00		334,722,023.09		4,040,507.07		308,509,430.69		478,081,428.53	1,420,595,241.38	295,721,852.00		332,714,740.02		6,418,799.56		296,233,893.39		515,462,518.82	1,446,051,803.79

Principal in charge of
accounting work:
Si Yanxia

Name of the accounting firm's
principal:
Zhuang Jianying

Legal representatives:
Zhu Baoguo

I. COMPANY STATUS

1. History and development

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

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

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

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

I. COMPANY STATUS *(continued)*

1. History and development *(continued)*

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

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

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

2. Industry of the Company

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

3. Scope of business

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

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

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

The financial statements has been approved and published by the Board meeting on 24 March 2015.

Please refer to note. VIII "Equity in other entities" for names of subsidiaries included into the consolidation in 2014. One more subsidiary is added compared with the previous year, please refer to note. VII "Change to consolidation scope".

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 as MOF Decree No. 33, revised as MOF Decree No. 76), and another 41 specific accounting standards amended on or after 15 February 2006. 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 2014) 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 held-for-sale non-fixed assets are measured at the fair value less the estimated expense or the original carrying amount existing when the sale conditions are satisfied, whichever is the lower. In case of impairment, the impairment loss shall be determined in accordance with applicable provisions.

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

The financial statements prepared by the Company comply with the Accounting Standards for Business Enterprises, which truly and completely present the information on the financial conditions of the Company as at 31 December 2014 and the results and cash flow of the Company for the year 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 2014) 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) and in Article 51 of Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements (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; in respect of any other comprehensive income attributable to the equity interest in the acquiree prior to the acquisition date, other comprehensive income is accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree at the time of disposal (i.e. to be transferred to investment income for the period, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan using the equity method attributable to the acquiree).

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; in respect of any other comprehensive income attributable to the equity interest in the acquiree held prior to the acquisition date, other comprehensive income is accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree (i.e. to be transferred to investment income at the acquisition date, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan using the equity method attributable to the acquiree) is transferred to investment income in the period of 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 means the Company has exposures or rights to variable returns from its involvement with the investee and the ability to affect those returns through power over such investee. The scope of consolidation comprises the Company and all of its subsidiaries. Subsidiaries are the entities controlled by the Company.

The Company will re-evaluate the definition once any relative element change due to facts or circumstances change.

(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. Other comprehensive income in relation to the subsidiary are accounted on the same basis as the investee when control cease (i.e. except for changes due to net liabilities or net assets from such investee's re-measured defined benefits plan, the rest are reclassified as investment income during the period). 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.

(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 as the “differences resulting from the translation of financial statements in foreign currencies” under the other comprehensive income 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 are recognised as the other comprehensive income. 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

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities measured at fair value and changes recorded in current profit and loss, relevant transaction costs are directly accounted in profit and loss. For other financial assets and financial liabilities, relevant transaction costs are accounted in initially recognized amount.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing market participants in an arm's length transaction at the measurement date. 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.

1 *Financial assets at fair value through profit or loss*

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

7. Financial Instruments (continued)

(2) Classification, recognition and measurement of financial instruments (continued)

2 Held-to-maturity investments

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

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

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

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

3 Loans and receivables

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

7. Financial Instruments (continued)

(2) Classification, recognition and measurement of financial instruments (continued)

4 Available-for-sale financial assets

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

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

Available-for-sale financial assets are subsequently measured at fair value. The gains or losses arising from the change in fair value are recognised as other comprehensive income 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. However, for derivatives that are linked to equity instruments for which there are no quoted price in active market or the fair value of the underlying equity instruments cannot be measured reliably and the derivative have to be settled by delivering the underlying equity instrument are subsequently measured by costs.

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. Change to share equity is accounted when the Company issue (including refinance), buyback, sell or cancel equity instrument. 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.

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

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	Basis for determining portfolio of credit risk by ageing	
Method of bad debts provision based on portfolio	Ageing analysis method	
Method of bad debts provision of receivables based on portfolio of credit risk by ageing:		
Ageing	Percentage of provision for accounts receivables	Percentage of provision for other receivables
within one year (including one year)	5%	5%
1-2 years (including 2 year)	6%	6%
2-3 years (including 3 year)	20%	20%
3-4 years (including 4 year)	70%	70%
4-5 years (including 5 year)	90%	90%
over 5 years	100%	100%

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

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

Basis for determining the portfolio	Amount that are not individually significant and aged over 3 years
Method of bad debts provision	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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

8. Receivables (continued)

(1) Treatment of bad debts provision (continued)

4 (continued)

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

(2) Reversal of bad debts provision

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

9. Inventories

(1) Classification of inventories

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

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

(3) Method of measurement

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

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

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

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 investment refers to those with which the Company exercise control over the invested entity, or has significant influence on its operation, or equity investment in joint ventures.

Subsidiaries are the investees over which the Company is able to exercise control. Joint ventures are the investees over which the Group is able to exercise joint control together with other venturers and the Company is interested only in the net assets of the investees. Associates are the investees that the Company has significant influence on their financial and operating decisions.

Investment in subsidiaries is presented in the Company's financial statements using the cost method. Investment in joint ventures and associates is accounted for using the equity method.

(1) Determination of investment cost

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

10. Long-term equity investment (continued)

(2) Subsequent measurement and recognition of profit or loss

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.

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

10. Long-term equity investment (continued)

(2) Subsequent measurement and recognition of profit or loss (continued)

2 Long-term equity investment accounted for using the equity method (continued)

For long-term equity investment accounted for using equity method, return on investment and other comprehensive income are recognized separately according to the share in the invested entity's net profit/or loss and its other comprehensive income, with the book value adjusted for the long-term equity investment by the Company. Book value of the long-term equity investment will be deducted according to the announced profit to be distributed by the invested entity or the share of cash dividend. Changes to shareholders' equity other than net profit/or loss, other comprehensive and profit distribution cause book value of long-term equity investment to be adjusted, and taken into capital reserve. Net profit of the invested entity are recognized after adjustment on the basis of fair value of all recognizable assets of the invested entity on acquisition. Accounting policies and accounting period of the invested entity will be adjusted according to the Company's relative regulations if that entity adopted different policies. Meanwhile return on investment and other comprehensive income are adjusted accordingly. For transactions between the Company and its associates and joint ventures not constituting business transactions by transferring or selling assets, relative unrealized profit/or loss on internal transactions attributable to the Company pro rata will be offset, and return on investment will be recognized on such basis. However if such realized loss on internal transactions are classified as loss on decline in value of asset, then the relative loss are not to be offset.

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

3 Acquisition of non-controlling interests

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

10. Long-term equity investment (continued)

(2) Subsequent measurement and recognition of profit or loss (continued)

4 Disposal of long-term equity investment

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

In other cases, upon the disposal of a long-term equity investment, the difference between the carrying amount of the investment and the sales proceeds received is recognised in the profit or loss for the current period.

For long-term equity investment accounted for using equity method, and the remaining equity accounted with equity method after partial disposal, the other comprehensive income originally accounted into shareholders' equity will be accounted on the same basis as the invested entity while disposing relative asset or liability according to its proportion. Shareholders' equity recognized by the invested entity due to change to such item other than net profit/or loss, other comprehensive income or profit distribution, will be accounted into the current profit or loss.

For the remaining equity accounted with cost method after partial disposal, the same basis as the invested entity while disposing relative asset or liability will be used for the other comprehensive income recognized using equity method before the investment, or recognized by the regulations of financial instrument recognition and measurement, and such income will be transferred to the current profit or loss proportionately. Changes to shareholders' equity other than those caused by net profit or loss, other comprehensive income or profit distribution will be taken into the current profit or loss.

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

Joint control is the contractually agreed sharing of control over an activity, and exists only when decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence refers to the power to participate in the financial and operational decisions of the investee without control or common control over the formulation of such policies. When determining whether it has control or significant influence over the investee, the Company shall consider the convertible corporate bonds, exercisable call options and other voting rights of the investee held by the Company in the current period.

(4) Impairment test and provision for impairment

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

11. Investment Properties

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

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Fixed Assets

(1) Recognition of fixed assets

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

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

(2) Classification of fixed assets

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

(3) Measurement of fixed assets

Fixed assets are initially measured at cost.

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

12. Fixed Assets (continued)

(3) Measurement of fixed assets (continued)

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

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

(4) Method for depreciation of fixed assets

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

13. Construction in progress

(1) Classification of construction in progress

Construction in progress is classified into individual projects.

(2) Conversion of construction in progress to fixed assets

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

(3) Impairment of construction in progress

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

14. Borrowing Costs

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

15. Biological Assets

(1) Determination and classification of biological assets

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

16. Intangible Assets

(1) Intangible assets

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

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

Intangible assets are measured initially at cost.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

16. Intangible Assets *(continued)*

(1) Intangible assets *(continued)*

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

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

(2) Research and development expenditures

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

16. Intangible Assets (continued)

(2) Research and development expenditures (continued)

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

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

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

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

17. Long-term deferred expenses

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

18. Impairment of Non-fixed Non-financial Assets

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

19. Employee compensation

Employee compensation of the Company mainly comprise short-term employee compensation, welfare post resignation, and welfare post cancellation of the labor relationship, including:

Short-term employee compensation include wage, bonus, allowances and subsidies, employee welfare expenditures, medical insurance expenditures, maternity insurance expenditures, work injury insurance expenditures, housing accumulation fund expenditures, labor union expenditures and employee education expenses, non-monetary welfare, etc. During the accounting period that an employee's providing services to the Company, The Company recognize the relative short-term employee compensation incurred as liabilities, and will account for in the current Profit and Loss or relative cost of asset. Non-monetary welfare will be measured by fair value.

Welfare post resignation mainly comprises of defined provision plan, which include basic endowment insurance, unemployment insurance. The relative payables will be accounted for in the relative cost of asset or the current profit and loss.

The relative employee compensation liabilities due to cancellation of labor relationship are recognized and taken into the current Profit and Loss, when the Company cancels the labor relationship with any employee prior to the expiration of the relevant labor contract, or brings forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, on the earlier date between the date that Company cannot withdraw the relative compensation, or date that the Company recognize reconstruction of cost involving payment of compensation for the cancellation of the labor relationship with the employee.

Internal retirement plan adopts the same principles as the above mentioned compensation for the cancellation of the labor relationship with the employee. The Company account for the wage and social insurance payables incurred from the date the relative employee cease services to the Company to his/her date of expected retirement to the internally retired employee into the current Profit and Loss (i.e. compensation for the cancellation of the labor relationship with the employee), when requirements for recognition of provision are met.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

20. 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.

(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.

21. 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)

22. 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)

22. 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.

23. 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)

23. 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.

24. 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)***25. 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)

25. 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.

26. 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)

27. Leases

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

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

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

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

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(continued)

27. Leases (continued)

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

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

28. Held-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 held-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. Held-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 held-for-sale non-fixed assets after classified as held-for-sale assets, the Company stops classifying it as held-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 held-for-sale assets adjusted based on the originally recognised depreciation, amortisation or impairment as if it had not been classified as held-for-sale assets; (2) the recoverable amount on the date when the Company determines not to sell the group, whichever is the lower.

29. Change of significant accounting policies, accounting estimates and correction to accounting errors

According to the “Announcement of amending and issuing of ‘Accounting Standards for Business Enterprises No. 2 –Long-term equity investment’”(Caikuai[2014]No.14), “Announcement of amending and issuing of ‘Accounting Standards for Business Enterprises No. 41 –Disclosure of interest in other entity’”(Caikuai[2014]No.16), companies that are listed in overseas market are encouraged to apply early the above new and amended accounting standards. Therefore, as approved on the second meeting of the eight board of the Company, the Company adopted an early application of the above two accounting standards from 1 January 2014. In preparing 2014 annual financial report, the Company had followed “Accounting Standards for Business Enterprises No.37-Presentation of financial instruments (2014 Amendment)” as in Caikuai[2014]No.23, and adjusted as appropriate for smooth transition between standards.

The impact of applying the above accounting standards on the accounting policies of the Company and the impact on the financial statements of the year is set out below:

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES*(continued)***29. Change of significant accounting policies, accounting estimates and correction to accounting errors** *(continued)***(1) Consolidated financial statement**

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

(2) Statement of parent company

	Opening balance before adoption	Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Longterm Equity Investment)	Opening balance after adoption
2014年			
Available-for-sale financial assets	10,041,559.76	81,753,108.84	91,794,668.60
Long-term equity investments	1,712,566,612.12	-81,753,108.84	1,630,813,503.28
	Opening balance before adoption	Adoption of Accounting Standards (Accounting Standards for Business Enterprises No.2 – Longterm Equity Investment)	Opening balance after adoption
2013			
Available-for-sale financial assets	10,612,859.66	81,753,108.84	92,365,968.50
Long-term equity investments	1,660,096,199.25	-81,753,108.84	1,578,343,090.41

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

V. TAXATION

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

Types of tax	Basis of taxation	Tax rate
Value added tax	Income from sales of products and raw materials	Value added tax rate for sales of biological preparation: 3% and 6%, value added tax rate for other sales: 17%.
Business tax	Taxable operating income	5%
Urban maintenance and construction tax	Turnover tax to be paid	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 to be paid since 1 January 2011. Other subsidiaries shall pay local education surcharges according to the tax rate as specified at its place of incorporation on the basis of turnover tax to be paid.

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

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

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

Preferential value added tax:

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

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

Preferential enterprise income tax:

The Company and its subsidiaries, Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠) and Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司) were recognised as proposed high and new technology enterprises in 2014; the subsidiaries, Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司) have obtained the certificates of high and new technology enterprises before March 2015. Such companies were subject to preferential enterprise income tax rates for 3 years starting from 2014. 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) 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 starting from 2013 and were subject to an enterprise income tax rate of 15% for the year.

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 year.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

Item	Balance at the year end	Balance at the beginning of the year
Cash on hand	177,881.98	176,402.83
Bank deposits	708,388,606.07	747,677,597.88
Other cash at bank and on hand	7,139,115.75	13,190,134.83
Total	715,705,603.80	761,044,135.54
In which: total overseas deposit	5,710,492.60	7,869,431.52

- (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:

	Balance at the year end	Balance at the beginning of the year
Deposits under guarantees for letter of credit	69,091.76	1,019,151.39
Deposits under bank acceptance bills	6,522,085.87	9,096,250.84
Total	6,591,177.63	10,115,402.23

2. Financial assets at fair value through profit or loss

(1) Classification

Item	Balance at the year end	Balance at the beginning of the year
Financial assets at fair value through profit or loss	6,423,571.77	11,335,125.54
Of which: Shares	5,782,417.10	10,739,901.80
Funds	641,154.67	595,223.74

The Company's financial assets measured at fair value, with the change in fair value included in the profit or loss for the year were listed for trading on Shenzhen Stock Exchange and Hong Kong Stock Exchange. The fair value was determined based on the closing price on the last trading date in the year.

- (2) No restrictive financial asset measured at fair value through profit or loss was realised in the ending balance.
- (3) No hedges instruments in the ending balance and no hedges transactions during the year.

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

3. Bills receivables

(1) Classification of bills receivables

Type	Balance at the year end	Balance at the beginning of the year
Bank acceptance bills	305,153,666.79	271,242,129.11
Short-term commercial papers	161,575.00	189,620.00
Total	305,315,241.79	271,431,749.11

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

(3) Endorsed or discounted receivable bills not yet mature by the date of balance sheet

Item	Recognised amount by year end	Unrecognised amount by year end
Bank acceptance bills not yet mature but already endorsed	177,598,594.72	0.00
Bank acceptance bills not yet mature but already discounted	99,753,281.00	0.00

(4) There was no bills transferred into account receivables for non-performance by the issuer by the year end.

(5) For the year, the Company discounted RMB174,194,854.14 bank acceptance bills (RMB171,092,144.09 in the previous year). As the main risks (such as interest risks) related to these bank acceptance bills were transferred to the bank, the Company derecognized the undue bank acceptance bills that had been discounted. The discounted fee was RM 2,748,480.27 (RMB2,143,070.97 in the previous year).

4. Accounts receivables

(1) Accounts receivables disclosed by types

Type	Balance at the year end				
	Gross amount		Provision for bad debts		Carrying Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivables that are individually significant and impairment provided on an individual basis	0.00	0.00	0.00	0.00	
Accounts receivables assessed for impairment collectively	1,134,836,751.70	99.95	61,946,234.22	5.46	1,072,890,517.48
Accounts receivables that are individually insignificant but impairment provided on an individual basis	566,871.41	0.05	566,871.41	100.00	0.00
Total	1,135,403,623.11	100.00	62,513,105.63	5.51	1,072,890,517.48

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***4. Accounts receivables** *(continued)***(1) Accounts receivables disclosed by types** *(continued)*

Type	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying Value
	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	0.00
Accounts receivables assessed for impairment collectively	1,114,248,231.30	99.95	60,897,804.71	5.47	1,053,350,426.59
Accounts receivables that are individually insignificant but impairment provided on an individual basis	566,871.41	0.05	566,871.41	100.00	0.00
Total	1,114,815,102.71	100.00	61,464,676.12	5.51	1,053,350,426.59

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

Ageing	Balance at the year end		
	Account receivables	Provision for bad debts	Percentage (%)
Within 1 year	1,107,205,205.66	55,360,260.27	5.00
1 to 2 years	15,959,104.30	957,546.26	6.00
2 to 3 years	6,833,675.62	1,366,735.12	20.00
3 to 4 years	1,729,471.41	1,210,629.99	70.00
4 to 5 years	582,321.27	524,089.14	90.00
Over 5 years	2,526,973.44	2,526,973.44	100.00
Total	1,134,836,751.70	61,946,234.22	

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

Accounts receivables description	Gross amount	Provision for bad debts	Percentage (%)	Reason for provision made
Loans	566,871.41	566,871.41	100.00	not expected to be recoverable

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

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

4. Accounts receivables (continued)

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

Item	Balance at the year end		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
1 to 90 days	892,939,631.57	78.64	915,319,753.14	82.11
91 to 180 days	177,228,210.75	15.61	118,197,408.04	10.60
181 days to 1 year	37,037,363.34	3.26	42,671,189.41	3.83
1 to 2 years	15,959,104.30	1.41	28,363,181.65	2.54
2 to 3 years	6,833,675.62	0.60	4,774,679.92	0.43
3 to 4 years	1,772,481.41	0.16	1,419,854.38	0.13
4 to 5 years	582,321.27	0.05	988,105.44	0.09
Over 5 years	3,050,834.85	0.27	3,080,930.73	0.27
Total	1,135,403,623.11	100.00	1,114,815,102.71	100.00

- (3) Provisions for bad debts made for the year was RMB2,434,114.70; no provision for bad debts was recovered or reversed.

(4) Actual write-off of accounts receivables for the year

Item	Amount written-off
Receivables actually written off	1,386,220.40

In which: Important written-off receivables

Name of Unit	Nature of accounts receivables	Amount written off	Reason for written off	Procedure of written off taken place at	Related party transactions
Hunan Weichu Pharmaceutical Co, Ltd. (湖南唯楚醫藥有限公司)	Sales of goods	266,067.80	Cannot receive	the 28th Meeting for the 7th Board of the Company	No
Quanzhou Haixia Pharmaceutical Co., Ltd. (泉州海峽藥業有限公司)	Sales of goods	201,180.00	Cannot receive		No
Qingdao Blood Center (青島市中心血站)	Sales of goods	188,000.00	Cannot receive		No
Hengyang Fuerkang Pharmaceutical Co., Ltd. (衡陽市福爾康藥業有限公司)	Sales of goods	142,610.34	Cannot receive		No
Total		797,858.14			

- (5) The total of account receivables with five largest amount by creditors was RMB161,894,329.71, or 14.26% of the total account receivables by the year end, total provision for bad debts by the year end was RMB8,094,716.49.
- (6) The Company has no derecognized receivables out of transfer of financial assets.
- (7) The Company has no assets or liabilities formed by its continuous involvement of transferring receivables.

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

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

5. Prepayments

(1) Ageing analysis of prepayments was as follows

Ageing	Balance at the year end		Balance at the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	109,708,526.92	66.12	160,527,663.83	79.30
1 to 2 years	27,255,546.76	16.42	13,588,338.87	6.71
2 to 3 years	1,689,753.14	1.02	11,006,493.60	5.44
Over 3 years	27,281,185.24	16.44	17,315,369.54	8.55
Total	165,935,012.06	100.00	202,437,865.84	100.00

Prepayments over one year mainly represented unsettled land costs and technology transfer costs.

- (2) The total of prepayments with five largest amount by receiver of prepayments was RMB52,226,245.47, or 31.47% of the prepayments by the year end.

6. Other receivables

(1) Other receivables presented by types

Type	Balance at the year end				
	Gross amount		Provision for bad debts		Carrying value
	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	61,369,889.91	98.34	9,237,445.01	15.05	52,132,444.90
Other receivables that are individually insignificant but impairment provided on an individual basis	1,036,698.56	1.66	1,036,698.56	100.00	0.00
Total	62,406,588.47	100.00	10,274,143.57	16.46	52,132,444.90

Type	Balance at the beginning of the year				Carrying value
	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	0.00
Other receivables that are assessed for impairment collectively	46,494,259.10	97.80	7,016,963.15	15.09	39,477,295.95
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	0.00
Total	47,538,357.66	100.00	8,061,061.71	16.96	39,477,295.95

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

6. Other receivables *(continued)*

(1) Other receivables presented by types *(continued)*

- 1 Other receivables for which provisions for bad debts has been made using the ageing analysis method in the portfolio

Ageing	Balance at the year end		
	Other receivables	Provision for bad debts	Percentage (%)
Within 1 year	47,345,084.56	2,367,254.24	5.00
1 to 2 years	4,993,265.20	299,595.90	6.00
2 to 3 years	2,250,923.68	450,184.74	20.00
3 to 4 years	352,270.72	246,589.50	70.00
4 to 5 years	5,545,251.15	4,990,726.03	90.00
Over 5 years	883,094.60	883,094.60	100.00
Total	61,369,889.91	9,237,445.01	

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

Other receivables description	Gross amount	Provision for bad debts	Percentage of provision (%)	Reason for provision made
Current account	1,036,698.56	1,036,698.56	100.00	Not expected to be recoverable

- (2) Provisions for bad debts made for the year was RMB2,212,124.27; no provision for bad debts was recovered or reversed.

- (3) There was no other receivables written-off for the year.

(4) Other receivables with five largest amount by creditors by the year end

Name of unit	Nature of receivables	Balance at the year end	Ageing	Proportion to receivables at the end of the year(%)	Provision for bad debts at the end of the year
Tax refunds on exports	Tax refunds on exports	10,182,166.98	Within 1 year	16.32	509,108.35
Guangzhou Galaxy Sunshine Biological Products Co., Ltd. (廣州銀河陽光生物製品有限公司)	Borrowing	5,000,000.00	4-5 year	8.01	4,500,000.00
Jiangsu Zheyuan Automatic Engineering Co., Ltd (江蘇浙遠自動化工程公司)	Current account	961,110.26	1-2 year	1.54	57,666.62
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)	Current account	898,396.00	1-2 year RMB168,301.00 2-3 years RMB730,095.00	1.44	156,117.06
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Energy and power	876,332.29	Within 1 year	1.40	43,816.61
Total	—	17,918,005.53	—	28.71	5,266,708.64

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***6. Other receivables** *(continued)*

- (5) The Company has no derecognized other receivables out of transfer of financial assets.
- (6) The Company has no assets or liabilities formed by its continuous involvement of transferring other receivables.

7. Inventories**(1) Classification of inventories**

Item	Balance at the year end		
	Gross amount	Provision for diminution in value	Carrying amount
Raw materials	154,459,930.59	429,923.55	154,030,007.04
Packaging materials	23,606,121.57	54,650.00	23,551,471.57
Goods in process	185,942,212.81	5,497,646.24	180,444,566.57
Finished goods	489,768,744.29	34,955,933.82	454,812,810.47
Sub-contracting materials	4,553,237.83	0.00	4,553,237.83
Low-valued consumables	2,627,195.82	0.00	2,627,195.82
Goods in transit	3,281,380.84	0.00	3,281,380.84
Consumable biological assets	7,503,919.00	0.00	7,503,919.00
Proprietary semi-finished goods	16,675,233.25	0.00	16,675,233.25
Total	888,417,976.00	40,938,153.61	847,479,822.39

Item	Balance at the beginning of the year		
	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	658,082,543.66	16,432,577.81	641,649,965.85

The consumable biological assets of the Group represent the planting of Chinese herbal medicines, including astragalus and radix notoginseng, which are the raw materials for the production of Chinese drug preparations.

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

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

7. Inventories (continued)

(2) Provision for diminution in value of inventories

Item	Balance at the beginning of the year	Increase during the year		Decrease during the year		Balance at the year end
		Provision	Other	Reversed or written off	Other	
Raw materials	1,470,027.40	3,724,650.99	0.00	4,764,754.84	0.00	429,923.55
packaging materials	117,183.54	180,324.06	0.00	242,857.60	0.00	54,650.00
work in progress	1,346,871.96	5,995,556.67	0.00	1,844,782.39	0.00	5,497,646.24
finished goods	12,995,536.35	38,422,326.42	0.00	16,461,928.95	0.00	34,955,933.82
Proprietary semi-finished goods	502,958.56	3,568,755.91	0.00	4,071,714.47	0.00	0.00
Total	16,432,577.81	51,891,614.05	0.00	27,386,038.25	0.00	40,938,153.61

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

Item	Basis for provision for diminution in value of inventories	Reason for reversal provision for diminution in value of inventories during the year	Reason for written off provision for diminution in value of inventories during the year
Raw materials	Net realisable value is less than carrying amount		Sale of finished goods
Packaging materials	Net realisable value is less than carrying amount		Sale of finished goods
finished goods	Net realisable value is less than carrying amount		Sale and discard
Other inventories	Net realisable value is less than carrying amount		Sales of finished goods

8. Available-for-sale financial assets

(1) Status of available-for-sale financial assets

Item	Balance at the year end			Balance at the beginning of the year		
	Gross amount	Impairment provision	Carrying value	Gross amount	Impairment provision	Carrying value
Available-for-sale equity instruments	162,002,772.99	20,600,000.00	141,402,772.99	112,894,668.60	20,600,000.00	92,294,668.60
Of which: measured at fair value	59,149,664.15	0.00	59,149,664.15	10,041,559.76	0.00	10,041,559.76
measured at cost	102,853,108.84	20,600,000.00	82,253,108.84	102,853,108.84	20,600,000.00	82,253,108.84

(2) Available-for-sale financial assets measured by fair value at the end of the year

Classification of available-for-sale financial assets	Available-for-sale equity instruments
Cost of equity instruments	93,294,846.95
fair value	59,149,664.15
Change in fair value accrued through other comprehensive income	-25,131,180.39
Accrued impairment provision	0.00

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

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

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

(2) Available-for-sale financial assets measured by fair value at the end of the year *(continued)*

Available-for-sale equity instruments measured at fair value by year end were listed on Shenzhen Stock Exchange and on NASDAQ in the United State, the fair value was determined by the closing price for the last day of dealings in the year.

(3) Available-for-sale financial assets measured by cost at the year end

Investee	Gross amount				Impairment provision				Proportion of equity hold in investee(%)	Cash dividend for the year
	At the beginning of the year	Increase during the year	Decrease during the year	at the end of the year	At the beginning of the year	Increase during the year	Decrease during the year	at the end of the year		
Guangdong Development Bank Co., Ltd. (廣發銀行股份有限公司)	177,348.84	0.00	0.00	177,348.84	0.00	0.00	0.00	0.00	0.0004	0.00
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	100,000.00	0.00	0.00	100,000.00	0.821	0.00
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	500,000.00	0.00	0.00	500,000.00	1.60	0.00
Zhuhai China Resources Bank Co., Ltd. (珠海華潤銀行股份有限公司)	95,325,760.00	0.00	0.00	95,325,760.00	20,000,000.00	0.00	0.00	20,000,000.00	1.5065	0.00
Ruiheng Medical Technology Investment Co., Ltd. (瑞 醫藥科技投資有限公司)	6,250,000.00	0.00	0.00	6,250,000.00	0.00	0.00	0.00	0.00	5.681	0.00
Shanghai Haixin Pharmaceutical Co., Ltd. (上海海欣醫藥有限公司)	500,000.00	0.00	0.00	500,000.00	0.00	0.00	0.00	0.00	4.55	97,825.00
Total	102,853,108.84	0.00	0.00	102,853,108.84	20,600,000.00	0.00	0.00	20,600,000.00	—	97,825.00

(4) movement in impairment for available-for-sale financial assets by the year end

Categorised available-for-sale financial assets	Available-for-sale equity instruments	Total
Provision for Impairment at the beginning of the year	20,600,000.00	20,600,000.00
Provision for Impairment for the year	0.00	0.00
In which: transferred from other comprehensive income	0.00	0.00
Decrease during the year	0.00	0.00
In which: transferred upon increase in fair value after the period	0.00	0.00
Provision for Impairment by the year end	20,600,000.00	20,600,000.00

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

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

9. Long-term equity investments

Investee	Balance at the beginning of the year	Change during the year				Other equity changes
		Investment acquired	Investment disposed of	Investment profit and loss on the equity method	Adjustment in other comprehensive income	
Associates						
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	0.00	0.00	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	36,836,117.18	0.00	0.00	4,760,775.52	0.00	0.00
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	4,675,640.27	0.00	4,696,572.53	20,932.26	0.00	0.00
Total	42,711,757.45	0.00	4,696,572.53	4,781,707.78	0.00	0.00

Investee	Change during the year			Balance at the end of the year	Impairment provision at the end of the year
	Cash dividend or profit distribution announced	Impairment provision	Others		
Associates					
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	0.00	0.00	0.00	1,200,000.00	1,200,000.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	3,825,000.00	0.00	0.00	37,771,892.70	0.00
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	0.00	0.00	0.00	0.00	0.00
Total	3,825,000.00	0.00	0.00	38,971,892.70	1,200,000.00

In July 2014, the Company sold its equity in Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司).

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

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

10. Fixed assets

(1) Status of fixed assets

Item	Balance at the beginning of the year	Additions for the year	Decrease for the year	Balance at the year end
I.Total cost at book:	3,407,472,146.55	1,203,006,373.80	28,624,255.71	4,581,854,264.64
Including:Plant & buildings	1,633,950,933.30	665,520,072.21	2,974,728.78	2,296,496,276.73
Machinery & equipment	1,497,300,652.67	497,826,796.52	18,222,755.57	1,976,904,693.62
Motor vehicles	50,215,111.43	7,733,368.55	2,016,908.32	55,931,571.66
Electronic devices and others	226,005,449.15	31,926,136.52	5,409,863.04	252,521,722.63
II.Accumulated depreciation:	1,341,472,057.40	228,074,392.73	20,321,156.24	1,549,225,293.89
Including:Plant & buildings	496,413,859.26	75,908,503.97	425,203.20	571,897,160.03
Machinery & equipment	667,917,936.53	124,508,840.82	13,325,638.19	779,101,139.16
Motor vehicles	23,988,285.04	6,619,640.50	1,634,204.01	28,973,721.53
Electronic devices and others	153,151,976.57	21,037,407.44	4,936,110.84	169,253,273.17
III.Total fixed assets net carrying amount:	2,066,000,089.15			3,032,628,970.75
Including:Plant & buildings	1,137,537,074.04			1,724,599,116.70
Machinery & equipment	829,382,716.14			1,197,803,554.46
Motor vehicles	26,226,826.39			26,957,850.13
Electronic devices and others	72,853,472.58			83,268,449.46
IV.Total provision for impairment:	89,089,315.19	995,514.34	1,025,501.97	89,059,327.56
Including:Plant & buildings	47,154,210.14	69,731.68	63,747.18	47,160,194.64
Machinery & equipment	40,894,242.13	599,773.00	676,172.56	40,817,842.57
Motor vehicles	95,452.14	10,542.00	10,542.00	95,452.14
Electronic devices and others	945,410.78	315,467.66	275,040.23	985,838.21
V. Total fixed assets carrying amount:	1,976,910,773.96			2,943,569,643.19
Including:Plant & buildings	1,090,382,863.90			1,677,438,922.06
Machinery & equipment	788,488,474.01			1,156,985,711.89
Motor vehicles	26,131,374.25			26,862,397.99
Electronic devices and others	71,908,061.80			82,282,611.25

During the year, the amount of depreciation was RMB228,074,392.73 (RMB149,847,425.36 in 2013). During the year, construction in progress transferred to cost of fixed assets was RMB1,138,920,340.62 (RMB951,613,337.93 in 2013).

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***10. Fixed assets** *(continued)***(2) As at the year end, temporarily idled fixed assets**

Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amount	Remarks
Plant & buildings	26,306,492.60	11,334,696.03	0.00	14,971,796.57	
Machinery & equipment	35,580,770.18	21,869,130.22	1,320,900.00	12,390,739.96	
Electronic devices and others	3,790,587.96	2,976,102.39	537.00	813,948.57	
Total	65,677,850.74	36,179,928.64	1,321,437.00	28,176,485.10	

(3) The Company has no fixed assets leased in under finance leases**(4) Fixed assets leased out under operating leases**

Item	Carrying amount at the year end
Plant and building	1,570,749.78
Electronic devices and others	9,595,873.60
Total	11,166,623.38

(5) Fixed assets with pending certificates for ownership at the year end

Item	Carrying amount	Reason for pending certificates for ownership
Plant & buildings	610,708,652.59	Being in progress

11. Construction in progress**(1) Construction in progress status**

Item	Balance at the year end			Balance at the beginning of the year		
	Gross amount	Provision for impairment	Carrying amount	Gross amount	Provision for impairment	Carrying amount
Construction of new production plants	442,145,378.46	0.00	442,145,378.46	651,157,334.91	0.00	651,157,334.91
Installation of equipment	61,404,895.98	0.00	61,404,895.98	375,866,583.79	0.00	375,866,583.79
Technology upgrade	44,589,853.89	0.00	44,589,853.89	904,393.80	0.00	904,393.80
Workshop modification	13,382,976.39	0.00	13,382,976.39	54,490,792.38	0.00	54,490,792.38
Others	193,224.81	0.00	193,224.81	0.00	0.00	0.00
Total	561,716,329.53	0.00	561,716,329.53	1,082,419,104.88	0.00	1,082,419,104.88

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

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

11. Construction in progress *(continued)*

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

Categories of project	Budgeted amount	Balance at the beginning of the year	Additions for the year	Transferred to fixed asset for the year	Other deduction	Balance at the year end
Construction of new production plants	978,389,095.28	651,157,334.91	348,658,044.77	557,650,504.82	19,496.40	442,145,378.46
Installation of equipment	67,099,312.36	375,866,583.79	180,705,562.05	492,128,911.75	3,038,338.11	61,404,895.98
Technology upgrade	43,610,173.23	904,393.80	52,502,596.70	8,160,864.61	656,272.00	44,589,853.89
Workshop modification	81,960,000.00	54,490,792.38	37,978,298.61	78,807,526.98	278,587.62	13,382,976.39
Others	0.00	0.00	2,365,757.27	2,172,532.46	0.00	193,224.81
Total	1,171,058,580.87	1,082,419,104.88	622,210,259.40	1,138,920,340.62	3,992,694.13	561,716,329.53

Categories of project	Accumulated amount of the interest capitalised as at the year end	Including: interest capitalised for the year	Interest capitalised rate for the year (%)	Percentage of cost incurred over budgeted amount (%)	Construction progress	Sources of funds
Construction of new production plants	14,676,220.92	30,923,682.35	4.47	45.19	Completion of some projects	Borrowings and self-funding
Installation of equipment	0.00	0.00	0.00	91.51	Completion of some projects	Self-funding
Technology upgrade	0.00	0.00	0.00	100.00	Completion of some projects	Self-funding
Workshop modification	0.00	1,703,944.33	4.47	11.00	Completion of some projects	Borrowings and self-funding
Others	0.00	0.00	0.00			
Total	14,676,220.92	32,627,626.68				

(3) As at the year end, status of the interest capitalised in the projects under construction in progress

Categories of project	Balance at the beginning of the year	Additions for the year	Transferred to fixed asset for the year	Other deduction	Balance at the year end
Construction of new production plants	25,761,719.84	32,627,626.68	43,713,125.60	0.00	14,676,220.92

12. Construction supplies

Item	Balance at the year end	Balance at the beginning of the year
Specialised equipment	121,472.17	481,529.20

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

13. Intangible assets

(1) Status of intangible assets

Item	Balance at the beginning of the year	Additions for the year	Decrease for the year	Balance at the year end
I.Total cost:	393,056,867.15	52,799,771.92	0.00	445,856,639.07
Land use rights	224,260,382.20	33,511,933.55	0.00	257,772,315.75
Technical know-how	142,675,720.94	16,780,000.00	0.00	159,455,720.94
Software	26,096,764.01	2,507,838.37	0.00	28,604,602.38
Trademark rights	24,000.00	0.00	0.00	24,000.00
II. Accumulated depreciation:	166,178,628.39	19,040,602.87	0.00	185,219,231.26
Land use rights	54,430,991.13	4,866,129.92	0.00	59,297,121.05
Technical know-how	96,804,721.65	10,643,877.09	0.00	107,448,598.74
Software	14,918,915.61	3,530,595.86	0.00	18,449,511.47
Trademark rights	24,000.00	0.00	0.00	24,000.00
III. Total net carrying value of intangible assets :	226,878,238.76			260,637,407.81
Land use rights	169,829,391.07			198,475,194.70
Technical know-how	45,870,999.29			52,007,122.20
Software	11,177,848.40			10,155,090.91
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			258,275,580.98
Land use rights	168,847,564.13			197,493,367.76
Technical know-how	44,490,999.40			50,627,122.31
Software	11,177,848.40			10,155,090.91
Trademark rights	0.00			0.00

Amortisation for the year is RMB19,040,602.87 (RMB19,029,801.79 in 2013).

(2) Intangible assets with pending certificates for ownership were as follows:

Item	Carrying amount	Reason for pending certificates for ownership
Land use rights	17,188,656.08	Being in progress

(3) 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.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***14. Development costs**

Item	Balance at the beginning of the year	Additions for the year	Decrease for the year		Balance at the year end
			Recognised in profit or loss	Recognised as intangible assets	
Expensing costs	0.00	189,499,613.52	189,499,613.52	0.00	0.00
Total	0.00	189,499,613.52	189,499,613.52	0.00	0.00

15. Goodwill**(1) Total goodwill value at book**

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Additions for the year	Decrease for the year	Balance at the year end
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	47,912,269.66	0.00	0.00	47,912,269.66
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
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
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
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
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
Total	121,799,561.00	0.00	0.00	121,799,561.00

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

15. Goodwill *(continued)*

(2) Provision for impairment of goodwill

Name of investee or the matter of goodwill arisen	Balance at the beginning of the year	Additions for the year	Decrease for the year	Balance at the year end
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	11,200,000.00	0.00	0.00	11,200,000.00
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7,271,307.03	0.00	0.00	7,271,307.03
Zhuhai Livzon Meidaxin Technological Development Co., Ltd. (珠海市麗珠美達信技術開發有限公司)	287,756.12	0.00	0.00	287,756.12
Total	18,759,063.15	0.00	0.00	18,759,063.15

(3) 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. The present value of future cash flow is calculated according to the five-year financial plan made by the management and a discount rate of 12%. The cash flows in the years beyond the years in the five-year plan are deemed stable.

Key assumptions of discounted future cash flow for goodwill impairment test are as follows:

For future cash flow of Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), key assumptions are a gross margin of 53%-55% and a business revenue growth rate of 0~27%. The management took into account historical conditions and predictions for future market development in making above assumptions.

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

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

15. Goodwill *(continued)*

(3) Impairment test and provision for impairment on goodwill *(continued)*

For future cash flow of Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), key assumptions are a gross margin of 62%-63% and a business revenue growth rate of 0~10%. The management took into account historical conditions and predictions for future market development in making above assumptions.

For future cash flow of Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司), key assumptions are a gross margin of 20%-23% and a business revenue growth rate of 0~20%. The management took into account historical conditions and predictions for future market development in making above assumptions.

As tested, the management of the Company believes that no impairment provision is needed during the reporting period.

16. Long-term deferred expenses

Item	Balance at the beginning of the year	Additions for the year	Amortisation for the year	Other decrease	Balance at the year end	Reason for other decrease
Overhaul costs of fixed assets	3,804,996.58	1,706,735.50	2,020,379.47	0.00	3,491,352.61	
Renovation costs of offices	622,251.68	14,464,975.28	762,411.76	0.00	14,324,815.20	
Renovation costs of plants	1,257,881.43	33,888.00	1,264,887.43	0.00	26,882.00	
Share of costs for public utilities	72,418.33	0.00	68,376.33	0.00	4,042.00	
Resin	5,321,945.74	2,891,518.41	3,075,318.18	0.00	5,138,145.97	
Others	2,834,914.34	2,981,142.72	3,231,634.65	0.00	2,584,422.41	
Total	13,914,408.10	22,078,259.91	10,423,007.82	0.00	25,569,660.19	

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

17. Deferred tax assets/Deferred tax liabilities

(1) Breakdown of deferred tax assets

Item	Balance at the year end		Balance at the beginning of the year	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Deductible temporary difference arising from provision for impairment	193,187,962.72	29,462,367.31	167,243,336.41	26,323,090.46
Deductible temporary difference arising from long-term equity investments not in the scope of combination	0.00	0.00	24,508,656.28	3,676,298.43
Deductible temporary difference arising from amortisation of intangible assets	56,382.67	8,457.40	97,708.67	14,656.18
Deductible temporary difference arising from accrued expenses	84,789,531.98	12,718,429.80	80,925,354.31	12,138,803.14
Deductible temporary difference arising from tax losses carried forward	85,241,417.38	12,786,175.12	48,033,685.41	7,205,052.81
Deductible temporary difference arising from available-for-sale financial assets	38,922,249.93	9,730,562.48	0.00	0.00
Deductible temporary difference arising from deferred income	3,660,000.00	549,000.00	5,550,050.00	832,507.50
Total	405,857,544.68	65,254,992.11	326,358,791.08	50,190,408.52

(2) Breakdown of deferred tax liabilities

Item	Balance at the year end		Balance at the beginning of the year	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Taxable temporary difference arising from financial assets held for trading	491,154.67	73,673.20	445,223.74	66,783.56
Taxable temporary difference arising from available-for-sale financial assets	4,777,067.13	716,560.07	7,551,528.90	1,132,729.35
Taxable temporary difference arising from long-term equity investments under in equity method	17,659,683.60	2,648,952.54	10,897,491.40	1,634,623.71
Taxable temporary difference arising from accelerated depreciation of fixed assets	25,322,673.37	3,802,077.58	0.00	0.00
Total	48,250,578.77	7,241,263.39	18,894,244.04	2,834,136.62

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***17. Deferred tax assets/Deferred tax liabilities** *(continued)***(3) Breakdown of deferred tax assets not recognised**

Item	Balance at the year end	Balance at the beginning of the year
Deductible temporary difference	45,514,892.39	82,821,546.09
Deductible loss	157,976,231.14	110,070,484.29
Total	203,491,123.53	192,892,030.38

(4) Deductible loss of deferred tax assets not recognised will be due next year

Year	Balance at the year end	Balance at the beginning of the year	Remarks
2014	0.00	342,796.94	
2015	8,393,580.85	8,908,557.85	
2016	24,646,839.24	28,334,063.89	
2017	20,911,633.82	24,866,249.24	
2018	27,888,663.82	38,316,056.73	
2019	59,410,126.67	0.00	
Indefinitely	16,725,386.74	9,302,759.64	
Total	157,976,231.14	110,070,484.29	

18. Short-term loans**(1) Classification of short-term loans**

Item	Balance at the year end	Balance at the beginning of the year
Loans on credit	56,009,770.00	362,142,733.79
Guarantee loans	319,910,451.10	128,941,720.00
Total	375,920,221.10	491,084,453.79

Notes to classifications of short-term loans

Guarantee loans: The Company provided guarantee for a loan of HK\$405.53 million granted to Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠).

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

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

19. Bills payables

Type	Balance at the year end	Balance at the beginning of the year
Bank acceptance bills	352,619,794.63	375,775,891.08

The amount of RMB352,619,794.63 will be due for the next accounting period.

20. Accounts payables

(1) Breakdown of accounts payables (an ageing analysis is based on dates of recognition of account payables)

Type	Balance at the year end	Balance at the beginning of the year
1 to 90 days	327,211,277.75	332,078,144.46
91 to 180 days	89,161,459.34	22,789,943.67
181 days to 1 year	117,872,097.04	41,623,708.26
1 to 2 years	43,392,010.73	30,018,248.59
Over 2 years	21,112,094.92	9,456,047.74
Total	598,748,939.78	435,966,092.72

(2) Important payables ageing over 1 year

Item	Balance at the year end	Reason for non-payment or non-transfer
Industrial Green Building Technology Co., Ltd. of Zhuhai (珠海興業綠色建築科技有限公司)	5,485,404.96	Holdback
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
ABC Building Systems (China) Co., Ltd (美建建築系統(中國)有限公司)	3,183,338.65	Holdback
Total	12,447,093.61	

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***21. Receipts in advance****(1) Presentation of receipts in advance**

Type	Balance at the year end	Balance at the beginning of the year
Within 1 year	29,130,958.57	46,866,539.32
Over 1 year	26,882,818.71	14,913,653.82
Total	56,013,777.28	61,780,193.14

(2) Large sum of receipts in advance over one year

Item	Balance at the year end	Reason for not being charged
Yunnan Province Center for Disease Prevention and Control (雲南省疾病預防控制中心)	6,273,633.66	The customer has not required the delivery of goods
Shenzhen Family Planning Service Center (深圳市計劃生育服務中心)	4,688,069.20	The customer has not required the delivery of goods
Guangdong Province Centre for Disease Prevention and Control (廣東省疾病預防控制中心)	2,336,279.02	The customer has not required the delivery of goods
Total	13,297,981.88	

22. Employee benefits payables**(1) Presentation of salary payables**

Item	Balance at the beginning of the year	Accruals for the year	Decrease for the year	Balance at the year end
I. Short-term salary	89,960,650.09	387,735,183.08	408,637,404.48	69,058,428.69
II. Post-resignation benefits – designated provision	64,986.00	36,246,287.81	36,013,326.75	297,947.06
III. Dismiss benefits	127,095.00	1,410,316.60	1,279,411.60	258,000.00
IV. Other benefits due within 1 year	341,025.15	5,048.04	346,073.19	0.00
Total	90,493,756.24	425,396,835.53	446,276,216.02	69,614,375.75

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***22. Employee benefits payables** *(continued)***(2) Presentation of short-term salary**

Item	Balance at the beginning of the year	Accruals for the year	Decrease for the year	Balance at the year end
1.Salaries, bonuses, allowances and subsidies	87,237,105.25	333,569,645.62	353,108,262.66	67,698,488.21
2.Employee welfare	720,687.60	21,720,225.13	21,778,317.84	662,594.89
3.Social insurance	34,697.20	16,310,108.98	16,217,958.23	126,847.95
Of which:Medical insurances	29,002.83	14,072,735.02	13,992,344.66	109,393.19
Work-related injury insurances	1,703.72	1,357,194.66	1,344,532.40	14,365.98
Maternity insurances	3,990.65	880,179.30	881,081.17	3,088.78
4.Housing funds	897,970.46	13,608,247.95	14,222,987.04	283,231.37
5.Labour union fees and employee education fees	250,909.39	2,526,955.40	2,490,598.52	287,266.27
6.Short-term compensated absence	0.00	0.00	0.00	0.00
7.Performance-linked bonuses of subsidiaries	819,280.19	0.00	819,280.19	0.00
Total	89,960,650.09	387,735,183.08	408,637,404.48	69,058,428.69

(3) Presentation of designated provision

Item	Balance the beginning of the year	Accruals for the year	Decrease for the year	Balance at the year end
1.Basic pension insurance	48,425.54	32,793,494.92	32,581,645.58	260,274.88
2.Unemployment insurance	16,560.46	3,452,792.89	3,431,681.17	37,672.18
Total	64,986.00	36,246,287.81	36,013,326.75	297,947.06

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***23. Taxes payables**

Item	Balance at the year end	Balance at the beginning of the year
Value added tax payable	-30,246,456.40	-14,725,130.73
Business tax payable	174,606.43	4,297.75
Urban maintenance and construction tax payable	3,615,771.23	2,664,270.63
Enterprise income tax payable	44,871,960.98	87,180,525.14
Property tax payable	5,618,879.93	952,728.41
Land use tax payable	1,760,288.81	545,794.94
Individual income tax payable	2,819,632.46	10,114,792.80
Stamp duty payable	1,058,477.91	278,475.17
Education surcharges payable	3,200,291.78	2,098,296.85
Flood prevention fee payable	259,645.39	233,590.80
Others	78,894.74	67,121.55
Total	33,211,993.26	89,414,763.31

24. Interest payables

Item	Balance at the year end	Balance at the beginning of the year
Interest for medium-term bills	11,823,945.24	11,823,945.23
Super short-term financing bills	4,241,095.90	0.00
Interest for short-term loans	1,024,160.09	3,611,034.42
Total	17,089,201.23	15,434,979.65

25. Dividends payables

Item	Balance at the year end	Balance at the beginning of the year	Reason for outstanding over 1 year
Dividends on ordinary shares	2,537,519.12	20,174.46	Not yet paid
Qingyuan Xinbeijiang (Group) Company (清遠新北江企業(集團)公司)	1,200,710.00	1,200,710.00	Not yet paid
Other legal persons and individual shares of subsidiaries	1,051,300.00	1,051,300.00	Not yet paid
Staff shares of subsidiaries	259,800.00	259,800.00	Not yet paid
Total	5,049,329.12	2,531,984.46	

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

26. Other payables

(1) Breakdown of other payables

Item	Balance at the year end	Balance at the beginning of the year
Within 1 year	806,407,040.65	693,604,025.31
Over 1 year	54,095,778.08	73,194,831.99
Total	860,502,818.73	766,798,857.30

(2) The breakdown of accruals included in balances was as follows:

Item	Balance at the year end	Balance at the beginning of the year	Reason for outstanding
Utilities expenses	4,096,008.22	3,735,773.85	Not yet paid
Research expenses	2,393,443.55	2,399,315.36	Not yet paid
Business promotion expenses	533,372,876.35	457,054,765.57	Not yet paid
Advertising expenses	10,311,109.78	9,171,399.21	Not yet paid
Business meeting expenses	17,594,069.54	19,474,029.71	Not yet paid
Auditing and information disclosure expenses	2,898,931.14	1,849,876.74	Not yet paid
Segment operating expenses	8,862,877.47	6,708,382.69	Not yet paid
Others	20,816,202.24	34,726,464.68	Not yet paid
Total	600,345,518.29	535,120,007.81	

27. Non-current liabilities due within one year

Item	Balance at the year end	Balance at the beginning of the year
Long-term loans due within one year (Note VI.29)	400,000.00	400,000.00
Total	400,000.00	400,000.00

28. Other current liabilities

Item	Balance at the year end	Balance at the beginning of the year
Short-term payable bills	300,000,000.00	0.00

Of which: changes in short-term payable notes

Name of Bond	Nominal Amount	Date of issue	Term of bond	Issue amount	Interest payables at the beginning of the year	Interest payables for the year	Interest paid for the year	Interest payables at the year end	Balance at the year end
14Livzon SCP001	300,000,000.00	22 September 2014	270 days	300,000,000.00	0.00	4,241,095.90	0.00	4,241,095.90	300,000,000.00

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

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

28. Other current liabilities *(continued)*

On 30 June 2014, the 2013 AGM of the Company passed the “resolution relating to the application for the issue of super short-term financing bills by the Company” to registration with the National Association of Financial Market. Institutional Investors for an issuance of no more than RMB600 million (inclusive) super short term financing bills. On 22 September 2014, the Company issued the first batch of super shorter financing bills of RMB300 million in 2014 with a coupon rate of 5.16%.

29. Long-term loans

(1) Classification of long-term loans

1 *Classification of long-term loans*

Item	Balance at the year end	Balance at the beginning of the year
Loans on credit	1,100,000.00	1,100,000.00
Guarantee loans	65,800,000.00	149,200,000.00
Less: Long-term loans due within one year (Note VI.27)	400,000.00	400,000.00
Total	66,500,000.00	149,900,000.00

Guarantee loans: The Company provided guarantee for a loan of RMB65.80 million granted to Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠).

As at 31 December 2014, there was no overdue long-term loans that were unpaid.

2 *Long-term loans with five largest amount*

Name of lender	Starting date of loans	Termination date of loans	Currency	Interest rates	Balance at the year end		Balance at the beginning of the year	
					Foreign amount	Local currency amount	Foreign amount	Local currency amount
Agricultural Bank of China, Shaoguan Branch Wujiang Sub-branch	18/1/2013	31/1/2016	RMB	6.15 Interest- free	—	65,800,000.00	—	149,200,000.00
Fuzhou Bureau of Finance	Indefinite	Indefinite	RMB		—	700,000.00	—	700,000.00
合計						66,500,000.00		149,900,000.00

(2) Long-term loans of RMB65,800,000.00 will be repaid on the second year after the reporting date.

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

30. Notes payables

(1) Bond payables

Item	Balance at the year end	Balance at the beginning of the year
Bond payables	400,000,000.00	400,000,000.00

(2) Movements in notes payables

Name of bond	Nominal amount	Date of issue	Term of bond	Issue amount	Interest payables at the beginning of the year	Interest payables for the year	Interest paid for the year	Interest payables at the year end	Balances at the year end
13 Livzon MTN1	400,000,000.00	29 May 2013	3 years	400,000,000.00	11,823,945.23	20,120,000.01	20,120,000.00	11,823,945.24	400,000,000.00

On 14 December 2012, the "Proposal for the Company to Apply for the Issue of Medium-term Financing Bills" was considered and approved in the Second Extraordinary General Meeting of the Company in 2012. The Company was approved to apply for registration of a quota not more than RMB800 million (inclusive) from the Inter-bank Market Dealers Association of China. On 29 May 2013, the Company issued the "2013 First Tranche of Medium-term Financing Bills for Livzon Pharmaceutical Group Inc." at an amount of RMB400 million with a nominal interest rate of 5.03%.

The payable bills would repay RMB400,000,000.00 on the second year after the reporting date.

31. Deferred income

Item	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the year end	Reason
Government grant	79,071,532.72	11,773,460.00	13,573,180.69	77,271,812.03	

Items related to government grant

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
R&D and commercialisation of innovative drug of Ilaprazole series (艾普拉唑系列創新藥物研發及產業化)	12,331,374.94	0.00	2,500,000.04	0.00	9,831,374.90	Related to assets
	7,905,533.28	0.00	1,248,129.80	0.00	6,657,403.48	Related to income

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

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

31. Deferred income (continued)

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Team for research, development and commercialisation of protein drugs (2012)	18,141,671.04	0.00	1,278,741.49	0.00	16,862,929.55	Related to assets
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)	542,808.33	0.00	432,379.99	0.00	110,428.34	Related to income
MAB for Class I treatment of necrosis factor in human tumour from human source (I類治療用人源化抗人腫瘤壞死因子單克隆抗體)	472,053.20	0.00	472,053.20	0.00	0.00	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	701,000.04	0.00	5,491,166.58	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	194,365.80	0.00	2,769,711.66	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	394,404.00	0.00	788,771.00	Related to assets
Shenqi Fuzheng Injection (參芪扶正注射液)	1,203,000.00	0.00	105,788.95	0.00	1,097,211.05	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	173,610.00	0.00	1,076,390.00	Related to assets
	625,000.00	0.00	625,000.00	0.00	0.00	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	3,500,000.00	548,834.20	0.00	8,951,165.80	Related to assets
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	291,666.65	0.00	0.00	Related to income

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

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

31. Deferred income (continued)

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
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	99,996.00	0.00	125,011.00	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	69,996.00	0.00	87,511.00	Related to assets
R&D and production transformation of gemifloxacin tablets (吉米沙星片的研發及生產轉化)	212,527.55	0.00	0.00	0.00	212,527.55	Related to assets
Project funding for technology centres for municipal level enterprises in Zhuhai (珠海市市級企業技術中心工程項目經費)	300,000.00	0.00	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	15,418.38	0.00	39,581.62	Related to assets
	47,500.01	0.00	43,541.63	0.00	3,958.38	Related to income

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

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

31. Deferred income *(continued)*

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
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	4,722.22	0.00	25,277.78	Related to assets
	55,555.56	0.00	24,444.42	0.00	31,111.14	Related to income
Research of technologies for the inspection of toxic substances from high-throughput aquatic products in Guangdong Province (廣東省水產品中有毒物質高通量檢測技術研究)	80,000.00	80,000.00	0.00	0.00	160,000.00	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	487,868.89	0.00	0.00	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	1,155,260.00	0.00	0.00	4,221,660.00	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	116,168.99	0.00	1,351.01	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
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

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

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

31. Deferred income *(continued)*

Liabilities	Balances at the beginning of the year	Amount of new additional subsidy for the year	Recognised in non-operating income for the year	Other changes	Balances at the year end	Related to assets/ Related to income
Industrial Revitalisation Supporting Funds (產業振興扶持資金)	9,000,000.00	0.00	1,050,000.00	0.00	7,950,000.00	Related to assets
innovative drug of Ilaprazole phase IV clinical research (創新藥物艾普拉唑IV期臨床研究)	0.00	903,200.00	0.00	0.00	903,200.00	Related to assets
Special 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
Government grant for industrial transformation (工業轉型政府扶持資金)	0.00	2,000,000.00	241,666.67	0.00	1,758,333.33	Related to assets
2014 New Industrialisation Development Grant (second batch) (2014年第二批新型工業化發展獎金)	0.00	2,000,000.00	250,000.00	0.00	1,750,000.00	Related to assets
Subsidy for industrial project (工業項目貼息補助)	0.00	2,000,000.00	233,333.33	0.00	1,766,666.67	Related to assets
Total	79,071,532.72	11,773,460.00	13,573,180.69	0.00	77,271,812.03	

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

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

32. Share capital

2014

Item	Balance at the beginning of the year		Movement for the year					Balance at the year end	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Other domestic shares	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
<i>Of which: Domestic legal person shares</i>	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
<i>Domestic natural person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Of which: Overseas legal person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Overseas natural person shares</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	177,669,070	60.08	0.00	0.00	0.00	0.00	0.00	177,669,070	60.08
2. Domestically listed foreign shares (B-share)	111,993,354	37.87	0.00	0.00	0.00	-111,993,354	0.00	0.00	0.00
3. Overseas listed foreign shares (H-share)	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	295,721,852	100.00	0.00	0.00	0.00	0.00	0.00	295,721,852	100.00

On 16 January 2014, the Company was approved by the Stock Exchange of Hong Kong Limited to list and trade 111,993,354 domestically listed foreign shares (B share) in the share capital of the Company on the Main Board of the Stock Exchange of Hong Kong Limited.

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

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

32. Share capital (continued)

2013

Item	Balance at the beginning of the year		Movement for the year					Balance at the year end	
	Amount	Percentage (%)	Issue of new shares	Number of bonus shares	Reserve fund capitalised	Others	Sub-total	Amount	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. State-owned legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Other domestic shares	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
Of which: Domestic legal person shares	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
Domestic natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: Overseas legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overseas natural person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares subject to selling restrictions in aggregate	6,059,428	2.05	0.00	0.00	0.00	0.00	0.00	6,059,428	2.05
II. Shares not subject to selling restrictions									
1. Ordinary shares denominated in Renminbi	177,669,070	60.08	0.00	0.00	0.00	0.00	0.00	177,669,070	60.08
2. Domestically listed foreign shares (B-share)	111,993,354	37.87	0.00	0.00	0.00	0.00	0.00	111,993,354	37.87
3. Overseas listed foreign shares (H-share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares not subject to selling restrictions in aggregate	289,662,424	97.95	0.00	0.00	0.00	0.00	0.00	289,662,424	97.95
III. Total number of shares	295,721,852	100.00	0.00	0.00	0.00	0.00	0.00	295,721,852	100.00

33. Capital reserve

2014

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Capital premiums	191,464,446.44	2,007,283.07	1,258,197.53	192,213,531.98
Other capital reserve	20,481,182.76	0.00	0.00	20,481,182.76
Total	211,945,629.20	2,007,283.07	1,258,197.53	212,694,714.74

The increase in the share premium in the year was attributable to the increase in shareholder' equity interest by eradicating fractional shares; the decrease of share premium in the year was attributable to difference between the transfer price of the disposal of 24.99% of equity of Shanghai Livzon Pharmaceutical Manufacturing Co.,Ltd. (上海麗珠製藥有限公司) and the corresponding shareholder's equity interests of RMB1,258,197.53 as capital reserve.

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

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

33. Capital reserve (continued)

2013

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Capital premiums	191,724,618.44	0.00	260,172.00	191,464,446.44
Other capital reserve	20,481,182.76	0.00	0.00	20,481,182.76
Total	212,205,801.20	0.00	260,172.00	211,945,629.20

The decrease of share premium in the year was attributable to the difference between the transfer price under the acquisition of the non-controlling interests in Longxi Livzon Shenyuan Medicine Co., Ltd. (隴西麗珠參源藥材有限公司) by Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠) and the carrying amount of the corresponding non-controlling interests.

34. Other comprehensive income

2014

Item	For the year						Balance at the year end
	Balance at the beginning of the year	Amount incurred before income tax for the year	Less: amount recognised in other comprehensive income in previous period transferred to profit or loss for the period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: changes caused by re-measurement of net liabilities or net assets of benefit plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Other comprehensive income items subsequently to be re-classified as profit or loss	-16,328,209.99	-38,048,843.71	2,872,716.73	-9,639,781.73	-16,998,600.32	-14,283,178.39	-33,326,810.31
Of which: other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit and loss from change of fair value of available-for-sale financial assets	6,418,799.56	-38,317,044.94	2,872,716.73	-9,639,781.73	-17,246,053.09	-14,303,926.85	-10,827,253.53
Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Valid portion of the gains or losses arising from cash flow hedges instrument	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Translation differences of financial statements denominated in foreign currency	-22,747,009.55	268,201.23	0.00	0.00	247,452.77	20,748.46	-22,499,556.78
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total of other comprehensive income	-16,328,209.99	-38,048,843.71	2,872,716.73	-9,639,781.73	-16,998,600.32	-14,283,178.39	-33,326,810.31

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***34. Other comprehensive income** *(continued)***2013**

Item	Balance at the beginning of the year	For the year					Balance at the year end
		Amount incurred before income tax for the year	Less: amount recognised in other comprehensive income in previous period transferred to profit or loss for the period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to the non-controlling shareholders after tax	
(I) Other comprehensive income items subsequently not to be re-classified as profit or loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: changes caused by re-measurement of net liabilities or net assets of benefit plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other comprehensive income portions subsequently not to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Other comprehensive income items subsequently to be re-classified as profit or loss	-13,579,724.05	-2,851,051.37	0.00	-85,694.98	-2,748,485.94	-16,870.45	-16,328,209.99
Of which: other comprehensive income portions subsequently to be re-classified as profit or loss of investment units using the equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit and loss from change of fair value of available-for-sale financial assets	6,904,404.48	-571,299.90	0.00	-85,694.98	-485,604.92	0.00	6,418,799.56
Held-to-maturity investment to be re-classified as available-for-sale financial asset profit and loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Valid portion of the gains or losses arising from cash flow hedges instrument	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Translation differences of financial statements denominated in foreign currency	-20,484,128.53	-2,279,751.47	0.00	0.00	-2,262,881.02	-16,870.45	-22,747,009.55
Disposal of equity in subsidiaries without losing control	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total of other comprehensive income	-13,579,724.05	-2,851,051.37	0.00	-85,694.98	-2,748,485.94	-16,870.45	-16,328,209.99

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***35. Surplus reserve****2014**

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Statutory surplus reserve	333,608,626.57	12,275,537.30	0.00	345,884,163.87
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	501,196,946.97	12,275,537.30	0.00	513,472,484.27

2013

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at the year end
Statutory surplus reserve	322,730,716.50	10,877,910.07	0.00	333,608,626.57
Discretionary surplus reserve	63,796,201.34	0.00	0.00	63,796,201.34
Reserve funds	82,108,376.71	0.00	0.00	82,108,376.71
Enterprise development funds	21,683,742.35	0.00	0.00	21,683,742.35
Total	490,319,036.90	10,877,910.07	0.00	501,196,946.97

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

36. Retained earnings

(1) Movement in retained earnings

Item	For the year	For the previous year	Allocation or appropriation proportion
Retained earnings for the previous year before adjustment	2,352,112,358.31	2,023,348,842.58	
Add: Adjusted retained earnings at the beginning of the year	0.00	0.00	
Retained earnings at the beginning of the year after adjustment	2,352,112,358.31	2,023,348,842.58	
Add: Net earnings attributable to the shareholders of the parent company for the year	515,978,431.82	487,502,351.80	
Less: Appropriation to statutory surplus reserve	12,275,537.30	10,877,910.07	10%
Appropriation to discretionary surplus reserve	0.00	0.00	
Dividends payable to ordinary shares	147,860,926.00	147,860,926.00	
Dividends of ordinary shares capitalised	0.00	0.00	
Retained earnings at the year end	2,707,954,326.83	2,352,112,358.31	

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.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***36. Retained earnings** *(continued)***(2) Notes to appropriation of profits**

Item	For the year	Unit: RMB'000
		For the previous year
Dividends:		
Final dividends in respect of the year 2013 paid during the year (Note 2)	147,860.93	—
Final dividends in respect of the year 2012 paid during the year (Note 3)		147,860.93
Dividends proposed after the balance sheet date:		
Final dividends proposed for the year 2014 (Note 1)	29,572.19	—
Final dividends proposed for the year 2013 (Note 2)	—	147,860.93

Note 1: On 23 March 2015, the Seventh Meeting of the eighth Board of the Company has approved the profit distribution plan for 2014 as follows: based on the Company's total share capital as at the registration date of shares determined by implementation of the 2014 Annual Profit Distribution Plan to distribute a final cash dividend of RMB1.00 (tax inclusive) to all the shareholders of the Company. Based on the total issued share capital of the Company of 295,721,852 Shares as at the end of the year, it is expected that the Company will use about RMB29.57219 million on profit distribution. The above proposed dividend distribution is subject to the approval at the 2014 AGM.

Note 2: On 24 March 2014, the Company held the Twenty-eighth Meeting of the Seventh Board, which passed the resolution of 2012 annual profit distribution plan to declare a final dividend of RMB147.86093 million (RMB0.5 per share (tax inclusive)) to all shareholders with reference to the total number of 295,721,852 shares of the Company at the end of the year. Such profit contribution plan was approved in the shareholder's meeting on 30 June 2014 and the dividends were paid to shareholders in July 2014.

Note 3: 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 RMB147.86093 million (RMB0.5 per share (tax inclusive)) to all shareholders with reference to the total number of 295,721,852 shares of the Company at the end of the year. Such profit distribution plan was approved in the shareholders' meeting on 21 June 2013 and the dividends were paid to shareholders in July 2013.

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

37. Operating income and operating cost

Item	For the year		For the previous year	
	Income	Cost	Income	Cost
Principal activities	5,456,211,974.12	2,083,831,632.88	4,569,387,988.66	1,653,344,112.06
Other activities	88,021,803.74	59,079,389.53	49,292,052.20	41,270,996.94
Total	5,544,233,777.86	2,142,911,022.41	4,618,680,040.86	1,694,615,109.00

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

38. Business taxes and surcharges

Item	For the year	For the previous year
Urban maintenance and construction tax payable	37,297,910.45	31,662,997.86
Education surcharges payable	29,191,576.91	24,476,705.48
Flood prevention fee payable	2,460,143.73	2,007,783.14
Business tax payable	241,648.46	82,581.51
Others	1,056.33	292,036.25
Total	69,192,335.88	58,522,104.24

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

39. Selling expenses

Item	For the year	For the previous year
Marketing and promotional expenses	2,002,527,160.49	1,638,620,348.28
Staff salaries	75,480,203.32	67,331,679.65
Transportation costs	42,857,561.80	31,798,233.15
Travelling expenses and entertainment	30,476,847.28	22,293,178.57
Business meeting expenses	22,771,349.09	20,057,766.72
Others	34,105,623.30	30,646,170.23
Total	2,208,218,745.28	1,810,747,376.60

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***40. Administrative expenses**

Item	For the year	For the previous year
Research and development costs	189,499,613.52	146,980,309.90
Staff salaries	87,523,725.82	98,381,615.01
Depreciation and amortisation	43,238,782.99	34,404,652.84
Loss on suspension of operations	24,935,364.24	25,842,220.64
Tax expenses	19,631,382.71	14,807,350.24
Auditor Remuneration	2,587,347.17	2,774,193.35
Others	97,106,534.89	114,102,723.59
Total	464,522,751.34	437,293,065.57

41. Financial expenses

Item	For the year	For the previous year
Interest expenses	26,855,257.66	9,063,185.39
Less: Interest income	13,664,016.51	21,881,776.71
Exchange (gains)/losses	1,399,753.94	-6,752,751.75
Bank charges	6,040,595.77	4,494,646.17
Total	20,631,590.86	-15,076,696.90

42. Impairment loss

Item	For the year	For the previous year
Provision for bad debts	4,646,238.97	18,319,202.20
Provision for diminution in value of inventories	51,891,614.05	26,435,334.14
Provision for impairment of fixed assets	995,514.34	570,726.35
Total	57,533,367.36	45,325,262.69

43. Gains from changes in fair value

Sources of gains from changes in fair value	For the year	For the previous year
Financial assets at fair value through profit or loss	-4,939,260.57	-1,236,410.63
Of which: Shares	-4,985,191.50	-1,292,110.24
Funds	45,930.93	55,699.61

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***44. Investment Income**

Item	For the year	For the previous year
Long-term equity investments income under equity method	4,781,707.78	2,803,662.91
Investment income generated from disposal of long-term equity investments	-264,848.13	0.00
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the year during its holding period	180,879.76	183,403.88
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss	0.00	844,328.90
Investment income generated from held-to-maturity investments during its holding period	0.00	0.00
Investment income generated from available-for-sale financial assets during its holding period	161,916.30	708,115.36
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	64,091.30	364,365.36
Investment income generated from disposal of available-for-sale financial assets investments	3,364,181.22	0.00
When without control, income generated from revaluation of remaining equity measured at fair value	0.00	0.00
Total	8,223,836.93	4,539,511.05

45. Non-operating income

Item	For the year	For the previous year	Recognised as extraordinary gains or losses for the year
Gains on disposal of non-current assets in aggregate	355,242.11	359,811.57	355,242.11
Of which: Gains on disposal of fixed assets	355,242.11	359,811.57	355,242.11
Income from scraps	1,214,462.30	953,579.28	1,214,462.30
Government grants (More details, please see the table below: Table for breakdown of government grants)	66,827,495.36	38,842,657.52	66,827,495.36
Compensation income	252,832.99	902,665.59	252,832.99
Waiver of payables	455,033.39	1,106,716.51	455,033.39
Others	1,008,349.01	943,004.44	1,008,349.01
Total	70,113,415.16	43,108,434.91	70,113,415.16

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

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

45. Non-operating income *(continued)*

Of which, breakdown of government grants through profit or loss:

Item	For the year	For the previous year	Related to assets/ 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)	1,278,741.49 432,379.99	956,444.94 13,976,699.97	Related to assets Related to income
Guangdong Province Strategic Industry Core Technology Breakthrough Research Fund (2011) for MAB for Class I treatment of necrosis factor in human tumour from human source (廣東省戰略新興產業核心技術攻關(2011)類治療用人源化抗人腫瘤壞死因數α單克隆抗體新藥的研製資金)	472,053.20 0.00	998,568.64 400,000.00	Related to assets Related to income
NDRC Ilaprazole Project (發改委艾普拉唑項目)	2,500,000.04 1,248,129.80	1,740,196.48 1,107,933.36	Related to assets Related to income
Funding for innovation team	150,000.00	0.00	Related to income
2013 Provincial funding from central of special funds 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
Funds for little giant training Enterprise (小巨人培育企業撥款)	0.00	200,000.00	Related to income
Grant to enterprises manufacturing bright acrylic microspheres and its injection (亮丙微球及注射劑企業撥款)	300,000.00	120,000.00	Related to assets
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一注射用替加環素產業化研究)	0.00	45,731.88	Related to income
Triple pollen injection medicine (注射用三花粉針)	0.00	44,976.51	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)	11,071.41	419,347.31	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
Funds for quality control programme on Chinese injection medicines from Finance Bureau of Shaoguan (韶關市財政局中藥注射劑質控撥款)	291,666.65	708,333.35	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	422,131.11	Related to income
Deferred income carried forward from astragalus GAP projects (結轉黃芪GAP項目遞延收益)	548,834.20	0.00	Related to assets

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

45. Non-operating income *(continued)*

Item	For the year	For the previous year	Related to assets/ Related to income
Enterprise Incentive Funds (企業獎勵基金)	0.00	500,000.00	Related to income
Toxin-clearing and kidney soothing capsule project (消毒安腎膠囊項目)	0.00	301,411.64	Related to assets
	0.00	491,776.89	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專案)	394,404.00	394,404.00	Related to assets
Subsidy for technology research and development (技術研究與開發補助款)	0.00	300,000.00	Related to income
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
Pudong new area vocational training financial subsidy (浦東新區職業培訓財政補貼撥款)	625,764.00	0.00	Related to income
Interest discount funds for promoting imports (進口貼息資金)	238,418.00	412,252.00	Related to income
Subsidy for production process improvement for anti-viral granule, automatic production and packaging line for Chinese traditional medicine (抗病毒顆粒生產工藝改進及提升、中藥顆粒劑 自動化生產包裝線補貼)	176,500.00	0.00	Related to income
Subsidy for new prescriptions for antiviral influenza (新處方抗病毒顆粒)	600,000.00	0.00	Related to income
Subsidy from Pengzhou Industry, Information and Technology Bureau (彭州市工業和資訊化局補貼)	86,477.08	0.00	Related to income
Special fund from Pengzhou Industry and Science Technology Bureau (彭州市工業和科學技術 資訊化局項目資金)	500,000.00	0.00	Related to income
Subsidy from Chengdu Enterprise Technology Centre, Subsidy for Enterprise's reemployment contribution (成都市企業技術中心補貼、企業爭先創優再就業 補貼)	300,000.00	0.00	Related to income
Research for enhancing the quality standards of anti-viral granules (抗病毒顆粒品質標準提升研究)	0.00	200,000.00	Related to income
Non-PVC bag improvement project (非PVC袋裝改造項目)	194,365.80	145,774.34	Related to assets

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

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

45. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ Related to income
First batch of energy saving and recycling economy financial incentive projects of Fujian Province (福建省第一批節能循環經濟財政獎勵項目)	0.00	190,000.00	Related to income
Amount granted from Science and Technology Bureau of Shaoguan for quality control research of Shenqi Fuzheng Injection (韶關市科技局轉參芪扶正注射液質量控制研究撥款)	173,610.00 625,000.00	0.00 1,441,666.66	Related to assets Related to income
Subsidy for the demonstration project on the application of solar photovoltaic architecture (太陽能光電建築應用示範項目補助)	701,000.04	701,000.04	Related to assets
Electricity Incentive Funds (用電獎勵資金)	159,400.00	502,420.00	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)	99,996.00	74,997.00	Related to assets
Shanghai Jinqiao Export Processing Zone Management Committee Financial Support Funds (tax rebates) (上海金橋出口加工區管理委員會財政扶持款(稅收返還))	833,000.00	0.00	Related to income
Export credit insurance subsidies (出口信保補貼)	939,739.00	522,962.00	Related to income
Power-saving of lighting pump fan and air-conditioning system (照明水泵風機及空調系統節電)	69,996.00	52,497.00	Related to assets
Subsidy for solvent workshop process improvement (溶劑回車間工藝技術改造補貼)	1,000,000.00	0.00	Related to income
Energy consumption subsidies (能耗補貼款)	0.00	158,700.00	Related to income
Development funds for SMEs international market (中小企業國際市場開拓資金)	0.00	47,218.00	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
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
863-plan biological and technical fields: in vitro diagnostic technology product development project (863計畫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
2013 Strategic Emerging Industries Special Funds – Biomedicine 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
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

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

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

45. Non-operating income (continued)

Item	For the year	For the previous year	Related to assets/ 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
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
2013 Xiangzhou District Outstanding Economic Contribution Reward Funds (2013年香洲區突出經濟貢獻獎勵金)	250,000.00	0.00	Related to income
2012 Zhuhai Enterprise Transformation and Upgrade Encouragement Reward Funds (2012年珠海鼓勵企業轉型升級獎勵金)	50,000.00	0.00	Related to income
Zhuhai Enterprise Transformation and Upgrade and Expansion Encouragement Reward Funds (珠海鼓勵企業轉型升級擴大生產獎勵)	38,926.28	0.00	Related to income
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
Shenqi Fuzheng Injection (參芪扶正注射液)	105,788.95	0.00	Related to assets
	0.00	53,521.91	Related to income
Medicines and Health Products Importer and Exporter Association of China Funds for SMEs in 2010 CPHI South America Expo (中國醫保商會撥付2010年CPHI 南美展中小企業資金)	0.00	21,500.00	Related to income
Provision for technology transformation funds (技術改造資金撥款)	1,004,550.00	0.00	Related to income
Development Fund from Medicines and Health Products Importer and Exporter Association of China for SMEs International Market in 2010 International Pharmaceutical Raw Materials Exhibition in India (中國醫保商會撥付2010年印度國際醫藥原料展覽會中小企業國際市場開拓資金)	0.00	30,200.00	Related to income
2012 central funding of special funds to foreign patent applications (2012年中央資助向國外申請專利專項資金)	0.00	732,000.00	Related to income
Incentives of the Bonded Zone (保稅區獎勵)	25,000.00	194,800.00	Related to income
Dato industrial technology development project funding (達托產業化技術開發項目撥款)	0.00	500,000.00	Related to income
Gutian County Economic and Trade Bureau Double Tax Levy Incentive Award (古田縣經貿局兩稅即徵即獎獎勵資金)	0.00	556,259.00	Related to income

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

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

45. Non-operating income *(continued)*

Item	For the year	For the previous year	Related to assets/ Related to income
Special national patent grants (國家申請專利專項補助款)	0.00	113,600.00	Related to income
2012 Zhuhai special matching funds to expand imports (2012年珠海市擴大進口專項配套資金)	0.00	100,000.00	Related to income
Qingyuan Municipal Finance Bureau grant for special funding to small and medium enterprises to develop in 2013 (清遠市財政局撥2013中小企業發展專項資金)	225,000.00	225,000.00	Related to income
Subsidies for small and medium enterprises to attract high school graduates (中小企業吸納高校畢業生補貼款)	47,810.30	0.00	Related to income
Zhuhai Discount Interest Funds for Favoring High-quality Products and Good Enterprises in 2013 (2013年珠海市扶優扶強貼息資金)	0.00	1,161,700.00	Related to income
Incentive funding for patent application advanced units in Zhuhai in 2012 (2012年度珠海市專利申請工作先進單位獎勵資金)	0.00	100,000.00	Related to income
Research and development of Jindele Preparations (金得樂制劑研發)	0.00	50,000.00	Related to income
Special funds for expanding overseas by enterprises in Zhuhai in 2013 (2013年度珠海市「走出去」專項資金)	0.00	50,000.00	Related to income
Encouraging enterprises to transition to expand production at the provincial level awards (鼓勵企業轉型省級擴大生產獎勵)	0.00	80,000.00	Related to income
Zhuhai Science and Technology Awards Incentive (珠海市科學技術獎獎勵金)	0.00	600,000.00	Related to income
Enterprise Development Reward Funds (企業發展獎勵資金)	117,828.00	154,780.00	Related to income
2012 Annual Patent Awards Funds by Zhuhai Finance Bureau (珠海市財政局2012年度珠海市專利獎資金)	0.00	100,000.00	Related to income
2013 encouraging funds for enterprises to transform and expand production (2013年轉型升級擴大生產獎勵金)	120,000.00	0.00	Related to income
Special funds for provincial intellectual property rights in 2013 (2013 省級知識產權專項資金)	30,000.00	230,000.00	Related to income
Set-up and research fund for post-doc station (博士後建站和科研補貼)	700,000.00	0.00	Related to income
Subsidy for relocation and settledown (搬遷及落戶補助)	12,000,000.00	0.00	Related to income
Financial support funds for the first half of 2014 (2014年上半年財政扶持資金)	28,070,000.00	0.00	Related to income

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

45. Non-operating income *(continued)*

Item	For the year	For the previous year	Related to assets/ Related to income
2014 Special funds for brand development of technology and trade (2014年科技興貿與品牌建設專項資金)	500,000.00	0.00	Related to income
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
2013 subsidy funds for patent application in Zhuhai (2013年珠海市專利申請資助資金)	83,850.00	78,550.00	Related to income
Zhuhai tax rebate for normal export (珠海市一般貿易出口退稅征退差資金)	135,400.00	0.00	Related to income
Fuzhou land use tax and property tax subsidy (福州土地使用稅、房產稅補貼)	0.00	185,965.78	Related to income
Special funds for energy auditing (能源審計專項資金)	20,000.00	0.00	Related to income
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
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
Selected Good faith enterprise Funds by Fuqing Finance Bureau (福清財政局評選誠信企業獎勵經費)	0.00	10,000.00	Related to income
Funds with two types of taxes levied, then granting awards of funds by Gutian County Economic and Trade Bureau (古田縣經貿局兩稅即徵即獎獎勵資金)	0.00	221,500.00	Related to income
Research and development Fee Subsidy Funds (研究開發費補助資金)	1,021,400.00	786,100.00	Related to income
Continuous high vacuum concentrated equipment antiviral particles concentrated extract process improvement projects (連續式高濃度真空濃縮設備改進抗病毒顆粒濃縮收膏工藝項目)	0.00	50,000.00	Related to income
Pudong New Area Finance Bureau Science and Technology Development Fund subsidy (浦東新區財政局科技發展基金補助款)	0.00	400,000.00	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)	15,418.38 43,541.63	0.00 47,499.99	Related to assets 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)	4,722.22 24,444.42	0.00 24,444.44	Related to assets Related to income
Policy fund for leading industrial enterprises loan interests (工業龍頭企業貸款貼息政策資金)	233,333.33 369,800.00	0.00 0.00	Related to assets Related to income

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***45. Non-operating income** *(continued)*

Item	For the year	For the previous year	Related to assets/ Related to income
Government grant for industry transformation (工業轉型政府扶持資金)	241,666.67	0.00	Related to assets
Government fund for industrial enterprise production expansion (工業企業增產獎勵政府資金)	144,500.00	0.00	Related to income
2014 Reward from Industrial Economy Conference (2014年工業經濟大會獎勵)	454,000.00	0.00	Related to income
Autonomous Region Reward Fund for 2014 Industry Growth and Production Expansion (自治區2014年工業保值增長及增產獎勵)	843,900.00	0.00	Related to income
2014 New Industrialisation Development Grant (second batch) (2014年第二批新型工業化發展獎金)	250,000.00	0.00	Related to assets
Government Industry Encouragement Fund (政府產業振興扶持資金)	1,050,000.00	0.00	Related to assets
Others	357,349.59	512,930.25	Related to income
Total	66,827,495.36	38,842,657.52	

46. Non-operating expenses

Item	For the year	For the previous year	Recognised as extraordinary gains or losses for the year
Losses on disposal of non-current assets	1,354,272.04	179,663.39	1,354,272.04
Of which: Losses on disposal of fixed assets	1,354,272.04	179,663.39	1,354,272.04
Write-off of fixed assets	0.00	2,257,170.00	0.00
Charity donation expenses	757,006.17	2,126,092.56	757,006.17
Others	485,644.17	161,975.34	485,644.17
Total	2,596,922.38	4,724,901.29	2,596,922.38

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

47. Income tax expenses

(1) Breakdown of income tax expenses

Item	For the year	For the previous year
Current income tax calculated according to tax laws and relevant rules	98,913,586.15	111,641,150.16
Include: Income tax on domestic enterprises	99,487,636.19	110,948,465.11
Income tax on Hong Kong and Macau enterprises	-574,050.04	692,685.05
Adjustment of deferred income tax	-510,725.06	-6,687,214.09
Total	98,402,861.09	104,953,936.07

(2) The relationships between income tax expenses and total profit are as follows

Item	For the year	For the previous year
Profit before tax	652,025,033.87	628,940,453.70
Income tax calculated at statutory tax rates	163,006,258.47	157,235,113.43
Tax effect of different rates applicable to subsidiaries	1,207,474.59	678,758.33
Effect of tax deduction	-78,318,844.13	-76,372,494.55
Effect of non-deductible expenses	3,435,633.78	2,099,603.18
Credit (charge) on temporary differences on which deferred tax assets are not recognised for the year	-5,358,514.01	9,071,931.33
Deductible losses of deferred tax assets that are not recognised for the year	16,877,054.00	10,336,882.08
Use of deductible losses of deferred tax assets that are not recognised in the previous year	-4,121,151.17	-673,122.56
Others	1,674,949.56	2,577,264.83
Total	98,402,861.09	104,953,936.07

48. Other comprehensive income details

Please refer to note VI. 34 for details.

49. Basic earnings per share and diluted earnings per share

Basic earnings per share are calculated based on the net profit for the year attributable to the shareholders of ordinary shares of the Company divided by weighted average number of ordinary shares issued and outstanding. The newly issued ordinary shares are calculated and recognised based on the terms of issue contracts from the due date of the consideration (normally the stock issue date).

Numerator of diluted earnings per share is determined based on the net profit for the year attributable to the shareholders of ordinary shares of the Company adjusted by the following factors: (1) the interest of the diluted potential ordinary shares already recognised as costs in the current period; (2) the income or costs to arise from the conversion of the diluted potential ordinary shares; and (3) effect of income tax related to the above adjustment.

Denominator of diluted earnings per share is the sum of (1) weighted average number of the ordinary shares issued by the parent in basic earnings per share; and (2) weighted average number of additional ordinary shares arising from the conversion of assumed diluted potential ordinary shares to ordinary shares.

When calculating the weighted average number of additional ordinary shares arising from the conversion of assumed diluted potential ordinary shares to ordinary shares, the diluted potential ordinary shares issued in prior periods are assumed to be converted at the beginning of the year; the diluted potential ordinary shares issued in the year are assumed to be converted on the issue date.

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***49. Basic earnings per share and diluted earnings per share** *(continued)***(1) The basic earnings per share and diluted earnings per share for each period are shown below**

	For the year		For the previous year	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Profit for the year				
Net profit attributable to shareholders of ordinary shares	1.74	1.74	1.65	1.65
Net profit attributable to shareholders of ordinary shares after extraordinary gains or losses	1.57	1.57	1.56	1.56

(2) The calculation of the basic earnings per share and diluted earnings per share

Item	Serial number	For the year	For the previous year
Net profit attributable to shareholders of ordinary shares	A	515,978,431.82	487,502,351.80
Extraordinary gains or losses	B	52,946,959.69	25,343,166.07
Net profit attributable to shareholders of ordinary shares after extraordinary gains or losses	C=A-B	463,031,472.13	462,159,185.73
Total number of shares at the beginning of the period	D	295,721,852	295,721,852
Increases of shares due to transfer from capital reserve or share dividend during the Reporting Period	E	0.00	0.00
Increases of shares due to issue of new shares or conversion of debts into shares during the Reporting Period	F	0.00	0.00
Accumulated number of months with increase in number of shares from the next month of the increase to the end of the Reporting Period	G	0.00	0.00
Decreases of shares due to shares repurchase during the Reporting Period	H	0.00	0.00
Accumulated number of months with decrease in number of shares from the next month of the decrease to the end of the Reporting Period	I	0.00	0.00
Decreases of shares due to shares consolidation during the Reporting Period	J	0.00	0.00
Amount of months during the Reporting Period	K	12	12
Weighted average number of ordinary shares issued and outstanding	$L = D + E + F * G / K - H * I / K - J$	295,721,852	295,721,852
Basic earnings per share	$M = A / L$	1.74	1.65
Basic earnings per share after extraordinary gains or losses	$N = C / L$	1.57	1.56

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

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***50. Expenses categorised by nature**

Item	For the year	For the previous year
Materials expenses	1,594,225,278.97	1,185,898,427.87
Marketing and promotion expenses	2,000,462,097.82	1,633,089,658.05
Labor costs	421,242,798.10	391,742,182.81
Depreciation and amortisation expenses	257,538,003.42	179,974,465.84
Energy and power	194,080,830.57	166,048,034.20
Other manufacturing expenses	254,116,165.05	221,671,132.73
Movement in inventories	-230,335,432.34	-98,061,444.53
Impairment loss of assets	57,533,367.36	45,325,262.69
Accounting expenses	20,631,590.86	-15,076,696.90
Others	396,112,035.70	325,540,099.73
Total	4,965,606,735.51	4,036,151,122.49

51. Notes to cash flow statement item**(1) Cash received relating to other operating activities**

Item	For the year	For the previous year
Government grants	65,027,774.67	45,741,704.34
Interest income	13,664,016.51	21,881,776.71
Damages and penalty income	362,442.99	1,028,008.09
Income from scraps	1,214,462.30	953,579.28
Deposits under guarantees for letter of credit	2,240,968.33	27,346,115.40
Movements of capital and others	33,929,329.33	42,645,468.50
Total	116,438,994.13	139,596,652.32

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***51. Notes to cash flow statement item** *(continued)***(2) Cash paid relating to other operating activities**

Item	For the year	For the previous year
Office expenses	30,471,460.20	20,156,420.12
Travelling expenses	28,707,547.21	29,051,645.00
Entertainment expenses	24,528,850.56	26,259,707.20
Transportation fees	53,310,216.12	44,314,920.19
Advertising expenses	22,224,921.30	12,836,653.77
Business meeting expenses	30,281,032.23	42,799,570.79
Auditing and information disclosure fees	5,623,995.77	5,038,125.91
Consultancy fees	17,656,638.40	21,101,742.61
Research and development costs	89,388,487.68	60,711,925.91
Bank charges	6,040,595.77	4,494,646.17
Business promotion expenses	1,948,283,686.66	1,501,760,577.35
Deposits under guarantees for letter of credit and bank acceptance bills	2,305,000.00	21,213,571.03
Other expenses paid and current account	87,310,715.18	87,812,186.90
Total	2,346,133,147.08	1,877,551,692.95

(3) Cash received relating to other investing activities

Item	For the year	For the previous year
Deposits under guarantees for letter of credit	11,844,211.41	6,849,946.69

(4) Cash paid relating to other investing activities

Item	For the year	For the previous year
Deposits under guarantees for letter of credit	8,255,955.14	8,563,590.71

(5) Cash received relating to other financing activities

Item	For the year	For the previous year
Release of pledged deposits	0.00	33,000,000.00
Dividend withheld for personal income tax	0.00	7,666,343.14
Total	0.00	40,666,343.14

(6) Cash paid relating to other financing activities

Item	For the year	For the previous year
Pledged deposits	0.00	4,000,000.00
Total	0.00	4,000,000.00

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

52. Supplemental information to cash flow statement

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

Item	For the year	For the previous year
1 Reconciliation of net profit to cash flow from operating activities:		
Net profit for the year	553,622,172.78	523,986,517.63
Add: Provision for impairment of assets	57,533,367.36	45,325,262.69
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	228,074,392.73	149,847,425.36
Amortisation of intangible assets	19,040,602.87	19,029,801.79
Amortisation of long-term expense	10,423,007.82	11,097,238.69
Losses on disposal of fixed assets, intangible assets and other long-term assets ("—" represents gains)	999,029.93	-180,148.18
Losses on write-off of fixed assets	0.00	2,257,170.00
Losses from changes in fair value ("—" represents gains/income)	4,939,260.57	1,236,410.63
Financial expenses ("—" represents gains/income)	31,184,906.31	315,413.95
Investments losses ("—" represents gains)	-8,223,836.93	-4,539,511.05
Decrease in deferred tax assets ("—" represents increase)	-5,334,021.11	-7,030,556.54
Increase in deferred tax liabilities ("—" represents decrease)	4,823,296.05	343,342.45
Decrease in inventories ("—" represents increase)	-270,830,470.53	-135,325,706.47
Decrease in trade receivables ("—" represents increase)	-123,561,204.71	-941,065,453.15
Increase in trade payables ("—" represents decrease)	214,703,390.41	774,689,317.89
Others	0.00	0.00
Net cash flows from operating activities	717,393,893.55	439,986,525.69
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	709,114,426.17	750,928,733.31
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	-41,814,307.14	-427,707,567.21

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

Nil

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***52. Supplemental information to cash flow statement****(3) Composition of cash and cash equivalents**

Item	Balance at the year end	Balance at the beginning of the year
1 Cash	709,114,426.17	750,928,733.31
Of which: Cash on hand	177,881.98	176,402.83
Bank deposits that are readily available for payment	708,388,606.07	747,677,597.88
Other cash at bank and on hand that are readily available for payment	547,938.12	3,074,732.60
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	709,114,426.17	750,928,733.31

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

53. Assets with restricted ownership or right of use

Total	Gross amount by the year end	Reason for restriction
Pledged assets:		
Other cash fund	69,091.76	Deposits under guarantees for letters of credit
Other cash fund	6,522,085.87	Deposits for bank acceptance bills
Total	6,591,177.63	

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

VI. NOTES TO THE COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***54. Monetary items in foreign currency**

Item	Amount in foreign currency by year end	Exchange rate	Amount translated into RMB by year end
Cash in foreign currency:			
In which: HKD	7,018,811.61	0.78887	5,536,929.91
Euro	28,511.82	7.4556	212,572.73
USD	2,593,865.03	6.1190	15,871,860.12
MOP	2,357,320.50	0.7771	1,831,873.76
JPY	105,263,476.00	0.051371	5,407,490.03
Total cash in foreign currency:			28,860,726.55
Trade receivables:			
In which: USD	19,516,188.92	6.1190	119,419,560.00
JPY	1,973,990.00	0.051371	101,405.84
Total trade receivables:			119,520,965.84
Other receivables:			
In which: HKD	401,203.36	0.78887	316,497.29
MOP	164,000.00	0.7771	127,444.40
Total other receivables:			443,941.69
Short-term loans:			
In which: HKD	476,530,000.00	0.78887	375,920,221.10
Payables:			
In which: USD	40,595.35	6.1190	248,402.95
Interest payables:			
In which: HKD	1,298,262.19	0.78887	1,024,160.09
Dividend payables:			
In which: HKD	3,191,076.68	0.78887	2,517,344.66
Other payables:			
In which: HKD	154,261.81	0.78887	121,692.51

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

VII. CHANGE TO CONSOLIDATION SCOPE

On 21 May 2014, Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) invested in cash and incorporated Zhuhai Lihe Medical Diagnostic Product Co., Ltd. (珠海麗禾醫療診斷產品有限公司), with registered capital RMB15 million. Accordingly, Zhuhai Lihe Medical Diagnostic Product Co., Ltd. (珠海麗禾醫療診斷產品有限公司) is consolidated into the financial statement of the Company.

VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

(1) Group Structure

Name of the subsidiary	Subsidiary Type	Place of main business	Place of incorporation	Nature of business	Registered Capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
Ando Development Limited (安滔發展有限公司)	Wholly-owned	Hong Kong	Hong Kong	Investment	HKD500,000	100%	100%	Set-up
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	Wholly-owned	Hong Kong	Hong Kong	Investment	HKD61,000,000	100%	100%	Set-up
Zhuhai Modern Chinese Medicine High Technology Co., Ltd. (珠海現代中藥高科技有限公司)	Wholly-owned	Zhuhai	Zhuhai	Provision of services	RMB60,000,000	100%	100%	Set-up
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	Wholly-owned	Zhuhai	Zhuhai	Manufacture of medicine	RMB450,000,000	100%	100%	Set-up
Livzon Group Livzon Pharmaceutical Marketing Co., Ltd. (麗珠集團麗珠醫藥營銷有限公司)	Wholly-owned	Zhuhai	Zhuhai	Sales of goods	RMB20,000,000	100%	100%	Set-up
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	Wholly-owned	Zhuhai	Zhuhai	Sales of goods	RMB60,000,000	100%	100%	Set-up
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	Holding	Shanghai	Shanghai	Manufacture of medicine	RMB87,330,000	51%	51%	Set-up
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗珠合成製藥有限公司)	Wholly-owned	Zhuhai	Zhuhai	Manufacture of medicine	RMB128,280,000	100%	100%	Set-up
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	Holding	Zhuhai	Zhuhai	Manufacture of medicine	RMB46,450,000	51%	51%	Set-up
Datong Livzon Qiyuan Medicine Co., Ltd. (大同麗珠芪源藥材有限公司)	Subsidiary of Wholly-owned subsidiary	Hunyuan County	Hunyuan County	Crop farming	RMB4,000,000	92.5%	92.5%	Set-up
Longxi Livzon Shenyuan Medicine Co., Ltd. (龍西麗珠參源藥材有限公司) *	Subsidiary of Wholly-owned subsidiary	Longxi County	Longxi County	Crop farming	RMB4,000,000	100%	100%	Set-up
Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生物科技股份有限公司)	Wholly-owned	Hong Kong	Hong Kong	Provision of services	HKD10,000	100%	100%	Set-up
Zhuhai Livzon Advertising Co., Ltd. (珠海麗珠廣告有限公司)	Wholly-owned	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100%	100%	Set-up
Zhuhai Livzon Baimeg Biological Materials Co., Ltd. (珠海麗珠一拜阿蒙生物材料有限公司)	Holding	Zhuhai	Zhuhai	Manufacture of medicine	RMB12,000,000	82%	82%	Set-up
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	Zhuhai	Zhuhai	Provision of services	RMB1,000,000	100%	100%	Set-up
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	Wholly-owned	Zhuhai	Zhuhai	Provision of services	RMB10,000,000	100%	100%	Set-up
Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (焦作麗珠合成製藥有限公司)	Wholly-owned	Jiaozuo	Jiaozuo	Manufacture of medicine	RMB70,000,000	100%	100%	Set-up
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	Holding	Zhuhai	Zhuhai	Provision of services	RMB500,000,000	51%	51%	Set-up

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

VIII. EQUITY IN OTHER ENTITIES *(continued)***1. Equity in subsidiaries** *(continued)***(1) Group Structure** *(continued)*

Name of the subsidiary	Subsidiary Type	Place of main business	Place of incorporation	Nature of business	Registered Capital	Percentage of shareholding	Proportion of voting rights	Acquisition method
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	Holding	Zhuhai	Zhuhai	Provision of services	RMB65,000,000	83.85%	83.85%	Set-up
Wenshan Livzon Sanqi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	Holding	Wenshan	Wenshan	Crop farming	RMB9,200,000	51%	51%	Set-up
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Holding	Pingluo County	Pingluo County	Manufacture of medicine	RMB100,000,000	99.214%	99.214%	Set-up
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Wholly-owned	Pingluo County	Pingluo County	Manufacture of medicine	RMB100,000,000	100%	100%	Set-up
Companhia de Macau Carason Limitada (澳門嘉安信有限公司)	Subsidiary of Holding	Macau	Macau	Sales of goods	MOP100,000	51%	51%	Set-up
Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	Wholly-owned	Macau	Macau	Provision of services	MOP100,000	100%	100%	Set-up
Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技有限公司)	Subsidiary of Holding	Shanghai	Shanghai	Provision of	RMB10,000,000	38.25%	38.25%	Set-up
Zhuhai Livzon Pharmaceutical Enterprise Management Co. Ltd. (珠海市麗珠醫藥企業管理有限公司)	Wholly-owned	Zhuhai	Zhuhai	Provision of	RMB1,000,000	100%	100%	Set-up
Zhuhai Lihe Medical Diagnostic Product Co.Ltd (珠海麗禾醫療診斷產品有限公司)	Subsidiary of Holding	Zhuhai	Zhuhai	Manufacture of medicine	RMB15,000,000	51%	51%	Set-up
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	Wholly-owned	Pengzhou	Pengzhou	Manufacture of medicine	RMB149,000,000	100%	100%	Consolidated from non-common control
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	Holding	Qingyuan	Qingyuan	Manufacture of medicine	RMB134,930,000	92.14%	92.14%	Consolidated from non-common control
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	Wholly-owned	Shaoguan	Shaoguan	Manufacture of medicine	RMB61,5600,000	100%	100%	Consolidated from non-common control
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Wholly-owned	Fuzhou	Fuzhou	Manufacture of medicine	USD41,700,000	100%	100%	Consolidated from non-common control
Gutian Fuxing Pharmaceutical Co., Ltd. (古田福興醫藥有限公司)	Wholly-owned	Gutian County	Gutian County	Manufacture of medicine	RMB26,700,000	100%	100%	Consolidated from non-common control

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

VIII. EQUITY IN OTHER ENTITIES *(continued)***1. Equity in subsidiaries** *(continued)***(2) Important non-wholly owned subsidiaries**

Name of Subsidiaries	Percentage of shareholdings under non-controlling shareholders	Profit and loss attributable to non-controlling shareholders for the year	Dividend paid to non-controlling shareholders for the year	Equity balance for non-controlling shareholders by the year end
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	49%	21,002,107.07	0.00	66,150,777.70
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司) and Zhuhai Lihe Medical Diagnostic Product Co.Ltd (珠海麗禾醫療診斷產品有限公司))	49%	41,945,804.82	12,250,000.00	148,139,967.64
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	49%	-22,283,660.45	0.00	143,291,991.17
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	16.15%	-1,925,517.95	0.00	2,232,421.18
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	7.86%	2,307,152.96	0.00	19,944,812.53

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

VIII. EQUITY IN OTHER ENTITIES *(continued)***1. Equity in subsidiaries** *(continued)***(3) Major accounting information on important non-wholly owned subsidiaries**

Name of subsidiaries	Financial Position by the year end		Financial Position by the beginning of the year	
	Total assets	Net assets	Total assets	Net assets
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	247,078,637.99	169,258,861.90	213,111,190.25	127,129,684.22
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司) and Zhuhai Lihe Medical Diagnostic Product Co.Ltd (珠海麗禾醫療診斷產品有限公司))	469,993,492.10	302,326,464.60	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)	314,553,681.00	292,432,635.02	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)	30,356,175.19	13,823,041.36	28,325,405.34	25,745,753.12
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	371,836,894.22	253,750,795.52	323,098,460.78	224,397,704.44

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

VIII. EQUITY IN OTHER ENTITIES *(continued)***1. Equity in subsidiaries** *(continued)***(3) Major accounting information on important non-wholly owned subsidiaries** *(continued)*

Name of subsidiaries	Operating results for the year			Operating results for the previous year		
	Revenue	Net profit	Total comprehensive income	Revenue	Net profit	Total comprehensive income
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	356,668,321.07	42,129,177.68	42,129,177.68	254,262,083.18	16,345,969.61	16,345,969.61
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司) and Zhuhai Lihe Medical Diagnostic Product Co.Ltd (珠海麗禾醫療診斷產品有限公司))	443,309,860.79	85,603,683.30	85,646,027.10	369,204,881.18	69,404,715.75	69,387,845.30
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	0.00	-45,476,858.07	-74,668,545.52	0.00	-12,547,712.66	-12,547,712.66
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	0.00	-11,922,711.76	-11,922,711.76	0.00	-13,849,836.31	-13,849,836.31
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	277,690,271.99	29,353,091.08	29,353,091.08	240,314,224.75	21,277,412.39	21,277,412.39

VIII. EQUITY IN OTHER ENTITIES *(continued)***1. Equity in subsidiaries** *(continued)***(3) Major accounting information on important non-wholly owned subsidiaries** *(continued)*

Name of subsidiaries	Cash flow for the year					Cash flow for the previous year				
	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and cash equivalents by the beginning of the year	Cash and cash equivalents by the year end	cash flow for operating activities	cash flow for investment activities	cash flow for financing activities	Cash and cash equivalents by the beginning of the year	Cash and cash equivalents by the year end
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)) (consolidated Shanghai Livzon Biotechnology Co., Ltd. (上海麗珠生物科技股份有限公司))	4,242,591.11	-8,595,090.80	61,788.38	6,903,881.62	2,613,170.31	29,349,567.52	-15,706,118.96	-12,991,161.18	6,251,594.24	6,903,881.62
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司) (consolidated Companhia de Macau Carason Limitada (澳門嘉安信有限公司) and Zhuhai Lihe Medical Diagnostic Product Co., Ltd. (珠海麗禾醫療診斷產品有限公司))	77,324,466.61	-24,126,534.51	-72,891,111.53	48,077,706.94	27,411,464.87	56,495,324.60	-13,709,166.29	-18,276,642.39	23,641,408.77	48,077,706.94
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	-43,871,186.42	-152,049,867.92	196,157,123.10	313,585.07	549,574.37	-35,769,581.80	-65,999,011.79	100,000,000.00	2,082,178.66	313,585.07
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	-6,000,225.02	-1,797,783.27	7,551,806.99	312,248.13	66,046.83	1,571,962.36	-1,375,560.39	0.00	115,846.16	312,248.13
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠集團新北江製藥股份有限公司)	112,341,759.91	-10,981,994.15	-97,725,850.36	15,067,394.93	19,442,411.12	87,016,831.40	-5,527,077.80	-74,168,287.73	7,532,423.57	15,067,394.93

2. Equity interest transfer with changes to proportion of equity ownership for subsidiaries without losing control**(1) Explanation on changes to proportion of equity interest ownership for subsidiaries**

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. In 2012, the Company received RMB19,884,600.00 from Ding Gongcai (丁公才) for recognition of the transfer of 24.01% equity interests in Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司). During the year, 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. 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.

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

VIII. EQUITY IN OTHER ENTITIES *(continued)***2. Equity interest transfer with changes to proportion of equity ownership for subsidiaries without losing control** *(continued)***(2) Effect of transfer on non-controlling shareholder's equity interests and equity interest attributable to the owners of the Company for the year**

Shanghai Livzon
Pharmaceutical
Manufacturing
Co.,Ltd.
(上海麗珠製藥
有限公司)

Item	
Acquisition consideration	20,565,294.58
– Cash	20,565,294.58
Total acquisition consideration	20,565,294.58
Less: share of net assets in subsidiary calculated by equity acquired/disposed of	21,823,492.11
Difference	-1,258,197.53
In which: adjustment in capital reserve	-1,258,197.53

3. Equity in associates or joint ventures**(1) Accounting information for non-important associates or joint ventures**

Item	Balance at the year end/ For the year	Balance at the beginning of the year/For the previous year
Associates:		
Total nominal value of investment	37,771,892.70	41,511,757.45
Total amount calculated by percentage of shareholding		
– net profit	4,781,707.78	2,803,662.91
– other comprehensive income	0.00	0.00
– total comprehensive income	4,781,707.78	2,803,662.91

(2) Explanation of major restriction on capacity of capital transfer from associates or joint ventures to the company

Nil

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Management objectives and policies of risks

The operation activities of the Company are subject to various financial risks: market risks (mainly including foreign exchange risks and interest rate risks), credit risks and liquidity risks. The Company formulates an overall risk management plan with respect to the unforseeability of the financial market in order to minimise the potential adverse impacts on the financial performance of the Company.

(1) Foreign exchange risks

The Company conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Company still has certain imports and exports businesses regarding bulk medicines and diagnostic reagents and equipment, for which they are settled in U.S. dollar and Japanese Yen. The Company's businesses outside China (mainly in Hong Kong) are settled in Hong Kong dollars. In addition, the Company had loans denominated in Hong Kong dollars. As at the end of the year, the balance of loans in Hong Kong dollars amounted to HK\$476.53 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.

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***1. Management objectives and policies of 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) 31 December 2014

Amount denominated: RMB'000

Item	HKD item	USD item	Euro item	JPY case	MOP item
Financial assets in foreign currency –					
Cash	5,536.93	15,871.86	212.57	5,407.49	1,831.87
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	5,782.42	0.00	0.00	0.00	0.00
Receivables	0.00	119,419.56	0.00	101.41	0.00
Prepayments	0.00	3,338.76	0.00	0.00	0.00
Other receivables	316.50	0.00	0.00	0.00	127.44
Total:	11,635.85	138,630.18	212.57	5,508.90	1,959.31
Financial liabilities in foreign currency –					
Short-term loan	375,920.22	0.00	0.00	0.00	0.00
Payables	0.00	248.40	0.00	0.00	0.00
Receipts in advance	0.00	1,286.22	0.00	0.00	0.00
Interest payables	1,024.16	0.00	0.00	0.00	0.00
Dividend payables	2,517.34	0.00	0.00	0.00	0.00
Other payables	121.69	0.00	0.00	0.00	0.00
Sub total:	379,583.41	1,534.62	0.00	0.00	0.00

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***1. Management objectives and policies of risks** *(continued)***(1) Foreign exchange risks** *(continued)**(2) 31 December 2013*

Amount denominated: RMB '000

Item	HKD item	USD item	Euro item	JPY case	MOP item
Financial assets in foreign currency –					
Cash	33,220.85	18,102.66	202.45	2,741.95	1,016.77
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	10,739.90	0.00	0.00	0.00	0.00
Receivables	0.00	103,438.59	0.00	1,131.26	763.25
Prepayments	0.00	0.00	0.00	0.00	0.00
Other receivables	324.02	0.00	0.00	0.00	0.00
Sub total:	44,284.77	121,541.25	202.45	3,873.21	1,780.02
Financial liabilities in foreign currency –					
Short-term loan	241,084.45	0.00	0.00	0.00	0.00
Payables	0.00	2,434.48	0.00	0.00	0.00
Receipts in advance	0.00	765.63	0.00	0.00	0.00
Interest payables	1,131.24	0.00	0.00	0.00	0.00
Other payables	121.29	0.00	0.00	0.00	0.85
Sub total:	242,336.98	3,200.11	0.00	0.00	0.85

As at 31 December 2014, in respect of Group's financial assets and liabilities denominated in Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, should the value of RMB appreciate or depreciate by 5% against the Hong Kong dollar, U.S. dollar, Euro, Japanese Yen and Macau dollar, and other factors remain unchanged, the Group would be subject to an increase or decrease in profit of RMB11,158,560 (31 December 2013: RMB3,692,810).

(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.

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***1. Management objectives and policies of risks** *(continued)***(3) Credit risk**

Credit risk is primarily attributable to cash and cash equivalents, restricted cash at bank, accounts receivables and other receivables. In respect of cash at banks, they were placed at several banks with good reputations, for which the credit risk was limited. In respect of accounts receivables, the Company shall assess the credit limit granted to customers for credit purpose. Moreover, as the customer base is large, the credit risk on accounts receivables is not concentrated. In respect of the settlement of bills receivables, a lot of bills receivables are used to settle external payments, which significantly limit the balance of bills receivables. Moreover, the balance of bills receivables are quality bills having maturity within three months. Therefore, there should not be any significant credit risk. In addition, the provision made on accounts receivables and other receivables are adequate to manage the credit risk.

(4) Liquidity risk

The Company adopts a prudent liquidity risk management, so as to ensure the sufficiency of the sources of monetary funds and liquidity by maintaining adequate monetary funds and reserve of banking facilities so that we can secure credit loans from banks. Apart from indirect financing from banks, a number of financing channels were opened, such as direct financing by inter-bank market including short-term financing bills and medium term financing bills, corporate bonds etc. These instruments can appropriately reduce the effects arising from the scale of financing by inter-bank market and the macromonetary policies of China, which shall secure adequate funds in a flexible manner.

As at the date of balance sheet, cash flows of the financial assets and financial liabilities contracts are presented below by term of maturity:

(1) 31 December 2014

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	total
Financial assets –					
Cash	715,705,603.80	0.00	0.00	0.00	715,705,603.80
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	6,423,571.77	0.00	0.00	0.00	6,423,571.77
Receivable notes	305,315,241.79	0.00	0.00	0.00	305,315,241.79
Receivables	1,135,403,623.11	0.00	0.00	0.00	1,135,403,623.11
Prepayments	165,935,012.06	0.00	0.00	0.00	165,935,012.06
Other receivables	62,406,588.47	0.00	0.00	0.00	62,406,588.47
Sub total:	2,391,189,641.00	0.00	0.00	0.00	2,391,189,641.00
Financial liabilities –					
Short-term loan	375,920,221.10	0.00	0.00	0.00	375,920,221.10
Bills payables	352,619,794.63	0.00	0.00	0.00	352,619,794.63
Payables	598,748,939.78	0.00	0.00	0.00	598,748,939.78
Receipts in advance	56,013,777.28	0.00	0.00	0.00	56,013,777.28
Interest payables	17,089,201.23	0.00	0.00	0.00	17,089,201.23
Dividend payables	5,049,329.12	0.00	0.00	0.00	5,049,329.12
Other payables	860,502,818.73	0.00	0.00	0.00	860,502,818.73
Non-current liabilities due within one year	400,000.00	0.00	0.00	0.00	400,000.00
Other current liabilities	300,000,000.00	0.00	0.00	0.00	300,000,000.00
Long-term loans	0.00	65,800,000.00	0.00	700,000.00	66,500,000.00
Bonds payables	0.00	400,000,000.00	0.00	0.00	400,000,000.00
Sub total:	2,566,344,081.87	465,800,000.00	0.00	700,000.00	3,032,844,081.87

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

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)***1. Management objectives and policies of risks** *(continued)***(4) Liquidity risk** *(continued)*

(2) 31 December 2013

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	total
Financial assets –					
Cash	761,044,135.54	0.00	0.00	0.00	761,044,135.54
Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	11,335,125.54	0.00	0.00	0.00	11,335,125.54
Bills receivables	271,431,749.11	0.00	0.00	0.00	271,431,749.11
Receivables	1,114,815,102.71	0.00	0.00	0.00	1,114,815,102.71
Prepayments	202,437,865.84	0.00	0.00	0.00	202,437,865.84
Other receivables	47,538,357.66	0.00	0.00	0.00	47,538,357.66
Sub total:	2,408,602,336.40	0.00	0.00	0.00	2,408,602,336.40
Financial liabilities –					
Short-term loans	491,084,453.79	0.00	0.00	0.00	491,084,453.79
Bills payables	375,775,891.08	0.00	0.00	0.00	375,775,891.08
Payables	435,966,092.72	0.00	0.00	0.00	435,966,092.72
Receipts in advance	61,780,193.14	0.00	0.00	0.00	61,780,193.14
Interest payables	15,434,979.65	0.00	0.00	0.00	15,434,979.65
Dividend payables	2,531,984.46	0.00	0.00	0.00	2,531,984.46
Other payables	766,798,857.30	0.00	0.00	0.00	766,798,857.30
Non-current liabilities due within one year	400,000.00	0.00	0.00	0.00	400,000.00
Long-term loans	0.00	0.00	149,200,000.00	700,000.00	149,900,000.00
Notes payables	0.00	0.00	400,000,000.00	0.00	400,000,000.00
Sub total:	2,149,772,452.14	0.00	549,200,000.00	700,000.00	2,699,672,452.14

2. Transfer of financial assets**Transferred financial assets that are derecognized but still related to the transferor**

For the year, the Company discounted RMB174,194,854.14 bank acceptance bills (RMB171,092,144.09 in 2013). As the main risks (such as interest risks) related to these bank acceptance bills were transferred to the bank, the Company derecognized the undue bank acceptance bills that had been discounted. According to the discount agreement, if such bills are not accepted when due, the bank is entitled to request the Company to honor the unsettled amount. As such, the Company is still involved in discounted bank acceptance bills. On 31 December 2014, the Company has discounted undue bank acceptance bills RMB99,753,281.00 (31 December 2013: RMB28,585,716.11).

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

X. DISCLOSURE OF FAIR VALUE**1. Assets and liabilities measured at fair value**

Amount denominated: RMB '000

	Fair value at the beginning of the year Measured at fair value level I	Fair value changes in profit or loss	Accumulated fair value changes in equity	Impairment during the current period	Fair value at the year end Measured at fair value level I
I. Continuous fair value measurement					
(I) Financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	11,335.13	-4,939.26	0.00	0.00	6,423.57
1 Financial assets held for trading	11,335.13	-4,939.26	0.00	0.00	6,423.57
(1) debt instrument investments	0.00	0.00	0.00	0.00	0.00
(2) equity instrument investments	11,335.13	-4,939.26	0.00	0.00	6,423.57
(3) derivative financial assets	0.00	0.00	0.00	0.00	0.00
2. Financial assets measured designated at fair value, with the change in fair value included in the profit or loss for the year	0.00	0.00	0.00	0.00	0.00
(II) Available-for-sale financial assets	10,041.56	0.00	-31,549.98	0.00	59,149.66
(1) debt instrument investments	0.00	0.00	0.00	0.00	0.00
(2) equity instrument investments	10,041.56	0.00	-31,549.98	0.00	59,149.66
(3) Others	0.00	0.00	0.00	0.00	0.00
(III) Total liabilities continuously measured at fair value	0.00	0.00	0.00	0.00	0.00
II. Non-continuous fair value measurement					
(I) Held-for-sale Assets	0.00	0.00	0.00	0.00	0.00
Total assets non-continuously measured at fair value	0.00	0.00	0.00	0.00	0.00
Total liabilities non-continuously measured at fair value	0.00	0.00	0.00	0.00	0.00

2. Basis of market price for cases continuously measured at fair value level I

By the closing price of the closed market for the last day of dealings in the year.

3. Fairs value of financial assets and liabilities not measured at fair value

Nil

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Status of parent company of the Company

Name of parent company	Related party relationship	Type of entity	Place of incorporation	Legal representative	Nature of business
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Controlling shareholder	Joint stock companies with Limited liabilities (listed)	Shenzhen	Zhu Baoguo	Production of oral liquid, drugs and healthcare food
Name of parent company	Registered capital	Percentage of the Company's shareholding held by the parent company (%)	Percentage of the Company's voting rights held by the parent company (%)	The ultimate controlling party of the Company	Organisation code
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	1,545,835,892	26.2105	26.2105	Zhu Baoguo	61887436-7

Notes to the parent company of the Company

As of 31 December 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 VIII.1. Interests the Company's subsidiaries.

3. Joint ventures and associates of the Company

Please refer to note VIII.3 Interests in joint ventures and associates.

4. Other related parties of the Company

Name of other related parties	Relationship with the Company	Organisation code
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	A company controlled by the holding company of the Company	61885517-4
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	A company controlled by the holding company of the Company	76489454-2
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 holding company of the Company	77512952-0
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	A company controlled by the holding company of the Company	75788087-1
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	A company controlled by the holding company of the Company	61749891-0
Shenzhen Taitai Pharmaceutical Co., Ltd. (深圳太太藥業有限公司)	A company controlled by the holding company of the Company	74121715-1
Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	A company controlled by the holding company of the Company	73308333-3
Topsino Industries Limited (天誠實業有限公司)	A company controlled by the holding company of the Company	

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions****(1) Related party transactions relating to purchase of goods/receipt of services**

Related party	Related party transaction description	Pricing basis and decision making procedures of the related party transactions	For the year		For the previous year	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Raw materials	The market price	515,449.50	0.03	2,207,741.30	0.13
Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	Raw materials	The market price	12,269,846.16	0.77	17,075,517.51	1.03
Xinxiang Haibin Pharmaceutical Co., Ltd. (新鄉海濱藥業有限公司)	Raw materials	The market price	262,478.63	0.02	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	The market price	42,735.04	0.00	85,470.09	0.01
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Finished goods	The market price	248,292.31	0.02	0.00	0.00
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	224,993,163.26	14.11	131,888,406.20	7.98
Total			238,331,964.90	14.95	151,257,135.10	9.15

(2) Related party transactions relating to sales of goods/provision of services

Related party	Related party transaction description	Pricing principles and decision making procedures of the related party transactions	For the year		For the previous year	
			Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Finished goods	The market price	14,910.95	0.00	11,790.98	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Finished goods	The market price	27,661,838.03	0.51	27,267,027.26	0.60
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Raw materials	The market price	121,163.09	0.00	477,786.16	0.01
Sales of goods in aggregate			27,797,912.07	0.51	27,756,604.40	0.61
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	Electricity and power	The market price	5,282,144.99	93.86	5,653,490.52	97.63
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Electricity and power	The market price	301,606.95	5.36	114,372.01	1.97
Provision of services in aggregate			5,583,751.94	99.22	5,767,862.53	99.60

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***5. Related party transactions** *(continued)***(3) Related party leases****1 The Company as lessor**

Name of lessee	Class of leased assets	Lease income recognised for the year	Lease income recognised for the previous year
Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	Plant & buildings	528,082.06	436,577.46
Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	Plant & buildings	99,948.00	99,948.00

2 The Company as lessee

Name of lessor	Class of leased assets	Leasing expenses recognised for the year	Lease expenses recognised for the previous year
Joincare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	Plant & buildings	658,944.00	658,944.00
Jiaozuo Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	Plant & buildings	42,000.00	0.00

(4) Related party guarantees

During the Reporting Period, the details on the bank loans of subsidiaries guaranteed by the Company were set out as follow (RMB'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. (珠海麗珠試劑股份有限公司)	17/9/2014	0.00	0.00	4,000.00	Joint obligation guarantee	17/9/2014 – 13/7/2015 Bank of China, Zhuhai Branch (中國銀行珠海分行)
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	31/12/2014	0.00	0.00	2,447.60 (USD400.00)	Joint obligation guarantee	31/12/2014 – 31/12/2015 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)	12/12/2014	0.00	0.00	1,000.00	Joint obligation guarantee	12/12/2014 – 12/12/2015 Bank of Communication, Zhuhai Branch (交通銀行珠海分行)
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	17/4/2012	6,580.00	6,580.00	15,000.00	Joint obligation guarantee	17/4/2012 – 16/4/2015 China Agricultural Bank, Shaoguan Wujian Subbranch (農業銀行韶關武江支行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	11/11/2014	0.00	0.00	20,000.00	Joint obligation guarantee	11/11/2014 – 10/11/2015 Xiamen International Bank, Zhuhai Branch (廈門國際銀行珠海分行)

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

XI. 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)	12/12/2014	0.00	0.00	9,000.00	Joint obligation guarantee	12/12/2014 – 12/12/2015 Bank of Communication, Zhuhai Branch (交通銀行 珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	17/8/2014	0.00	0.00	12,000.00	Joint obligation guarantee	17/8/2014 – 17/8/2015 Industrial and Commercial Bank of China, Zhuhai Branch (工商銀行珠海分 行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	14/7/2014	0.00	0.00	10,000.00	Joint obligation guarantee	14/7/2014 – 13/7/2015 Bank of China, Zhuhai Branch (中國銀行珠海分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	26/5/2014	12,937.47 (HKD16,400.00)	12,937.47 (HKD16,400.00)	40,000.00	Joint obligation guarantee	26/5/2014 – 30/6/2015 HSBC China/HSBC Hong Kong (滙豐中國/滙豐香港)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	31/12/2014	0.00	0.00	24,476.00	Joint obligation guarantee	31/12/2014 – 31/12/2015 Citibank, Shenzhen Branch (花旗銀行深圳 分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	15/12/2014	19,053.58 (HKD24,153.00)	19,053.58 (HKD24,153.00)	21,416.50	Joint obligation guarantee	15/12/2014 – 24/11/2015 Australia and New Zealand Banking, Singapore Branch (澳新銀行新加坡分行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	5/3/2014	0.00	0.00	8,000.00	Joint obligation guarantee	5/3/2014 – 4/3/2015 Shanghai Pudong Development Bank, Zhuhai Branch (浦發銀行珠海分 行)
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	24/6/2014	0.00	0.00	37,000.00	Joint obligation guarantee	24/6/2014 – 24/6/2016 China Resources Bank, Zhuhai Branch (華潤銀行 珠海分行)
Total actual amount guaranteed for loans of subsidiaries during the Reporting Period				38,571.05		
Balance of total amount guaranteed for loans of subsidiaries during the end of the Reporting Period				38,571.05		

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(5) Remuneration of key management personnel**

1 Directors', supervisors' and senior management's remuneration disclosed as follows

2014

Unit: RMB'0,000

	Fees	Salaries, allowances and benefits in kind	Social insurance, pensions and others	Total in 2014
Directors:				
Zhu Baoguo (朱保國)	9.00	0.00	0.00	9.00
Liu Guangxia (劉廣霞)	4.80	0.00	0.00	4.80
Tao Desheng (陶德勝)	7.20	79.06	10.45	96.71
Fu Daotian (傅道田)	3.60	58.93	3.57	66.10
Yang Daihong (楊代宏)	1.20	75.06	10.36	86.62
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	7.20
Zhong Shan (鐘山)	7.20	0.00	0.00	7.20
An Ning (安寧)	1.28	9.48	2.70	13.46
Independent Directors:				
Luo Xiaosong (羅曉松)	4.80	0.00	0.00	4.80
Yang Bin (楊斌)	9.60	0.00	0.00	9.60
Guo Guoqing (郭國慶)	9.60	0.00	0.00	9.60
Wang Xiaojun (王小軍)	9.60	0.00	0.00	9.60
Yu Xiong (俞雄)	9.60	0.00	0.00	9.60
Xu Yanjun (徐焱軍)	4.80	0.00	0.00	4.80
Supervisors:				
Wang Maolin (汪卯林)	3.90	29.48	7.20	40.58
Yuan Huasheng (袁華生)	3.90	0.00	0.00	3.90
Huang Huamin (黃華敏)	3.60	0.00	0.00	3.60
Other senior management:				
Xu Guoxiang (徐國祥)	0.00	80.58	10.84	91.42
Lu Wenqi (陸文岐)	0.00	76.67	5.49	82.16
Si Yanxia (司燕霞)	0.00	52.94	8.52	61.46
Li Rucai (李如才)	0.00	32.76	7.18	39.94
Yang Liang (楊亮)	0.00	23.29	6.30	29.59
Total	100.88	518.25	72.61	691.74

Mr. Yang Liang (楊亮先生) was appointed on 24 June 2014; Mr. Fu Daotian (傅道田先生), Mr. Xu Yanjun (徐焱軍先生) and Ms. Si Yanxia (司燕霞女士) were appointed on 30 June 2014; Mr. Yang Daihong (楊代宏先生) was appointed on 24 October 2014.

Mr. An Ning (安寧先生) resigned on 5 March 2014; Mr. Li Rucai (李如才先生) resigned on 24 June 2014; Mr. Luo Xiaosong (羅曉松先生) resigned on 30 June 2014; Ms. Liu Guangxia resigned on 21 August 2014.

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**5. Related party transactions** (continued)**(5) Remuneration of key management personnel** (continued)

1 Directors', supervisors' and senior management's remuneration disclosed as follows (continued)

2013

Unit: RMB'0,000

	Fees	Salaries, allowances and benefits in kind	Social insurance, pensions and others	Total in 2013
Directors				
Zhu Baoguo (朱保國)	9.00	0.00	0.00	9.00
Liu Guangxia (劉廣霞)	7.20	0.00	0.00	7.20
An Ning (安寧)	7.20	83.21	10.61	101.02
Tao Desheng (陶德勝)	7.20	68.64	9.61	85.45
Qiu Qingfeng (邱慶豐)	7.20	0.00	0.00	7.20
Zhong Shan (鍾山)	7.20	0.00	0.00	7.20
Independent Directors				
Wang Junyan (王俊彥)	4.00	0.00	0.00	4.00
Luo Xiaosong (羅曉松)	9.60	0.00	0.00	9.60
Yang Bin (楊斌)	9.60	0.00	0.00	9.60
Guo Guoqing (郭國慶)	5.60	0.00	0.00	5.60
Wang Xiaojun (王小軍)	2.40	0.00	0.00	2.40
Yu Xiong (俞雄)	2.40	0.00	0.00	2.40
Supervisors				
Cao Pingwei (曹平偉)	1.75	0.00	0.00	1.75
Wang Maolin (汪卯林)	3.60	24.86	6.58	35.04
Pang Datong (龐大同)	1.50	0.00	0.00	1.50
Yuan Huasheng (袁華生)	2.45	0.00	0.00	2.45
Huang Huamin (黃華敏)	2.10	0.00	0.00	2.10
Other senior management:				
Yang Daihong (楊代宏)	0.00	64.63	9.62	74.25
Xu Guoxiang (徐國祥)	0.00	61.92	10.11	72.03
Lu Wenqi (陸文岐)	0.00	66.13	5.50	71.63
Li Rucai (李如才)	0.00	25.38	6.62	32.00
Total	90.00	394.77	58.65	543.42

Mr. Guo Guoqing (郭國慶先生) was appointed on 7 June 2013; Mr. Wang Xiaojun (王小軍先生) and Mr. Yu Xiong (俞雄先生) were appointed on 16 September 2013; Mr. Yuan Huasheng (袁華生先生) and Mr. Huang Huamin (黃華敏先生) were appointed on 7 June 2013.

Mr. Cao Pingwei (曹平偉先生) and Mr. Pang Datong (龐大同先生) resigned on 7 June 2013; Mr. Wang Junyan (王俊彥先生) resigned on 7 June 2013.

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

XI. 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 three of the five highest paid individuals were directors of the Company for the year 2013 and 2014, respectively. The rest were senior management of the company (three and two for the year 2013 and 2014, respectively). Their remuneration were already disclosed in note. XI 5(5) "Remuneration of key management personnel".

(6) Other affiliated transactions

On 3 June 2013, it was resolved in the First Extraordinary General Meeting in 2013 of Zhuhai Livzon MAB Biological Technology Co., Ltd. that its registered capital would be increased to RMB300 million, for which the first instalment of contribution amounting to RMB100 million should be paid before 30 June 2013 and the remaining balance shall be paid up within 36 months after 30 June 2013. The capital increase was resolved and approved in the Second Extraordinary General Meeting of the Company in 2013 on 7 June 2013. 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. (珠海市麗珠單抗生物技術有限公司) 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.

6. Amounts due from/to related parties**(1) Amounts due from related parties and prepayments**

Item	Related parties	Balance at the year end		Balance at the beginning of the year	
		Gross amount	Provision for bad debts	Gross amount	Provision for bad debts
Accounts receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	10,676,640.00	533,832.00	4,399,251.20	219,962.56
Accounts receivables	Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	16,079.67	803.98	39,288.71	1,964.44
Accounts receivables	Jiaozuo Joincare 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		10,692,719.67	534,635.98	4,947,143.91	247,357.20
Other receivables	Zhuhai Joincare Pharmaceutical Co., Ltd. (珠海健康元生物醫藥有限公司)	30,287.80	1,514.39	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 Joincare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	50,005.81	3,000.35	210,401.51	10,520.08
Other receivables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	876,332.29	43,816.61	545,153.86	27,257.69
Sub-total		964,954.90	48,747.80	785,207.84	39,260.39

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

XI. 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**

Name of item	Related parties	Balance at the year end	Balance at the beginning of the year
Payables	Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	44,132.00	4,380.00
Payables	Shenzhen Taitai Gene Engineering Co., Ltd. (深圳太太基因工程有限公司)	5,000.00	0.00
Payables	Shenzhen Haibin Pharmaceutical Co., Ltd. (深圳市海濱製藥有限公司)	0.00	6,269,102.56
Payables	Health Pharmaceutical (China) Co., Ltd. (健康藥業(中國)有限公司)	55,530.00	0.00
Payables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	84,243,191.79	55,703,992.40
Sub total		84,347,853.79	61,977,474.96
Other payables	Jiaozuo Joicare Pharmaceutical Industry Group Co., Ltd. (焦作健康元生物製品有限公司)	54,482.17	12,482.17
Other payables	Joicare Pharmaceutical Industry Group Co., Ltd. (健康元藥業集團股份有限公司)	0.00	1,537,536.00
Sub total		54,482.17	1,550,018.17
Dividend payables	Topsino Industries Limited (天誠實業有限公司)	2,517,344.66	0.00

XII. COMMITMENTS AND CONTINGENCIES**1. Significant commitments****(1) Capital commitments**

Item	Balance at the year end	Balance at the beginning of the year
Contracted but not recognised in the financial statements – Commitments in relation to acquisition of long-term assets	218,289,661.35	276,172,853.42
Total	218,289,661.35	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	Balance at the year end	Balance at the beginning of the year
Minimum lease payments under non-cancellable operating leases payable:		
Within 1 year	4,709,290.11	4,379,985.00
1 to 2 years	1,302,476.40	2,474,882.50
2 to 3 years	736,556.20	187,856.40
Over 3 years	1,357,725.00	8,404.20
Total	8,106,047.71	7,051,128.10

XII. COMMITMENTS AND CONTINGENCIES *(continued)***1. Significant commitments** *(continued)***(3) Other commitments**

- 1 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.
- 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.

(4) 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.

2. Contingencies

As at the date of the balance sheet, there was no significant contingencies that required to be disclosed by the Company.

XIII. POST BALANCE SHEET DATE EVENTS

On 23 March 2015, the Company held the Seventh Meeting of the Eighth Board and passed the resolution of 2014 annual profit distribution plan, under which the parent's undistributed profit available for distribution to shareholders in 2014 was RMB478,081,428.53 with reference to the net profit of RMB122,755,373.01 realised by the parent in 2014 less the statutory reserve fund of RMB12,275,537.30 set aside at 10% as per applicable regulations, plus the opening undistributed profit of RMB515,462,518.82 and further minus the dividends of RMB147,860,926.00 paid under 2013 annual profit distribution plan.

Considering the capital demands due to its operations, the Company drafted 2014 profit distribution plan: based on the Company's total share capital as at the registration date of shares determined by implementation of the 2014 Annual Profit Distribution Plan to distribute a final cash dividend of RMB1 for every 10 shares held to all the shareholders of the Company and make a bonus issue by way of capitalizing our capital reserve on the basis of 3 Shares for every 10 Shares held to all shareholders of the Company. Based on the total issued share capital of the Company of 295,721,852 Shares as at the end of the year, it is expected that the Company will use about RMB29,572,185.20 on profit distribution, and will capitalize about RMB88,176,555.60 of its capital reserve. All remaining undistributed profits and capital reserve will be carried forward to next year.

The above mentioned profit distribution plan shall be submitted to the annual general meeting of 2014 for examination and approval.

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

XIV. OTHER SIGNIFICANT MATTERS

On 15 December 2014, the fifth meeting of the eighth Board of the Company passed a resolution on the "the Restricted Shares Incentive Scheme of the Company (Draft) and its summary" (hereinafter referred to as "Incentive Scheme"), "Regulations on the Management of the Evaluation of the Implementation of the Equity Incentive Scheme of Livzon Pharmaceutical Group Inc." and "Resolution on proposing at the general meeting for granting mandate to the board of directors to deal with matters regarding the Restricted Shares Incentive Scheme.

The Incentive Scheme proposed to grant 10 million shares of restricted A Share to the directors, middle and senior management, core technical (business) staff members of the Company and related employees whom the board of directors want to motivate (other than independent directors and supervisors), of which 900,000,000 shares were available for the first batch of grant and 100,000,000 shares were retained. The expenses for the grant of incentive shares will be amortised according to the proportion of three unlocks (40%:30%:30%) during the corresponding years of the lock-up period and the capital reserve to be increased accordingly.

The above three resolutions will be proposed at the AGM for consideration after it is filed with and approved by CSRC.

As at the date of the balance sheet, saved as disclosed above, there is no other major events to be disclosed by the Company.

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

XV. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES**1. Net current assets**

Item	Balance at the year end	Balance at the beginning of the year
Current assets	3,165,882,214.19	2,980,726,564.42
Less: Current liabilities	2,669,170,450.88	2,329,680,971.69
Net current assets	496,711,763.31	651,045,592.73

2. Total assets less current liabilities

Item	Balance at the year end	Balance at the beginning of the year
Total assets	7,302,605,055.90	6,566,006,124.91
Less: Current liabilities	2,669,170,450.88	2,329,680,971.69
Total assets less current liabilities	4,633,434,605.02	4,236,325,153.22

XVI. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS**1. Accounts receivables****(1) Accounts receivables presented by types**

Type	Balance at the year end				
	Gross amount		Provision for bad debts		Carrying value
	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	0.00
Accounts receivables assessed for impairment collectively	626,400,204.46	100.00	32,914,877.50	5.25	593,485,326.96
Accounts receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Total	626,400,204.46	100.00	32,914,877.50	5.25	593,485,326.96

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

XVI. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS*(continued)***1. Accounts receivables** *(continued)***(1) Accounts receivables presented by types** *(continued)*

Type	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying value
	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	0.00
Accounts receivables assessed for impairment collectively	569,946,046.41	100.00	30,509,881.30	5.35	539,436,165.11
Accounts receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Total	569,946,046.41	100.00	30,509,881.30	5.35	539,436,165.11

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

Ageing	Balance at the year end		
	Amount	Provision for bad debts	Provision Percentage (%)
Within 1 year	620,726,950.31	31,036,347.51	5.00
1 to 2 years	2,750,109.99	165,006.60	6.00
2 to 3 years	1,209,464.95	241,892.99	20.00
3 to 4 years	770,630.10	539,441.07	70.00
4 to 5 years	108,597.81	97,738.03	90.00
Over 5 years	834,451.30	834,451.30	100.00
Total	626,400,204.46	32,914,877.50	

- (2) Provisions for bad debts made for the year was RMB3,382,687.83; no provision for bad debts was recovered or reversed.

XVI. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

(continued)

1. Accounts receivables (continued)

(3) Receivables written off during the year

Item	Amount written-off
Accounts receivables actually written off	977,691.63

In which: Important written-off receivables

Name of Unit	Nature of accounts receivables	Amount written off	Reason for written off	Procedure of written off taken place at	Related party transactions
Hunan Weichu Pharmaceutical Co., Ltd. (湖南唯楚醫藥有限公司)	Sales of goods	266,067.80	Not recoverable	the 28th Meeting for the 7th Board of the Company	No
Quanzhou Haixia Pharmaceutical Co., Ltd. (泉州海峽藥業有限公司)	Sales of goods	201,180.00	Not recoverable		No
Qingdao Blood Center (青島市中心血站)	Sales of goods	142,610.34	Not recoverable		No
合計		609,858.14			

(4) The total of account receivables with five largest amount by creditors was RMB72,478,009.11, or 11.57% of the total account receivables by the year end, total provision for bad debts by the year end was RMB3,623,900.46.

(5) The Company has no derecognized receivables out of transfer of financial assets.

(6) The Company has no assets or liabilities formed by its continuous involvement of transferring receivables.

2. Other receivables

(1) Other receivables presented by types

Type	Balance at the year end				
	Gross amount		Provision for bad debts		Carrying value
	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	0.00
Other receivables that are assessed for impairment collectively	16,447,123.60	1.11	6,048,304.49	36.77	10,398,819.11
Receivables from each company in the scope of combination	1,470,389,075.70	98.89	0.00	0.00	1,470,389,075.70
Other receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Total	1,486,836,199.30	100.00	6,048,304.49	0.41	1,480,787,894.81

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

XVI. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

(continued)

2. Other receivables (continued)

(1) Other receivables presented by types (continued)

Type	Balance at the beginning of the year				
	Gross amount		Provision for bad debts		Carrying value
	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	0.00
Other receivables that are assessed for impairment collectively	13,093,335.11	1.00	4,614,815.34	35.25	8,478,519.77
Receivables from each company in the scope of combination	1,302,413,838.81	99.00	0.00	0.00	1,302,413,838.81
Other receivables that are individually insignificant but impairment provided on an individual basis	0.00	0.00	0.00	0.00	0.00
Total	1,315,507,173.92	100.00	4,614,815.34	0.35	1,310,892,358.58

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

Ageing	Balance at the year end		
	Amount	Provision for bad debts	Provision Percentage (%)
Within 1 year	8,905,596.86	445,279.84	5.00
1 to 2 years	717,384.20	43,043.05	6.00
2 to 3 years	773,508.70	154,701.74	20.00
3 to 4 years	334,960.00	234,472.00	70.00
4 to 5 years	5,448,659.78	4,903,793.80	90.00
Over 5 years	267,014.06	267,014.06	100.00
Total	16,447,123.60	6,048,304.49	

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

XVI. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS*(continued)***2. Other receivables** *(continued)***(1) Other receivables presented by types** *(continued)***2** *Receivables from each company in the scope of combination*

Other receivables description	Carrying amount	Provision for bad debts	Percentage of provision (%)	Reason
Current account	1,470,389,075.70	0.00	0.00	The debtor is a subsidiary of the Company and no provision for bad debts.

(2) Provisions for bad debts made for the year was RMB1,433,489.15; no provision for bad debts was recovered or reversed.

(3) No other receivables were written off during the year.

(4) Status of other receivables due from top five customers as at the year end

Name of unit	Nature or description	Balance at the year end	Term	Proportion to total balance of other receivables at the year end (%)	Balance of provision for bad debts at the year end
Livzon Group Ningxia Xinbeijiang Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏新北江製藥有限公司)	Current account	536,365,125.24	Within 1 year	36.07	0.00
Livzon Group Ningxia Fuxing Pharmaceutical Manufacturing Co., Ltd. (麗珠集團寧夏福興製藥有限公司)	Current account	499,804,165.81	Within 1 year	33.62	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)	Current account	223,691,906.50	Within 1 year	15.05	0.00
Ando Development Limited (安滔發展有限公司)	Current account	123,857,335.92	Within 1 year	8.33	0.00
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	Current account	39,939,756.69	Within 1 year	2.75	0.00
Total	–	1,423,658,290.16	–	95.82	0.00

(5) The Company has no derecognized other receivables out of transfer of financial assets.

(6) The Company has no assets and liabilities formed by its continuous involvement of transferring other receivables.

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

XVI. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

(continued)

3. Long-term equity investments

(1) Classification of long-term equity investments

Item	Balance at the year end			Balance at the beginning of the year		
	Gross amount	Provision for impairment	Carrying amount	Gross amount	Provision for impairment	Carrying amount
Investments in subsidiaries	1,724,490,564.98	18,471,307.03	1,706,019,257.95	1,636,423,366.22	18,471,307.03	1,617,952,059.19
Investments in associates and joint ventures	9,593,753.92	1,200,000.00	8,393,753.92	14,061,444.09	1,200,000.00	12,861,444.09
Total	1,734,084,318.90	19,671,307.03	1,714,413,011.87	1,650,484,810.31	19,671,307.03	1,630,813,503.28

(2) Investment in subsidiaries

Investee	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the year end	Provision for impairment for the year	Balance of provision for impairment at the year end
Zhuhai Livzon Baiameng Biological Materials Co., Ltd. (珠海麗珠-拜阿蒙生物材料有限公司)	3,934,721.95	0.00	0.00	3,934,721.95	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)	800,000.00	0.00	0.00	800,000.00	0.00	0.00
Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠)	353,169,752.98	7,890,690.87	0.00	361,060,443.85	0.00	0.00
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司)	170,872,457.35	0.00	0.00	170,872,457.35	0.00	0.00
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製藥有限公司)	53,261,896.11	0.00	21,823,492.11	31,438,404.00	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)	4,539,975.00	0.00	0.00	4,539,975.00	0.00	0.00
Livzon Group Livzon Medical Research Centre (麗珠集團麗珠醫藥研究所)	6,004,000.00	0.00	0.00	6,004,000.00	0.00	0.00
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司)	64,770,100.01	0.00	0.00	64,770,100.01	0.00	0.00
Ando Development Limited (安瀾發展有限公司)	534,050.00	0.00	0.00	534,050.00	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)	116,446,982.80	0.00	0.00	116,446,982.80	0.00	7,271,307.03

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

XVI. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

(continued)

3. Long-term equity investments (continued)

(2) Investment in subsidiaries (continued)

Investee	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the year end	Provision for impairment for the year	Balance of provision for impairment at the year end
Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司)	2,896,800.00	0.00	0.00	2,896,800.00	0.00	0.00
麗珠集團麗珠醫藥行銷有限公司	12,008,000.00	0.00	0.00	12,008,000.00	0.00	0.00
Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製藥廠)	184,301,219.52	0.00	0.00	184,301,219.52	0.00	0.00
Zhuhai Livzon Pharmaceutical Trading Co., Ltd. (珠海市麗珠醫藥貿易有限公司)	40,020,000.00	0.00	0.00	40,020,000.00	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)	280,769,410.50	0.00	0.00	280,769,410.50	0.00	11,200,000.00
Livzon MABPharm Inc. (珠海市麗珠單抗生物技術有限公司)	102,000,000.00	102,000,000.00	0.00	204,000,000.00	0.00	0.00
Livzon Group Vaccine Engineering Inc. (麗珠集團疫苗工程股份有限公司)	54,500,000.00	0.00	0.00	54,500,000.00	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)	90,000,000.00	0.00	0.00	90,000,000.00	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)	90,000,000.00	0.00	0.00	90,000,000.00	0.00	0.00
Wenshan Livzon Sangi Plantation Co., Ltd. (文山麗珠三七種植有限公司)	4,694,000.00	0.00	0.00	4,694,000.00	0.00	0.00
Zhuhai Livzon Pharmaceutical Enterprise Management Co., Ltd. (珠海市麗珠醫藥企業管理有限公司)	900,000.00	0.00	0.00	900,000.00	0.00	0.00
Total	1,636,423,366.22	109,890,690.87	21,823,492.11	1,724,490,564.98	0.00	18,471,307.03

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

XVI. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

(continued)

3. Long-term equity investments (continued)

(3) Investment in associates and joint ventures

Investee	Balance at the beginning of the year	Change during the year				
		Investment acquired	Investment disposed of	Investment profit and loss on the equity method	Adjustment in other comprehensive income	Other equity changes
Associates						
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	0.00	0.00	0.00
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	8,185,803.82	0.00	0.00	1,057,950.10	0.00	0.00
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	4,675,640.27	0.00	0.00	20,932.26	0.00	-4,696,572.53
Total	14,061,444.09	0.00	0.00	1,078,882.36	0.00	-4,696,572.53

Investee	Change during the year				Balance at the year end	Balance of provision for impairment at the year end
	Cash dividend or profit distribution announced	Impairment provision	Others			
Associates						
Livzon Medical Electronic Equipment (Plant) Co., Ltd. (麗珠醫用電子設備(廠)有限公司)	0.00	0.00	0.00	1,200,000.00	1,200,000.00	
Guangdong Blue Treasure Pharmaceutical Co. Ltd. (廣東藍寶製藥有限公司)	850,000.00	0.00	0.00	8,393,753.92	0.00	
Tongyikangshimei Chain (Shenzhen) Co., Ltd. (統一康是美商業連鎖(深圳)有限公司)	0.00	0.00	0.00	0.00	0.00	
Total	850,000.00	0.00	0.00	9,593,753.92	1,200,000.00	

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

XVI. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

(continued)

4. Operating income and operating cost

Item	For the year		For the previous year	
	Income	Cost	Income	Cost
Principal activities	3,107,022,168.59	1,386,499,168.87	2,187,143,788.97	847,817,770.43
Other activities	1,856,336.59	96,333.52	2,341,632.72	118,647.84
Total	3,108,878,505.18	1,386,595,502.39	2,189,485,421.69	847,936,418.27

5. Business taxes and surcharges

Item	Tax rate	For the year	For the previous year
Urban maintenance and construction tax payable	7%	18,166,531.96	14,980,759.57
Education surcharges payable	5%	12,976,094.30	10,696,686.97
Flood prevention fee payable	0.07%	688,480.73	655,498.05
Total		31,831,106.99	26,332,944.59

6. Investment income

Item	For the year	For the previous year
Long-term equity investments income under cost method	17,850,000.00	0.00
Long-term equity investments income under equity method	1,078,882.36	570,412.87
Investment income generated from disposal of long-term equity investments	-1,523,045.66	0.00
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the year during its holding period	0.00	0.00
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss for the year	0.00	0.00
Investment income generated from held-to-maturity investments during its holding period	0.00	0.00
Investment income generated from available-for-sale assets during its holding period	64,091.30	708,115.36
In which: investment income generated from available-for-sale financial assets measured at fair value during its holding period	64,091.30	364,365.36
Investment income generated from disposal of available-for-sale financial assets investments	3,364,181.22	0.00
When without control, income generated from revaluation of remaining equity measured at fair value	0.00	0.00
Total	20,834,109.22	1,278,528.23

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

XVI. NOTES TO THE KEY COMPONENTS OF PARENT COMPANY FINANCIAL STATEMENTS

(continued)

7. Supplemental information to income statement

Item	For the year	For the previous year
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	122,755,373.01	108,779,100.70
Add: Provision for impairment of assets	386,925.46	22,026,725.22
Depreciation of fixed assets, amortisation of oil and gas assets, depreciation of productive biological assets biological assets	15,331,700.61	15,036,059.11
Amortisation of intangible assets	7,778,874.63	8,598,690.03
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/income)	-72,265.86	-106,626.61
Losses on write-off of fixed assets	0.00	935.00
Losses from changes in fair value ("—" represents gains/income)	0.00	0.00
Financial expenses ("—" represents gains/income)	-19,475,063.67	33,085,242.70
Investments losses ("—" represents gains/income)	-20,834,109.22	-1,278,528.23
Decrease in deferred tax assets ("—" represents increase)	4,649,781.58	-2,793,422.18
Increase in deferred tax liabilities ("—" represents decrease)	1,700,669.88	0.00
Decrease in inventories ("—" represents increase)	-36,115,682.30	-21,633,009.59
Decrease in trade receivables ("—" represents increase)	-138,691,558.60	-302,379,010.79
Increase in trade payables ("—" represents decrease)	459,315,802.63	46,429,746.72
Others	0.00	0.00
Net cash flows from operating activities	396,790,448.15	-94,234,097.92
(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	611,630,017.65	605,176,378.73
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	6,453,638.92	-494,042,515.16

XVII. SUPPLEMENTAL INFORMATION

1. Breakdown of extraordinary gains or losses

Item	For the year	For the previous year
Gains or losses from the disposal of non-current assets	-999,029.93	180,148.18
Ultra vires or without official approval documents, or incidental tax rebate or relief	0.00	362,000.00
Government grants included in the profit or loss for the period, save as those government grants closely associated to the normal operation of the Group, complying with the policies and regulations of China, being entitled at a certain standard amount or certain level	66,827,495.36	38,842,657.52
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period	0.00	0.00
The gain from the excess of the fair value of identifiable net assets attributable to the investee at acquisition over the investment costs of the Group for its subsidiaries, associates and joint ventures	0.00	0.00
Gains or losses from the exchange of non-monetary assets	0.00	0.00
Gains or losses from investments on trust or asset management	0.00	0.00
Provision for impairment as a result of force majeure factors, such as natural disasters	0.00	0.00
Gains or losses from debt restructuring	0.00	0.00
Corporate reorganisation expenses, such as expenditures for staff dormitory, and business combination expenses	0.00	0.00
Gains or losses from transaction with transaction price not at fair value over the part at fair value	0.00	0.00
Net gains or losses of subsidiaries arising from business combination under common control from the beginning of the period to the date of combination	0.00	0.00
Gains or losses arising from contingent matters not related to the normal operation of the Group	0.00	0.00
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the hedging activities of the normal operation of the Group)	-1,497,131.42	499,437.51
Reversal of impairment of receivables on individual basis	0.00	0.00
Gains or losses from external entrusted loans	0.00	0.00
Gains or losses from changes in fair value on investment properties under the fair value model	0.00	0.00
One-off adjustment in profit or loss for the period according to the laws and regulations regarding taxation and accounting	0.00	0.00
Entrust fee income from entrusted operation	0.00	0.00
Other non-operating income and expenditures apart from the above	1,688,027.35	-1,001,272.08
Items of gains or losses as defined meeting the definition of extraordinary gains or losses	0.00	0.00
Sub-total	66,019,361.36	38,882,971.13
Effect of income tax	9,666,588.14	7,150,619.26
Effect of non-controlling interests (after tax)	3,405,813.53	6,389,185.80
Total	52,946,959.69	25,343,166.07

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

XVII. SUPPLEMENTAL INFORMATION *(continued)*

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

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.

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

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	14.66%	1.74	1.74
Net profit attributable to shareholders of ordinary shares after deducting extraordinary gains or losses	13.15%	1.57	1.57

2013

Profit for the Reporting Period	Weighted average rate of return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of ordinary shares	15.34%	1.65	1.65
Net profit attributable to shareholders of ordinary shares after deducting extraordinary gains or losses	14.54%	1.56	1.56

Please see note VI.49 for the calculation basic earnings per share and diluted earnings per share.

3. Supplementary information on changes to accounting policies

According to the “Accounting Standards for Business Enterprises No. 2 –Long-term equity investment (2014 amendment)” and other seven changes in accounting policies issued by the Ministry of Finance in 2014, the Company amended relevant accounting policies and made retrospective presentation of comparable financial statement. Re-presented consolidated balance sheet at 1 January 2013 and 31 December 2013 were attached accordingly.

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

XVII. SUPPLEMENTAL INFORMATION (continued)

3. Supplementary information on changes to accounting policies (continued)

Retrospective Restated Consolidated Balance Sheet

				Unit: RMB
Item	Note	2013.1.1	2013.12.31	2014.12.31
Current assets:				
Cash at bank and on hand		1,221,332,802.40	761,044,135.54	715,705,603.80
Financial assets at fair value through profit or loss		59,319,616.94	11,335,125.54	6,423,571.77
Derivative financial assets				
Bills receivables		112,482,782.18	271,431,749.11	305,315,241.79
Accounts receivables		774,021,470.88	1,053,350,426.59	1,072,890,517.48
Prepayments		207,180,789.68	202,437,865.84	165,935,012.06
Interest receivables				
Dividends receivables				
Other receivables		53,040,257.13	39,477,295.95	52,132,444.90
Inventories		546,497,999.53	641,649,965.85	847,479,822.39
Classified as held-for-sale assets				
Non-current assets due within one year				
Other current assets				
Total current assets		2,973,875,718.74	2,980,726,564.42	3,165,882,214.19
Non-current assets:				
Available-for-sale financial assets		92,865,968.50	92,294,668.60	141,402,772.99
Held-to-maturity investments				
Long-term receivables				
Long-term equity investments		38,708,094.54	41,511,757.45	37,771,892.70
Investment properties				
Fixed assets		1,127,285,485.37	1,976,910,773.96	2,943,569,643.19
Construction in progress		1,028,769,050.48	1,082,419,104.88	561,716,329.53
Construction supplies		1,623,576.06	481,529.20	121,472.17
Fixed assets to be disposed				
Bearer biological assets				
Oil and gas assets				
Intangible assets		205,129,693.66	224,516,411.93	258,275,580.98
Development costs		1,510,153.51		
Goodwill		103,040,497.85	103,040,497.85	103,040,497.85
Long-term deferred expenses		17,785,870.45	13,914,408.10	25,569,660.19
Deferred tax assets		43,159,851.98	50,190,408.52	65,254,992.11
Other non-current assets				
Total non-current assets		2,659,878,242.40	3,585,279,560.49	4,136,722,841.71
Total assets		5,633,753,961.14	6,566,006,124.91	7,302,605,055.90

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

XVII. SUPPLEMENTAL INFORMATION *(continued)*3. Supplementary information on changes to accounting policies *(continued)*Retrospective Restated Consolidated Balance Sheet *(continued)*

				Unit: RMB
Item	Note	2013.1.1	2013.12.31	2014.12.31
Current liabilities:				
Short-term loans		536,169,502.91	491,084,453.79	375,920,221.10
Financial liabilities at fair value through profit or loss				
Derivatives financial liabilities				
Bills payables		283,581,118.89	375,775,891.08	352,619,794.63
Accounts payables		311,814,060.41	435,966,092.72	598,748,939.78
Receipts in advance		37,950,040.42	61,780,193.14	56,013,777.28
Employee salary payables		74,462,512.02	90,493,756.24	69,614,375.75
Taxes payables		96,658,310.36	89,414,763.31	33,211,993.26
Interest payables		10,454,004.86	15,434,979.65	17,089,201.23
Dividends payables		2,531,984.46	2,531,984.46	5,049,329.12
Other payables		622,164,203.12	766,798,857.30	860,502,818.73
Classified as held-for-sale liabilities				
Non-current liabilities due within one year		400,000.00	400,000.00	400,000.00
Other current liabilities		400,000,000.00		300,000,000.00
Total current liabilities		2,376,185,737.45	2,329,680,971.69	2,669,170,450.88
Non-current liabilities:				
Long-term loans		700,000.00	149,900,000.00	66,500,000.00
Notes payables			400,000,000.00	400,000,000.00
Of which: preferred shares				
Perpetual bonds				
Perpetual bonds				
Long-term payables				
Long-term employee salary payables				
Special payables				
Accrued liabilities				
Deferred gain		74,172,485.90	79,071,532.72	77,271,812.03
Deferred tax liabilities		2,576,489.15	2,834,136.62	7,241,263.39
Other non-current liabilities				
Total non-current liabilities		77,448,975.05	631,805,669.34	551,013,075.42
Total liabilities		2,453,634,712.50	2,961,486,641.03	3,220,183,526.30

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

XVII. SUPPLEMENTAL INFORMATION *(continued)***3. Supplementary information on changes to accounting policies** *(continued)***Retrospective Restated Consolidated Balance Sheet** *(continued)*

Item	Note	2013.1.1	2013.12.31	Unit: RMB
				2014.12.31
Shareholders' equity:				
Share capital		295,721,852.00	295,721,852.00	295,721,852.00
Other equities				
Of which: Preferred shares				
Perpetual bonds				
Capital reserve		212,205,801.20	211,945,629.20	212,694,714.74
Less: Treasury shares				
Other consolidated earnings		-13,579,724.05	-16,328,209.99	-33,326,810.31
Special reserve				
Surplus reserve		490,319,036.90	501,196,946.97	513,472,484.27
General risks provision				
Unallocated earnings		2,023,348,842.58	2,352,112,358.31	2,707,954,326.83
Total equity attributable to shareholders of the parent company		3,008,015,808.63	3,344,648,576.49	3,696,516,567.53
Non-controlling interests		172,103,440.01	259,870,907.39	385,904,962.07
Total shareholders' equity		3,180,119,248.64	3,604,519,483.88	4,082,421,529.60
Total liabilities and shareholders' equity		5,633,753,961.14	6,566,006,124.91	7,302,605,055.90

- (1) They include the audited financial reports of the Company for the twelve months ended 31 December 2014, which has been signed and sealed by the legal representative, person-in-charge of the accounting affairs (head of accounting affairs) and head of the accounting department, and which was prepared in accordance with the China Accounting Standards for Business Enterprises.
- (2) They include the original copy of the auditors' report which is sealed by the accounting firm and signed and sealed by the certified public accountant.
- (3) They include the original copies of the documents and announcements of the Company which have been disclosed in the designated newspaper as approved by CSRC during the Year.
- (4) 2014 Annual Report of the Company both in English and Chinese versions published at the website of Hong Kong Exchanges and Clearing Limited.

Livzon Pharmaceutical Group Inc.
Zhu Baoguo
Chairman

23 March 2015

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