

Full Text of the 2012 First Quarterly Report of Livzon Pharmaceutical Group Inc.

§1 Important notice

1.1 The Board of Directors (BOD), Board of Supervisors (BOS), directors, supervisors, and senior executives hereby guarantee that the data in the present report contain no false representation, misleading statements and serious omissions, and shall be severally and jointly liable for the authenticity, accuracy and completeness of the content.

1.2 The first quarterly report has not been audited by any accountants firms.

1.3 Mr. Zhu Baoguo, principal of the Company, Mr. An Ning, the principal in charge of accounting, and Ms. Si Yanxia, the principal of the Accounting Department hereby declare: We guarantee the authenticity and completeness of the Financial Report in this quarterly report.

§2 Brief introduction of the Company

2.1 Financial highlights

Unit: RMB Yuan

	End of this report period	End of previous Year	Increase or decrease (%)
Total assets (RMB Yuan)	4,554,878,274.85	4,602,908,981.74	-1.04%
Owners' equity attributable to the shareholders of listed company (RMB Yuan)	2,959,205,752.55	2,843,169,706.20	4.08%
Total share capital (share)	295,721,852.00	295,721,852.00	0.00%
Net assets per share attributable to the shareholders of listed company (RMB Yuan/share)	10.01	9.61	4.16%
	End of this report period	Same period in previous year	Increase or decrease (%)
Total operating income (RMB Yuan)	892,862,698.79	749,385,019.01	19.15%
Net profit attributable to the shareholders of listed company (RMB Yuan)	117,291,231.12	125,815,417.35	-6.78%
Net cash flows from operating activities (RMB Yuan)	133,979,956.38	118,304,818.20	13.25%
Net cash flows per share from operating activities (RMB Yuan/share)	0.45	0.40	12.50%
Basic profit per share (RMB Yuan/share)	0.40	0.43	-6.98%
Diluted profit per share (RMB Yuan/share)	0.40	0.43	-6.98%
Weighed average yield rate of net assets (%)	4.04%	4.88%	-0.84%
Weighed average yield rate of net assets after deduction of non-recurring profit and loss (%)	3.78%	4.46%	-0.68%

Items of non-recurring profit and loss

√ Applicable □ Inapplicable

Unit: RMB Yuan

Items of non-recurring profit and loss	Amount from the year beginning to end of report period	Remarks (if applicable)
Profit and loss in disposal of non-circulation assets	-57,599.76	
Governmental allowance accrued to the current profit and loss, except those that are closely related to the normal operation businesses of company, comply with the national policies, and are co	2,130,166.86	

Continuously granted based on the certain standard quota or certain quantity		
Except the effective hedge business related to the normal operation business of the company, the profit and loss in the changes of fair values caused by the holding of tradable financial assets and tradable financial liabilities as well as the investment returns in disposal of tradable financial assets, tradable financial liabilities and saleable financial assets	5,536,835.64	
Other net non-operating income and payment except the above items	419,862.60	
Effect of the minority of shareholders' equities	-34,326.19	
Effect of income tax	-371,105.13	
Total	7,623,834.02	-

2.2 Table about total quantity of all shareholders and shareholding particulars of top ten shareholders without trading restriction at the end of report period

Unit: share

Total quantity of shareholders at the end of report period	The shareholder quantity of the company amounted to 29,329 (including 8,212 B-share holders)	
Shares held by top ten tradable shareholders without trading restriction		
Shareholder name (full name)	Quantity of tradable shares without trading restriction at the end of report period	Type
Joincare Pharmaceutical Group Industry Co., Ltd	77,510,167	RMB common share
Tiancheng Industry Co., Ltd	50,660,052	Domestically-listed shares for overseas investors
First Shanghai Securities Co., Ltd	10,295,547	Domestically-listed shares for overseas investors
GAOLING FUND,L.P.	10,258,112	Domestically-listed shares for overseas investors
Agricultural Bank of China- Greatwall Anxin Return Mixed Securities Investment Fund	6,250,020	RMB common share
Agricultural Bank of China – Penghua power growth mixed securities investment funds	6,200,000	RMB common share
Shenzhen Haibin Pharmaceutical Co., Ltd	5,892,943	RMB common share
Bank of Communications- Great Wall Jiufu Core Growth Stock-type Securities Investment Fund (LOF)	4,829,286	RMB common share
China Construction Bank – Gongyin Ruixin Bonus Stock-type Securities Investment Fund	2,887,435	RMB common share
China Construction Bank - Greatwall Consumption Value-added Stock-type Securities Investment Fund	2,878,296	RMB common share

§3 Major events

3.1 Great changes and reasons of main financial statement items and financial indexes of the Company

√ Applicable □ Inapplicable

3.1.1 Major changes of items in balance sheet and reasons

Item	Amount at the end of period (RMB Yuan)	Amount at the beginning of period (RMB Yuan)	Increase or decrease	Cause
Notes receivable	88,113,442.56	171,033,783.72	-48.48%	During the report period, while purchasing from outside, the company has employed the payment mode by endorsement of the acceptance bills.
Engineering under construction	398,970,230.66	148,841,628.16	168.05%	The new factory of Livzon Pharmaceutical factory is constructed, and the technical improvement project of Limin Pharmaceutical factory has increased relevant expenses.
Deposit receivable	25,637,619.63	39,028,703.01	-34.31%	During the report period, the deposit receivable is used for offsetting the accounts receivable.
Other current liabilities	200,000,000.00	400,000,000.00	-50.00%	The first installment of short-term financing bonds in 2011 has become due.

3.1.2 Major change of items in Profit Statement and reasons

Item	Amount in this period (RMB Yuan)	Amount in previous period (RMB Yuan)	Change rate	Cause
Operating tax and surtax	11,757,363.91	8,351,082.68	40.79%	The sales incomes have increased, and the city construction tax and educational surtax have increased correspondingly.
Sales expense	320,103,016.74	174,436,383.41	83.51%	The business investment has increased due to the sales business expansion and reform of sales mode.
Financial expense	-4,885,220.34	-1,365,483.72	257.76%	During the report period, the interests incomes have increased.
Returns from the changes of fair values	4,971,946.09	1,541,484.96	222.54%	The fair prices of tradable financial assets have changed.
Investment returns	347,088.76	-693,022.78	150.08%	Part of tradable financial assets has been disposed of.
Non-operating income	2,612,890.25	11,690,162.11	-77.65%	The governmental allowances that are accrued to current profit and loss have decreased.

3.1.3 Major change of items in cash flow Statement and reasons

Item	Amount in this period (RMB Yuan)	Amount in previous period (RMB Yuan)	Change rate	Cause
Cash received from sales of goods or rendering of services	889,352,722.29	675,234,349.70	31.71%	The incomes from purchase of prescription medicines have increased due to the influence of sales reform.
Tax payments	129,595,034.42	98,584,528.88	31.46%	The value-added tax, city construction tax and educational surtax have increased due to the expansion of sales scale of company.
Cash paid to other operating activities	340,933,100.04	187,318,033.83	82.01%	The expense payment ratio has improved and the business expense of sales has increased due to the sales reform.
Cash received from investment returns	1,116,870.13	19,433.44	5647.16 %	Part of tradable financial assets has been disposed of.

Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets	213,873,211.70	53,807,149.52	297.48%	During the report period, the company has paid the expenses for Ningxia Livzon Industrial Park project and technical improvement project of Limin Pharmaceutical Factory.
Cash received by investors	-	9,800,000.00	-100.00%	During the same period of previous year, Dankang Company received the investments from Joincare, but the company has received no investments in this period.
Cash from loans	24,405,000.00	59,215,460.00	-58.79%	During the same period of previous year, the foreign-currency loans have become due and exchanged, but the company has made no exchange in this period.
Cash paid for distribution of dividends, profits and repayment of interests	21,688,903.53	3,073,977.57	605.56%	During the report period, the company has paid the interests for 2011 first installment of short-period financing bonds and Livzon Reagents Co., Ltd has paid the bonus to the minority of shareholders.
Cash payments related to other financing activities	-	800,000.00	-100.00%	During the same period of previous year, the company paid the issuing expenses for first installment of short-period financing bonds, but the company has made no payment in this period.

3.2 Analysis and particulars of major events, their effects and resolutions

3.2.1 Non-standard opinions

☐ Applicable ☒ Inapplicable

3.2.2 Particulars about the Company providing the capitals to the controlling shareholders and their associated parties or providing the external guaranty by violating the relevant regulations and procedures

☐ Applicable ☒ Inapplicable

3.2.3 Particulars about the company signing and performing the major routine operation contracts.

☐ Applicable ☒ Inapplicable

3.2.4 Others

☐ Applicable ☒ Inapplicable

3.3 Performance of commitments by the Company, shareholders and actual controllers

☒ Applicable ☐ Inapplicable

(I) Commitments of the Company

1. In 2002, This Company signed the patent license agreement with Korea Yiyang Medicine Company. This agreement approves our company's exclusive and irrevocable right to use the patent PPI (proton pump inhibitor) compound and Yiyang patent in China including Hong Kong and Macao for the purpose of production, processing and distribution. The transfer fee will be USD 2.50 million, and by December 31, 2008, the company has fully paid it. The company agrees to give Yiyang

g the commission of 10% of sales amount during the first three years when this product begins to be sold, 8% of sales amount during the next five years, and 6% of sales amount from the remaining time to July 22, 2014 (the expiry date of agreement). Since 2009, the company has started the sales and paid the commissions in accordance with the agreement.

2. In 2005, the company signed the approval and supply agreement with Korea LG life science Ltd. (hereinafter referred to as LG Company), and it grants Gemifloxacin Mesylate with the relevant certificates about intellectual properties and specifies that the permission fees of the methanesulfonic acid spasmolytic and pellet will be USD1, 000,000 respectively (they have been fully paid by December 31, 2006). This agreement specifies as follows:

Within the first five years from the validity date of the agreement, the company's net sales volume of above final pellet products will amount to 1.5 million bags (3 pellets in each bag) and LG Company will refund USD 500,000 after the taxation at one time within two months after the company has submitted the net sales volume certificate. At the same time, during the validity period of the agreement (by the end of 2015), the company should pay a royalty of 1.5% of net sales volume after the taxation to LG Company during 30 days after each quarter. The company has begun the selling activities in 2008 and paid the royalties in accordance with the agreements.

Within the first five years from the validity date of the agreement, the company will pay a royalty of 10% of net sales volume after the taxation about injection products to LG Company within 30 days after each quarter. The company will pay a royalty of 6% of net sales volume after the taxation about injection products to LG Company within 30 days after each quarter from the sixth business year to the expiry date of agreement (by the end of 2019).

(II) Commitments of shareholders holding over 5% of total shares of the company

During the report period, the controlling shareholder Joicare made the following commitments while handling the restriction release of shares with trading restriction: 1. When Joicare transfers its tradable shares of Livzon Group whose trading restriction has been released, it will strictly comply with the relevant regulations of the *Guiding Opinions on the Listed Companies' Transfer of Original Shares Released from Trading Restrictions* ([2008] No. 15 announcement) issued by China Securities Regulatory Commission. (2) Joicare plans to reduce its tradable shares of Livzon Group whose trading restriction has been released through the competing price trading system in the stock exchange in the future and the reduced quantity of shares amounts to over 5% within 6 months from the first reduction, then Joicare will disclose the reminder announcement about the selling affairs via Livzon Group in 2 trading days before the first reduction.

During the report period, Joicare did not decrease the stocks issued by the company.

3.4 Warning and relevant reasons for the forecast that the accumulative net profit from the beginning of 2011 to the end of next report period may suffer from any loss or have any great changes over the same period of previous year

☐ Applicable ☒ Inapplicable

3.5 Particulars about Other Major events

3.5.1 Particulars about Securities investment

☒ Applicable ☐ Inapplicable

Unit: RMB Yuan

No.	Securities Type	Securities Code	Securities abbreviation	Initial investment amount (RMB Yuan)	Holding quantity (share)	Book Values at the end of period (RMB Yuan)	Percentage of total investment in the securities at the end of period (%)	Profit and loss during the report period (RMB Yuan)
1	Stock	00135	Kunlun Energy	6,514,464.43	1,500,000	17,023,230.00	34.91%	3,575,054.70
2	Stock	00152	Shenzhen International	9,350,227.22	17,000,000	7,441,583.40	15.26%	413,441.70
3	Stock	00883	China National Offshore Oil Corporation	2,656,235.91	560,000	7,245,086.69	14.86%	1,080,460.98
4	Stock	02007	Phoenix Island	19,326,101.94	2,450,000	5,918,409.63	12.14%	139,029.91
5	Stock	01880	Baili Company	2,172,792.24	428,000	4,836,477.98	9.92%	138,786.70
6	Stock	00438	Rainbow gro	5,794,680.85	5,016,000	1,545,125.63	3.17%	-223,647.64

			up					
7	Stock	01688	Alibaba	862,206.15	78,000	834,624.65	1.71%	326,910.78
8	Stock	00390	China Railway Engineering Group Co.	1,486,073.30	314,000	633,799.17	1.30%	15,273.02
9	Stock	00186	China Railway Construction Corporation	998,783.53	114,000	446,349.09	0.92%	50,829.01
10	Stock	00368	Sinotrans Shipping	1,744,792.46	260,500	392,774.55	0.81%	-6,335.39
Other securities investment at the end of this period				828,090.23	-	2,441,462.31	5.01%	15,179.55
Profit and loss of sold Securities investment during the report period				-	-	-	-	11,852.32
Total				51,734,448.26	-	48,758,923.10	100%	5,536,835.64

Explanation about securities investment: The above securities investments are the investments in the H-share market. The amounts of H-share investment have been converted to RMB at the exchange rate at the end of report period.

3.5.2 Associated transactions related to routine operation

√ Applicable □ Inapplicable

3.5.2.1 Purchase of Commodities

Unit: RMB Yuan

Name of Associated Party	January to March 2012	January to March 2011
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	5,332,000.00	31,226,581.22
Joincare Pharmaceutical Group Industry Co., Ltd	-	39,384.62
Guangdong Blue Treasure Pharmaceutical Co. Ltd	1,555,352.56	-
Total	6,887,352.56	31,265,965.84

3.5.2.2 Sales of Commodities

Unit: RMB Yuan

Name of Associated Party	January to March 2012	January to March 2011
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	855.48	2,501.79
Guangdong Blue Treasure Pharmaceutical Co. Ltd.	10,442.43	-
Total	11,297.91	2,501.79

3.5.2.3 Provisions of labors

Unit: RMB Yuan

Name of Associated Party	January to March 2012	January to March 2011
Guangdong Blue Treasure Pharmaceutical Co. Ltd.	1,464,749.28	2,442,401.29

3.5.2.4 Leasing of Assets

Unit: RMB Yuan

Name of Associated Party	January to March 2012	January to March 2011
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	25,857.00	51,714.00
Health Pharmaceutical (China) Co., Ltd	24,987.00	24,987.00

Total	50,844.00	76,701.00
-------	-----------	-----------

3.5.3 Activities that the Company receives the investigation, communication and interview, etc

Reception date	Reception place	Reception mode	Objects	Discussion topics and provided materials
March 30, 2012	Headquarters	Local investigation	Shanghai Fuxi Asset Management Co., Ltd	Production and operation status of the Company
March 30, 2012	Headquarters	Local investigation	Shanghai Chaos Asset Management Co., Ltd	Production and operation status of the Company

3.6 Particulars about derivative investments

☐ Applicable ☒ Inapplicable

3.6.1 Holding particulars about derivative investments at the end of report period

☐ Applicable ☒ Inapplicable

§4 Appendix

4.1 Balance sheet

Prepared by: Livzon Pharmaceutical Group Inc.
Yuan

March 31, 2012

Unit: RMB

Item	Balance at the end of period		Balance at the beginning of year	
	Consolidation	Parent Company	Consolidation	Parent Company
Current assets:				
Currency capital	1,147,721,744.10	1,051,798,172.25	1,447,743,555.70	1,321,193,456.29
Tradable financial assets	48,758,923.10		44,343,013.65	
Notes receivable	88,113,442.56	10,597,541.28	171,033,783.72	11,041,114.87
Accounts receivable	647,634,823.68	294,161,702.90	562,146,013.18	255,482,126.08
Advance money	218,520,822.64	12,747,635.59	213,817,751.28	9,137,814.04
Dividend receivable				
Other receivables	46,722,086.77	240,997,293.56	44,488,052.86	275,891,035.87
Purchase of resold financial assets				
Inventory	427,283,152.68	76,702,937.29	424,422,841.35	110,291,112.80
Non-current assets due within one year				
Other current assets				
Total of current assets	2,624,754,995.53	1,687,005,282.87	2,907,995,011.74	1,983,036,659.95
Non-current assets:				
Saleable financial assets	9,430,489.29	9,430,489.29	9,238,787.30	9,238,787.30
Investment held to the maturity date				
Long-term accounts receivable				
Long-term equity investment	118,311,207.13	1,526,282,231.79	118,529,007.91	1,526,671,374.58
Real estate for Investment				

Fixed assets	1,074,287,274.59	91,801,916.00	1,090,566,880.22	91,805,857.98
Engineering construction under	398,970,230.66		148,841,628.16	
Engineering goods	2,658,437.24		2,536,926.00	
Liquidation of fixed assets				
Production biology assets				
Oil and gas assets				
Intangible assets	168,417,510.57	34,263,863.18	170,385,550.58	34,053,322.48
Development expenses	1,510,153.51	1,289,662.78	1,510,153.51	1,289,662.78
Goodwill	103,040,497.85		103,040,497.85	
Long-term deferred and prepaid expenses	16,015,557.22		14,270,426.26	
Assets with deferred income taxes	37,481,921.26	13,261,899.68	35,994,112.21	12,369,049.28
Other non-current assets				
Subtotal of non-current assets	1,930,123,279.32	1,676,330,062.72	1,694,913,970.00	1,675,428,054.40
Total of assets	4,554,878,274.85	3,363,335,345.59	4,602,908,981.74	3,658,464,714.35
Current liabilities:				
Short-term loans	251,303,042.34	82,692,002.34	251,324,743.01	82,699,143.01
Tradable financial liability				
Notes payable				
Accounts payable	246,476,813.24	147,979,411.67	207,941,294.31	181,117,755.18
Deposit receivable	25,637,619.63	5,981,147.85	39,028,703.01	11,373,981.60
Payroll payable	42,501,307.99	20,467,874.71	52,328,883.82	20,721,517.12
Tax payable	92,927,466.58	16,370,180.63	90,201,700.34	10,233,643.04
Interests payable				
Dividend payable	2,531,984.46	20,174.46	2,531,984.46	20,174.46
Other accounts payable	497,924,669.09	1,336,024,462.44	477,289,048.05	1,405,911,215.59
Non-current liabilities due within one year	400,000.00		400,000.00	
Other current liabilities	200,000,000.00	200,000,000.00	400,000,000.00	400,000,000.00
Total of current liabilities	1,359,702,903.33	1,809,535,254.10	1,521,046,357.00	2,112,077,430.00
Non-current liabilities				
Long-term loan	1,200,000.00		1,200,000.00	
Securities payable				
Long-term accounts payable				
Special accounts payable				
Deferred profit	68,102,097.06	23,907,258.92	67,143,287.92	24,138,969.42
Anticipation liability				
Liabilities with the deferred income taxes	1,955,961.47	1,041,068.77	1,901,504.87	1,012,313.47
Other non-current liabilities				
Subtotal of non-current liabilities	71,258,058.53	24,948,327.69	70,244,792.79	25,151,282.89
Total of liabilities	1,430,960,961.86	1,834,483,581.79	1,591,291,149.79	2,137,228,712.89
Owners' equity (or shareholders' equities):				
Paid-up capital (or share capital)	295,721,852.00	295,721,852.00	295,721,852.00	295,721,852.00

Capital reserve	348,256,083.10	338,114,129.69	348,093,136.41	337,951,183.00
Minus: treasury share				
Special reserve				
Surplus reserve	479,211,417.19	274,248,363.61	479,211,417.19	274,248,363.61
General risk reserve				
Profits in this year	117,291,231.12	7,452,815.65		
Undistributed profit	1,740,645,868.60	613,314,602.85	1,740,645,868.60	613,314,602.85
Conversion margin in foreign currency statements	-21,920,699.46		-20,502,568.00	
Subtotal of equities attributable to the owners of parent company	2,959,205,752.55	1,528,851,763.80	2,843,169,706.20	1,521,236,001.46
Equities of the minority of shareholders	164,711,560.44		168,448,125.75	
Subtotal of owners' equities	3,123,917,312.99	1,528,851,763.80	3,011,617,831.95	1,521,236,001.46
Total of liabilities and owners' equities	4,554,878,274.85	3,363,335,345.59	4,602,908,981.74	3,658,464,714.35

4.2 Profit Statement

Prepared by: Livzon Pharmaceutical Group Inc.
RMB Yuan

January to March 2012

Unit:

Item	Amount in this period		Amount in previous period	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Total operating income	892,862,698.79	413,283,058.89	749,385,019.01	291,615,301.01
Including: operating income	892,862,698.79	413,283,058.89	749,385,019.01	291,615,301.01
II. Total operating cost	759,576,064.12	415,884,313.57	605,958,462.85	251,225,343.72
Including: operating cost	353,346,370.49	206,712,907.58	361,824,354.19	174,713,748.02
Operating tax and surtax	11,757,363.91	4,748,890.88	8,351,082.68	2,379,900.60
Sales expense	320,103,016.74	174,331,060.97	174,436,383.41	56,542,240.45
Management expense	73,417,775.90	24,511,957.37	57,851,763.30	20,678,940.40
Financial expense	-4,885,220.34	-330,120.03	-1,365,483.72	-3,874,957.40
Loss from asset depreciation	5,836,757.42	5,909,616.80	4,860,362.99	785,471.65
Plus: returns from the changes of fair values (the loss is listed beginning with "-").	4,971,946.09		1,541,484.96	
Investment returns (the loss is listed beginning with "-").	347,088.76	9,810,857.21	-693,022.78	-544,901.41
Including: the investment returns from the associated enterprises and joint enterprises	-217,800.79	-389,142.79	-712,556.35	-544,901.41
Profits from currency exchange (the loss is listed beginning with "-").				
III. Operating profit (the loss is listed beginning with "-")	138,605,669.52	7,209,602.53	144,275,018.34	39,845,055.88
Plus : non-operating income	2,612,890.25	-86,289.50	11,690,162.11	88,014.44
Minus: non-operating payments	120,460.55	17,362.58	67,547.42	1,623.50
Including: loss in the disposal of non-current assets	112,680.14		1,623.50	1,623.50
IV. Total profit (the loss is listed beginning with "-")	141,098,099.22	7,105,950.45	155,897,633.03	39,931,446.82

Minus: income tax expense	19,156,297.99	-346,865.20	22,949,314.20	6,079,162.90
V. Net profit (the loss is listed beginning with "-")	121,941,801.23	7,452,815.65	132,948,318.83	33,852,283.92
Net profit attributable to the owners of parent company	117,291,231.12	7,452,815.65	125,815,417.35	33,852,283.92
Profit and loss of the minority of shareholders	4,650,570.11		7,132,901.48	
VI. Profit per share:				
(I) Basic profit per share	0.40		0.43	
(II) Diluted profit per share	0.40		0.43	
VII. Other comprehensive profits	-1,255,184.77	162,946.69	-2,621,922.20	-264,950.53
VIII. Total of comprehensive profits	120,686,616.46	7,615,762.34	130,326,396.63	33,587,333.39
Total of comprehensive profits attributable to the owners of parent company	116,036,046.35	7,615,762.34	123,193,495.15	33,587,333.39
Total of comprehensive profits attributable to the minority of shareholders	4,650,570.11		7,132,901.48	

If the merger of enterprises which are under the same control happens during this period, the net profit of merged enterprises before the merger: RMB 0.00 Yuan.

4.3 Cash flow statement

Prepared by: Livzon Pharmaceutical Group Inc.
RMB Yuan

January to March 2012

Unit:

Item	Amount in this period		Amount in previous period	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Cash flows from operating activities				
Cash received from sales of goods or rendering of services	889,352,722.29	406,678,883.46	675,234,349.70	291,807,796.37
Tax refunding	4,488,175.13		4,537,980.89	
Cash received related to other operating activities	31,637,499.97	38,000,163.88	43,940,368.04	48,092,208.08
Subtotal of cash inflow from the operating activities	925,478,397.39	444,679,047.34	723,712,698.63	339,900,004.45
Cash paid for purchase of goods or receiving of services	234,143,478.60	201,219,655.05	247,586,219.37	148,049,833.58
Cash paid to and on behalf of employees	86,826,827.95	21,847,653.33	71,919,098.35	16,095,215.56
Tax payments	129,595,034.42	39,316,948.41	98,584,528.88	26,246,690.91
Cash paid to other operating activities	340,933,100.04	149,356,102.43	187,318,033.83	103,180,254.23
Subtotal of cash outflow from operating activities	791,498,441.01	411,740,359.22	605,407,880.43	293,571,994.28
Net cash flow from operating activities	133,979,956.38	32,938,688.12	118,304,818.20	46,328,010.17
II. Cash flow from investment activities:				
Cash received from disposal of investments				
Cash received from investment returns	1,116,870.13		19,433.44	

Net cash received from disposal of fixed assets, intangible assets and other long-term assets	100,350.00		330,000.00	2,095.00
Net cash amount received from the disposal of subcompanies and other business units				
Cash received related to other investment activities		10,200,000.00		
Subtotal of cash inflow from the investment activities	1,217,220.13	10,200,000.00	349,433.44	2,095.00
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets	213,873,211.70	6,925,406.00	53,807,149.52	3,219,298.99
Cash paid to acquire investments				10,200,000.00
Net increase of mortgaged loans				
Net cash amount paid to acquire the subcompanies and other operating units				
Cash paid related to other investment activities				57,299.95
Subtotal of cash outflow from investment activities	213,873,211.70	6,925,406.00	53,807,149.52	13,476,598.94
Net amount of cash flow received from the investment activities	-212,655,991.57	3,274,594.00	-53,457,716.08	-13,474,503.94
III. Cash flow from financing activities:				
Cash received by investors			9,800,000.00	
Including: cash received from the investment of minority of shareholders in the subcompanies				
Cash from loans	24,405,000.00		59,215,460.00	16,946,600.00
Cash received from the issuing of bonds			200,000,000.00	200,000,000.00
Cash received related to other financing activities				
Subtotal of cash inflow from the financing activities	24,405,000.00		269,015,460.00	216,946,600.00
Repayments of loans	224,405,000.00	200,000,000.00	194,568,876.34	131,942,600.11
Cash paid for distribution of dividends, profits and repayment of interests	21,688,903.53	16,951,255.42	3,073,977.57	4,247,582.56
Including: the dividends and profits paid to the minority of shareholders by the subcompanies	9,800,000.00			
Loans to subcompanies		-417,203,127.84		-211,044,648.05
Cash payments related to other financing activities			800,000.00	800,000.00
Subtotal of cash outflow from the financing activities	246,093,903.53	-200,251,872.42	198,442,853.91	-74,054,465.38

Net cash flow from financing activities	-221,688,903.53	200,251,872.42	70,572,606.09	291,001,065.38
IV. Effect of foreign exchange fluctuation on cash and cash equivalents	343,127.13	-2,915.88	-543,923.29	-8,209.24
V. Net increase of cash and cash equivalents	-300,021,811.59	236,462,238.66	134,875,784.92	323,846,362.37
Plus: Balance of cash and cash equivalents at the beginning of the period	1,432,175,794.78	801,020,459.54	844,481,857.59	521,320,488.69
VI Balance of cash and cash equivalents at the end of the period	1,132,153,983.19	1,037,482,698.20	979,357,642.51	845,166,851.06

4.4 Auditing of the report

The auditing opinion: this report has not been audited.

Livzon Pharmaceutical Group Inc.

Chairman: Zhu Baoguo

April 21, 2012