

# **Livzon Pharmaceutical Group Inc.**

## **2012 Semi-Annual Report**



**丽珠医药**  
**LIVZON**

**August 2012**

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## **Section 1 Important Notice**

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.

All directors of the company have attended the meeting of Board of Directors examining this semi-annual report.

The financial statements have not been audited by the certified public accountants.

Mr. Zhu Baoguo, Chairman 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 statements in this semi-annual report.

## Section 2 Brief Introduction of the Company

### (I) Information about the company

A-share code	000513	B-share code	200513
A-share abbreviation	Livzon Group	B-share abbreviation	Livzon B
Stock exchange for listing of the Company	Shenzhen Stock Exchange		
Chinese name	丽珠医药集团股份有限公司		
Chinese abbreviation	丽 珠 集 团		
English name	LIVZON PHARMACEUTICAL GROUP INC.		
English abbreviation	LIVZON GROUP		
Legal representative	Zhu Baoguo		
Registered address	No. 132, Guihua North Road, Gongbei, Zhuhai, Guangdong Province		
Post code of registered address	519020		
Office address	Livzon Building, No. 132, Guihua North Road, Gongbei, Zhuhai, Guangdong Province		
Post code of office address	519020		
Website	<a href="http://www.livzon.com.cn">http://www.livzon.com.cn</a>		
Email	<a href="mailto:zhlivzon@pub.zhuhai.gd.cn">zhlivzon@pub.zhuhai.gd.cn</a>		

### (II) Contact persons and contact details

	Secretary of BOD	Representative of stock affairs
Name	Li Rucai	Wang Shuguang
Contact address	Livzon Building, No. 132, Guihua North Road, Gongbei, Zhuhai, Guangdong Province	Livzon Building, No. 132, Guihua North Road, Gongbei, Zhuhai, Guangdong Province
Telephone	(0756)8135888	(0756)8135888
Fax	(0756)8886002	(0756)8886002
Email	<a href="mailto:lirucal2008@livzon.com.cn">lirucal2008@livzon.com.cn</a>	<a href="mailto:wangshuguang2008@livzon.com.cn">wangshuguang2008@livzon.com.cn</a>

### (III) Information disclosure and location for filing the report

Papers for information disclosure	<i>Securities Times, China Securities Journal and Hongko</i>
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	<i>ng Wen Hui Daily (English version)</i>
Website appointed by China Securities Regulatory Commission for publishing the semi-annual report	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Location for filing the report	Secretary's Office of BOD of Livzon Group

## Section 3 Financial Highlights

### (I).Main financial data in the report period

Are there any retrospective adjustments in the financial statements for previous reporting periods?

☐ Yes ☒ No

Main financial data

Main financial data	Report period (January to June)	Same period of previous year	Increase or decrease compared with the same period of previous year (%)
Total operating income(RMB Yuan)	1,884,997,175.44	1,471,437,500.63	28.11%
Operating profit(RMB Yuan)	282,068,231.88	261,244,259.11	7.97%
Total profit(RMB Yuan)	294,403,930.28	283,241,156.20	3.94%
Net profit attributable to the shareholders of listed companies	228,705,016.39	220,861,695.59	3.55%
Net profit attributable to the shareholders of listed companies after deduction of non-recurring profit and loss	217,680,844.35	201,827,805.96	7.85%
Net cash flows from operating activities (RMB Yuan)	335,416,385.94	292,654,480.77	14.61%
	End of the current period	End of the previous year	Increase or decrease compared with the end of previous year (%)
Total assets (RMB Yuan)	4,659,333,083.63	4,602,908,981.74	1.23%
Owners' equity attributable to the shareholders of listed companies (RMB Yuan)	2,924,778,257.57	2,843,169,706.20	2.87%
Share capitals (share)	295,721,852	295,721,852	--

Main financial indexes

Main financial index	Report period (January to June)	Same period of previous year	Increase or decrease compared with the same period of previous year (%)
Basic profit per share (RMB Yuan per share)	0.77	0.75	2.67%
Diluted profit per share (RMB Yuan per share)	0.77	0.75	2.67%
Basic profit per share after deduction of non-recurring profit and loss (RMB Yuan per share)	0.74	0.68	8.82%
Fully diluted yield rate of net assets (%)	7.82%	8.16%	Down 0.34 percentage points
Weighted average yield rate of net assets (%)	7.86%	8.42%	Down 0.56 percentage points
Fully diluted yield rate of net assets after deduction of non-recurring profit and loss (%)	7.44%	7.46%	Down 0.02 percentage points
Weighted average yield rate of net assets after deduction of non-recurring profit and loss(%)	7.48%	7.70%	Down 0.22 percentage points
Net cash flows per share from operating activities (RMB Yuan per share)	1.13	0.99	14.14%
	End of the current period	End of the previous year	Increase or decrease compared with the end of previous year (%)
Net asset per share attributable to the shareholders of listed companies (RMB Yuan per share)	9.89	9.61	2.91%
Assets/liabilities ratio(%)	33.64%	34.57%	Down 0.93 percentage points

## (II) Accounting Data Difference between Domestic and Overseas Accounting Standards

☐ Applicable ☒ Inapplicable

### Remarks about Accounting Data Difference between Domestic and Overseas Accounting Standards:

In accordance with the relevant regulations of the *Notice on the Relevant Issues about the Auditing of the Companies that Issue the Domestically Listed B-shares for Overseas Investors* issued by China Securities Regulatory Commission (Zheng Jian Hui Ji Zi [2007] No. 30), the company did not perform the overseas auditing, and we have not found any accounting data differences between domestic and overseas accounting standards.

## (III) Deducted non-recurring profit and loss items and amounts:

☒ Applicable ☐ Inapplicable

Item	Amount (RMB Yuan)	Remarks
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Profit and loss in disposal of non-current assets	14,164.54	
Tax rebate and exemption due to the approval without the appropriate authority or the formal approval documents		
Governmental allowance accrued to the current profit and loss (except those that are closely related to the businesses of company, and are continuously granted based on the certain standard quota or certain quantity)	11,882,340.48	
Capital occupancy expense from the non-financial enterprises that is accrued to the current profit and loss		
The investment costs of enterprises to obtain the subcompanies, associated enterprises and joint enterprises are less than the returns from the fair values of identifiable net assets of invested units that should be available at the time of investment		
Profit and loss of non-currency assets exchange		
Profit and loss of investment or management of entrusted assets		
The various withdrawn reserves for assets depreciation due to the force majeure such as the natural calamities		
Profit and loss of liabilities restructuring		
Enterprise restructuring expenses, such as the payments for staffing and integration expense, etc.		
Profit and loss from the amount exceeding the fair values in the transactions in which the transaction prices are obviously unfair.		
The current profit and loss from the establishment date to the merger date of subcompanies that are established by the merger of enterprises under the same control		
The profit and loss caused by the contingent events that are not related to the normal operation business of		

the company		
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	3,704,038.57	
Reversion of depreciation reserves for accounts receivable whose depreciation testing have been individually made.		
Profit and loss from the externally entrusted loans		
Profit and loss caused by the changes of fair values of invested real estates in the subsequent calculation by utilizing fair value mode		
Effect of the one-time adjustment of the current profit and loss in accordance with the requirements of laws and regulations concerning the taxes and accounting, etc. on the current profit and loss		
Custody income due to the entrusted custody		
Other net non-operating income and payment except the above items	439,193.38	
Other profit and loss items that comply with the definition for non-operating profit and loss		
Effect of the minority of shareholders' equities	-2,610,225.29	
Effect of income tax	-2,405,339.64	
Total	11,024,172.04	--



## Section 4 Change of Share Capitals and Particulars of Shareholders

### (I) Particulars of Share Capital Changes

#### 1. Particulars of Share Capital Changes

√ Applicable □ Inapplicable

	Beginning balance		Increase (+) or decrease (-)					Closing balance	
	Quantity	Percentage (%)	Newly issued shares	Bonus shares	Shares transferred from public reserve fund	Others	Subtotal	Quantity	Percentage (%)
<b>I. Shares with trading restriction</b>	6,059,428	2.05%						6,059,428	2.05%
1. Shares held by the state									
2. Shares held by state-owned legal person	6,059,428	2.05%						6,059,428	2.05%
3. Shares held by other domestic shareholders									
Including: shares held by domestic legal persons									
Shares held by domestic natural persons									
4. Shares held by foreign investors									
Including: shares held by overseas legal persons									
Shares held by									

overseas natural persons									
5. Shares held by senior executives									
<b>II. Shares without trading restriction</b>	289,662,424	97.95%						289,662,424	97.95%
1. Renminbi ordinary shares	177,669,070	60.08%						177,669,070	60.08%
2. Domestically-listed Shares for Overseas Investors	111,993,354	37.87%						111,993,354	37.87%
3. Overseas-listed shares for overseas investors									
4. Others									
<b>III. Total of shares</b>	295,721,852	100%						295,721,852	100%

## 2. Changes of shares with trading restriction

√ Applicable □ Inapplicable

Shareholder name	Quantity of shares with trading restriction at the beginning of period	Quantity of shares with trading restriction that are released in this period	Increase of shares with trading restriction in this period	Quantity of shares with trading restriction at the end of period	Reason for trading restriction	Release date
Guangzhou Begol Trading Corporation	6,059,428	-	-	6,059,428	In the process of equity reform of the company, Joicare paid the payable consideration shares of equity reform on behalf of Begol; when the trading restriction period expires, Begol will repay such consideration shares to Joicare or their trading restriction cannot be released without the approval of Joicare.	Uncertain

**(II) Securities issuance and listing particulars****1. Issuance particulars of securities in the past three years**

☐ Applicable ☒ Inapplicable

**2. Total quantity and structural changes of company shares as well as the consequent changes of assets/liabilities structures of the company**

☐ Applicable ☒ Inapplicable

**3. Existing internal staff shares**

☐ Applicable ☒ Inapplicable

**(III) Particulars about shareholders and actual controllers****1. Total quantity of shareholders at the end of report period**

At the end of report period, the shareholder quantity amounted to 25,267 (including: 16,988 A-share holders and 8,279 B-share holders).

**2. Shares held by top ten shareholders**

Shares held by top ten shareholders						
Shareholder name (full name)	Shareholder nature	Shareholding percentage (%)	Total quantity of shares	Total quantity of shares with trading restriction	Shares for the mortgage or freezing	
					Status	Quantity
Joincare pharmaceutical Group Industry Co., Ltd	Domestic non-state-owned legal person	26.21%	77,510,167			
Tiancheng Industry Co., Ltd	Foreign legal person	17.13%	50,660,052			
First Shanghai Securities Co., Ltd	Foreign legal person	3.48%	10,295,547			
GAOLING FUND,L.P.	Foreign legal person	3.47%	10,258,112			
Agricultural Bank of China – L	Others	2.1%	6,200,000			

OF						
Guangzhou Begol Trading Corporation	Others	2.05%	6,059,428	6,059,428	Pledge and freeze	6,059,428
Shenzhen Haibin Pharmaceutical Co., Ltd	Domestic non-state-owned legal person	1.99%	5,892,943			
Agricultural Bank of China-Greatwall Anxin Return Mixed Securities Investment Fund	Others	1.97%	5,835,352			
Bank of Communications - Great Wall Jiufu Core Growth Stock-type Securities Investment Fund (LOF)	Others	1.63%	4,830,286			
China Construction Bank — Greatwall Consumption Value-added Stock-type Securities Investment Fund	Others	0.97%	2,878,296			
Remarks about shareholders						

## Shareholding particulars of top ten shareholders without trading restriction

√ Applicable □ Inapplicable

Shareholder name	Quantity of shares without trading restriction at the end of report period	Share type and quantity	
		Type	Quantity
Joincare pharmaceutical Group Industry Co., Ltd	77,510,167	A-share	77,510,167
Tiancheng Industry Co., Ltd	50,660,052	B-share	50,660,052
First Shanghai Securities Co., Ltd	10,295,547	B-share	10,295,547
GAOLING FUND,L.P.	10,258,112	B-share	10,258,112
Agricultural Bank of China – LOF	6,200,000	A-share	6,200,000
Shenzhen Haibin Pharmaceutical Co., Ltd	5,892,943	A-share	5,892,943
Agricultural Bank of China- Greatwall Anxin Return Mixed Securities Investment Fund	5,835,352	A-share	5,835,352
Bank of Communications - Great Wall Jiufu Core Growth Stock-type Securities Investment Fund (LOF)	4,830,286	A-share	4,830,286
China Construction Bank — Greatwall Consumption Value-added Stock-type Securities Investment Fund	2,878,296	A-share	2,878,296
Industrial and Commercial Bank of China— Jiashi Strate	2,728,892	A-share	2,728,892

gic Growth and Mixed Securities Investment Fund			
<b>Description of relationship or concerted action of above shareholders</b> ① On January 2, 2004, Joincare, Begol and Zhuhai Lishi Investment Co., Ltd signed the <i>Agreement on Equity Transfer, Custody and Mortgage</i> . Joincare and Guangzhou Begol Trading Corporation signed the <i>Agreement on Equity Transfer and Custody</i> and the <i>Agreement on Equity Mortgage</i> , in which Guangzhou Begol Trading Corporation directly transferred, custodized and mortgaged 6,059,428 domestic legal person shares of our company to Joincare; ② Tiancheng Industry Co., Ltd and Shenzhen Haibin Pharmaceutical Co., Ltd are the subcompanies directly or indirectly held 100% by Joincare; ③ Agricultural Bank of China- Greatwall Anxin Return Mixed Securities Investment Fund, Bank of Communications - Great Wall Jiufu Core Growth Stock-type Securities Investment Fund (LOF) and China Construction Bank—Greatwall Consumption Value-added Stock-type Securities Investment Fund belong to Great Wall Fund Management Co., Ltd. The Company does not know whether there are relations between the other top 10 shareholders or top 10 circulation shareholders or whether they belong to the persons acting in concert stated in the <i>Management Measures about Takeover of Listed Companies</i> .			

The strategic investors or general legal persons become the top 10 shareholders due to the rationing and sales of new shares.

☐ Applicable ☒ Inapplicable

### 3. Particulars about controlling shareholders and actual controllers

#### (1) Changes of controlling shareholders and actual controllers

☐ Applicable ☒ Inapplicable

#### (2) Introduction about controlling shareholders and actual controllers

Are there any new actual controllers?

☐ Yes ☒ No.

Name of actual controller	Zhu Baoguo
Type of actual controller	Individual

Remarks:

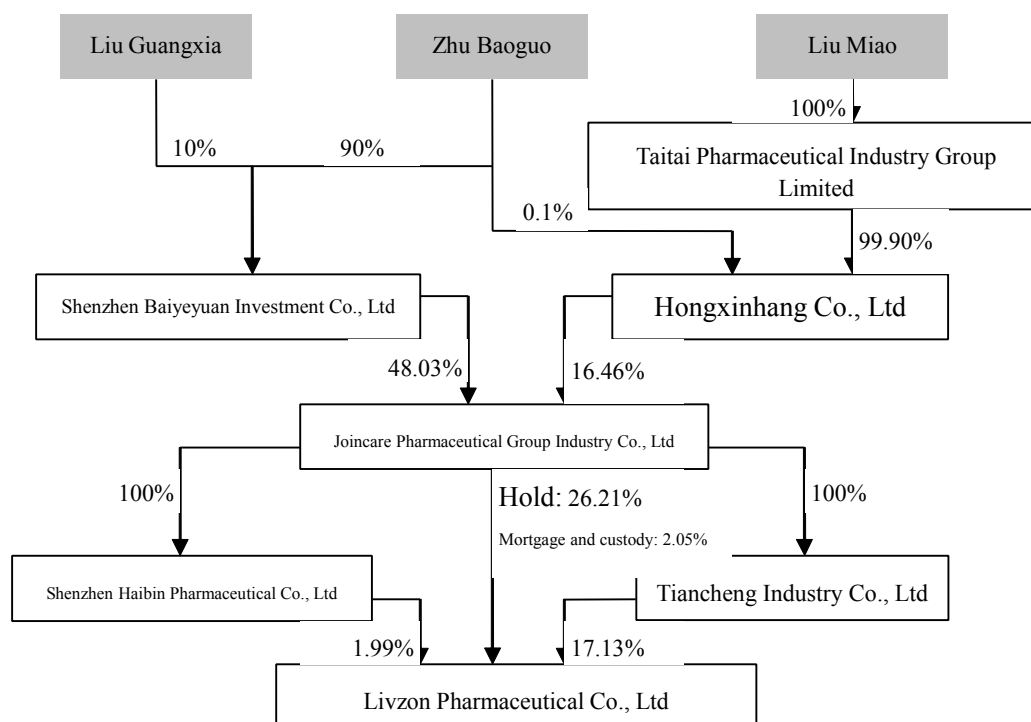
The controlling shareholder of company: Joincare pharmaceutical Group Industry Co., Ltd was established on December 18, 1992 with the registered capital of RMB 1.3174488 billion Yuan, and the legal representative is Mr. Zhu Baoguo. The operation scopes are as follows:

Development (not including the development of Chinese medicine, traditional Chinese medicine formula products listed as the national protection resources), wholesale, import & export and relevant auxiliary service (not including the products administered by the state-owned trades; the products administrated with quota license or special regulations shall be subject to the relevant national rules) of traditional Chinese medicine, chemical raw material medicine, chemical preparations, antibiotic raw material medicine, antibiotic preparations, food, health-care food and cosmetics (The *Sanitation License* will expire on January 13, 2012; the *Pharmaceutical Trade License* will expire on November 29, 2014); general cargo

transportation (The *Road Transportation License* will expire on August 20, 2013).

Mr. Zhu Baoguo is the actual controller of the company and has the Chinese nationality with no right of abode in other countries and areas.

### (3) Scheme of property right and controlling relationships between the Company and actual controllers



Note: Liu Miao is the mother of Zhu Baoguo, and Liu Guangxia is the wife of Zhu Baoguo.

### (4) The actual controllers control the company through the trust or other asset management modes

☐ Applicable ☒ Inapplicable

### 4. Other legal person shareholders holding over 10% of total shares

☐ Applicable ☒ Inapplicable

### (IV) Convertible company bonds

☐ Applicable ☒ Inapplicable

## Section 5 Particulars of Directors, Supervisors and Senior Executives

### (I). Shareholding changes of directors, supervisors and senior executives

□ Applicable √ Inapplicable

Name	Position	Gender	Age	Starting date of term	Ending date of term	Quantity of shares at the beginning of report period (share)	Increase of shares in this period (share)	Decrease of shares in this period (share)	Quantity of shares at the end of report period (share)	Including: quantity of shares with trading restriction (share)	Quantity of share equity at the end of report period (share)	Causes of changes	Whether they are given the rewards by the shareholder units or other associated units
Zhu Baoguo	presiden	Male	49	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	Yes
Liu Guangxia	Director	Female	42	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	Yes
An Ning	Director; vice president	Male	39	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Tao Desheng	Director; vice president		47	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Qiu Qingfeng	Director	Male	40	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	Yes

Zhong Shan	Director	Male	40	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	Yes
Luo Xiaosong	Independent Director	Male	36	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Wang Junyan	Independent Director	Male	42	2011-06-30	2013-04-16	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Yang Bin	Independent Director	Male	39	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Cao Pingwei	Supervisor	Male	52	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	Yes
Wang Maolin	Supervisor	Male	45	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Pang Datong	Supervisor	Male	66	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Yang Daihong	Vice president	Male	45	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Lu Wenqi	Vice president	Male	44	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Xu Guoxiang	Vice president	Male	49	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Li Rucai	Secretary of BOD	Male	41	2011-06-30	2014-06-30	0.00	0.00	0.00	0.00	0.00	0.00	None	No
Total	--	--	--	--	--							--	--

Note: 1. the periods of office term of above directors, supervisors and senior executives are respectively the expiry dates of the 7<sup>th</sup> Board of Directors and 7<sup>th</sup> Board of



Supervisors.

During the report period, the directors, supervisors and senior executives of company did not hold any company equity, so there were no changes about share-holding quantity.

Equity stimulus that are granted to the directors, supervisors and senior executives of company during the report period

☐ Applicable ☒ Inapplicable

During the report period, no equity stimulus were granted to the directors, supervisors and senior executives of company.

## (II) Positions

Positions in shareholder units

√ Applicable □ Inapplicable

Name	Shareholder unit	Position	Starting date	Ending date	Whether he/she gets rewards or allowances from shareholder unit
Zhu Baoguo	Joincare pharmaceutical Group Industry Co., Ltd	Chairman	August 28, 2009	August 28, 2012	Yes
Liu Guangxia	Joincare pharmaceutical Group Industry Co., Ltd	Vice Chairman	August 28, 2009	August 28, 2012	Yes
Qiu Qingfeng	Joincare pharmaceutical Group Industry Co., Ltd	Director, vice general manager and secretary of BOD	August 28, 2009	August 28, 2012	Yes
Zhong Shan	Joincare pharmaceutical Group Industry Co., Ltd	Vice general manager	August 28, 2009	August 28, 2012	Yes
Cao Pingwei	Joincare pharmaceutical Group Industry Co., Ltd	Director, vice general manager and principal of financial department	August 28, 2009	August 28, 2012	Yes
Remarks about positions in shareholder units	The office terms of above personnel are those of directors and senior executives of fourth Board of Directors of Joincare.				

Positions in other units

√ Applicable □ Inapplicable

Name	Other unit	Position	Starting date	Ending date	Whether he/she gets rewards or allowances from other unit
Luo Xiaosong	Shenzhen Great Wall Certified Public Accountants Co., Ltd	Departmental manager	August 2007	--	Yes

Wang Junyan	China Alpha Investment Management Limited	Director/chairman	May 2001/January 2007	--	Yes
	China Aerospace International Holdings Limited	Independent and non-execution director	March 2007	--	Yes
	China New Economy Fund Limited	Execution director	February 2010	--	No
	CITIC Securities International Investment Management (HK)Limited	Director, general manager and asset management director	August 2008	--	Yes
	CSI RMB Fund Ltd	Director	April 2011	--	No
	Dragon Origin Limited	Director	April 2011	--	No
	Wumart Store, Inc.	Independent and non-execution director	June 2011	--	Yes
Yang Bin	Shenzhen Cau Technology Co., Ltd	Secretary of BOD	March 2010	--	Yes
	Centre Testing International	Independent director	January 2010	--	Yes
Remarks about positions in other units					

### (III) Rewards of directors, supervisors and senior executives

Policy-making procedures of rewards of directors, supervisors and senior executives	Regarding the rewards of directors and supervisors, the shareholders' meeting of company examined and approved that, the compensation and assessment commission under the Board of Directors will, in accordance with the compensation management system and based on the operation performances, determine the reward standards of senior executives, then submit them to the Board of Directors for approval.
Determination basis of rewards of directors, supervisors and senior executives	Based on the industry and regional income levels and considering the operation performance and personal contributions, the company will determine the annual rewards of directors, supervisors and senior executives. At the same time, the company implements the performance assessment and personal performance assessment system and determines the

	distribution of performance bonus and year-end double salaries based on the assessment results.
Actually paid rewards of directors, supervisors and senior executives	During the report period, the total rewards paid by the company to directors, supervisors and senior executives amounted to about RMB 1.9940 million Yuan (including the tax).

#### (IV) Changes of directors, supervisors and senior executives

☐ Applicable ☒ Inapplicable

During the report period, there were no changes of directors, supervisors and senior executives

#### (V) Company staffs

Quantity of existing staffs	5305
Quantity of the retired staffs whose expenses will be borne by the company	537
Profession composition	
Profession composition type	Profession composition quantity
Workers	2066
Salesman	1609
Technician	917
Financial staff	113
Execution staffs	600
Educational level	
Educational level type	Quantity (person)
PHD	9
Master	157
Bachelor	1060
College	1352
Senior Middle school or below	2727

Remarks about company staffs: the retired staffs whose expenses will be borne by the company only takes a small amount of allowance from the company

## Section 6 Report of Board of Directors

### (I) Discussion and analysis of management

During the report period, while facing many unfavorable factors such as the slump of increase rate of macro-economy and adjustment of industry policies, etc, the company has strengthened the internal management, and by taking the sales as the engine, the quality as the roots and the development as the power, implemented the fine marketing management, and enhanced the marketing assessment; promoted the excellent management of production and emphasized the quality and cost control; the series of measures, including the improvement in the optimized management of development, and continuous strengthening of the development investment, etc have made the operation performance of company keep growing, and maintained the good development tendency.

During the report period, the marketing management work of company mainly focuses on the construction of sales teams and strengthening of terminal assessment. By taking the measures such as the talent recruitment, team division, find assessment system and perfection of assessment management plans, etc, the company further implemented the fine marketing management, effectively improved the controlling capacity about terminals. At the same time, by holding the multiple market activities such as the seminars and expert visits, the company enhanced the reputation and product impacts to promote the growth of sales performance. Within half a year, the company held over 700 small city seminars or hospital meetings, and participated in or held 7 state-level seminars.

During the report period, the company further integrated the development resources, strengthened the internal management optimization of development departments, and ensured the smooth development of all projects; the company also achieved the results about patent application and project submission. In terms of development, Dankang project: the experiment work of AT132 product before clinical use has been completed, and the clinical experiment application has been submitted to SFDA and has been accepted; in terms of the vaccines, the company has internally determined the production process and quality control standards, worked out the registration standards, perfected and regulated the process operation, and negotiated with technical party about three-bach production plan for purpose of applying for the production document No.; in terms of other development projects, the clinical experiment of Ilaprazole injection has been accepted by SFDA; the supplementary data about voriconazole for injection process improvement project have been submitted, and other projects are being smoothly pushed as scheduled. In terms of patent and project application, the company has obtained 2 patent authorization, newly applied for 5 innovation patents, and completed two applications about projects with governmental support.

During the report period, with respect of production management, the company emphasized the quality control and cost control, requested all production enterprises under it to implement all kinds of quality control management, and by continuously pushing the fine production, strived to reduce the production cost, and reduced the cost pressures brought by the increase of prices of raw materials and energies. In terms of quality control, the company utilized the opportunity of implementing the new edition of GMP certification, and made good use of the new reforming to improve the equipment, ensure the quality level, and establish the quality risk management system. In the first half of year, after the event of “capsule with excessive 铬” is disclosed, all production enterprises have received the supervision inspection and sampling inspection of local medical supervision department, and found no unacceptable products, which embodied the controlling capacity about drug quality and maintained the good reputation about excellent product quality. In terms of the cost control, the company continuously pushed the fine production projects, realized the visible production control and standardized site management, and by carrying out the process improvement activities, the company effectively realized the energy-saving and consumption reduction and controlled the production costs.

By carrying out the above work, during the report period, the company operated very well and achieved the main operation results and financial status:

During the report period, the operating income of the company amounted to RMB 1.8849972 billion Yuan, up RMB 413.5597 million Yuan at the same period of previous year with the increase rate of 28.11%. The main causes are that, by further adjusting the marketing policies, the company enhanced the assessment strength, and pushed the fast growth of the incomes of key preparation products (mainly including Chinese traditional drug preparation, Gonadotropic hormone and Digestive tract products).

During the report period, the company has made the operating profit of RMB 282.0682 million Yuan, up RMB 20.8240 million Yuan over the previous year with the decrease rate of 7.97%; the main cause is that, even if the main business income of company increases, the increase rate of sales expenses and management expenses is much faster.

At the end of report period, the net assets attributable to the shareholders of parent company amounted to RMB 228.7050 million Yuan, up RMB 7.8433 million Yuan with the increase rate of 3.55%. The cause is that, even if the operating profits have increased, the non-operating incomes have decreased. The Net profit attributable to the shareholders of listed companies after deduction of non-recurring profit and loss amounts to RMB 217.6808 million Yuan, up 15.8530 million RMB with the increase rate of 7.85% over the beginning of year. The increase rate of operating profits is kept basically the same. At the end of report period, the sales expenses of company amounted to RMB 674.0235 million Yuan, up RMB 290.1140 million Yuan with the increase rate of 75.57%. The cause is that, (1) due to the continuous changes of sales structures, the percentage of sales volume of preparation-type drugs has further increased; (2) due to the adjustment of sales policies, the expenses have also increased. The management expense amounts to RMB 157.6367 million Yuan, up RMB 28.0694 million Yuan with the increase rate of 21.66% over the beginning of year. The main cause is that, during the report period, the company has enhanced the development strength, and the development expense has greatly increased; the financial expense amounts to RMB -11.0594 million Yuan, down RMB 5.8003 million RMB from RMB -5.2591 million RMB with the decrease rate of 110.29% over the beginning of year. The main cause is that, the cash flow status of company is kept good, and the interest incomes of bank deposits have increased.

During the report period, the net amount of cash flow from the operating activities totaled RMB 335.4164 million Yuan, up RMB 42.7619 million Yuan. The main cause is that, during the report period, due to the increase of sales incomes, the cash received from commodity sales and all kinds of deposits received due to the adjustment of sales policies have increased; The net amount of cash flow from the investment activities in this period reached RMB -413.0864 million Yuan, down RMB 305.8724 million Yuan compared with the same period of previous year. The main cause is that, during the report period, the payments for acquiring and constructing the fixed assets of the relocation project of new Livzon Pharmaceutical Factory under Livzon Group and Ningxia Livzon Pharmaceutical Industry Park project have increased. The net amount of cash flow from the investment activities in this period reached RMB -470.1148 million Yuan, down RMB 700.6489 million Yuan compared with the same period of previous year. The main cause is that, during the report period, the company did not issue the short-term financing bonds but paid the principals and interests of RMB-400-million-Yuan short-term financing bonds issued in the same

period of previous year.

Whether the actual operating performance of company is over 20% lower or higher than the profitability forecast and operation plan publically disclosed by the company:

☐ Yes ☒ No

Operation status and performance analysis about main subcompanies and companies whose equity is participated by the company

No.	Company name	Main products or services	Registered capital	Total assets at the end of period	Operating income during the report period	Net assets at the end of period	Net profit during the report period
1	Livzon Pharmaceutical Factory under Livzon Group	Be mainly engaged in the production and sales of the products such as the chemical drugs, biochemical drugs, micro-ecological preparations, antibiotics, etc that are produced by the company.	44,210.93	127,653.39	93,847.99	45,063.66	8,324.72
2	Sichuan Guangda Pharmaceutical Co., Ltd	Be mainly engaged in the development, production and sales of traditional Chinese medicines, and the main products include the antivirus granules and Kouyaning infusion, etc.	14,900.00	45,331.99	37,192.51	13,526.02	3,071.30
3	Limin Pharmaceutical Co., Ltd under Livzon Group	Be mainly engaged in the production and operation of Chinese traditional medicine preparations, medical raw materials and so on. The main products are Shengqifuzheng injection solution, Xueshuantong and so on.	6,156.00	36,448.91	18,063.25	17,105.86	5,217.40
4	Shanghai Livzon Pharmaceutical Co., Ltd	Be mainly engaged in the production of biochemical and polypeptide raw-material drugs. The main products are the bio-chemical raw material medicines such as Menotrophin and Chorionic Gonadotrophin for Injection, etc as well as the Leuprorelin Acetate Microspheres for Injection.	8,732.89	13,980.89	10,442.50	8,837.37	571.05
5	Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	Be mainly engaged in the production and operation of Bismuth Potassium Citrate Granules series, Live Bifidobacterium Preparation and Cefoperazone Sodium and Sulbactam Sodium for Injection.	12,828.00	38,980.25	24,456.42	12,240.31	-368.37
6	Xinbeijiang Pharmaceutical Limite	Be mainly engaged in the production of raw material medicine	13,492.52	33,107.04	19,161.11	14,683.73	2,005.71

	d Liability Company under Livzon Group	s and intermediate products as well as the export business of relevant technologies. The main products are Pravachol, Mevastatin, and Salinomycin, etc.					
7	Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group	Be mainly engaged in the production of the raw materials of antibiotics, intermediates, preparations and chemical raw materials for medicine production and so on. The main products are Colistin Sulfate, vancomycin and Kanamycin Monosulf.	USD4,170 万元	43,501.73	38,811.06	18,935.91	1,586.17
8	Zhuhai Livzon Medicine Trade Co., Ltd	Be mainly engaged in the sales (including the import and export businesses) of traditional Chinese medicine and western medicine preparations, medical intermediates and so on	6,000.00	28,891.63	6,865.82	27,266.99	102.12
9	Zhuhai Livzon Reagents Co., Ltd	Be mainly engaged in the production and sales of diagnostic reagents. The main products are Chlamydia trachomatis antigen diagnostic reagent kit and HIV antibody diagnostic reagent kits.	4,645.00	18,467.78	16,333.12	15,238.30	2,626.74

during the report period, all subcompanies of company have operated well. Influenced by clinic application management policies of antibiotics medicines, Livzon Syntpharm Co., Ltd suffered from the loss. However, compared with the same period of previous year, the loss is reduced. The company will take the measures such as the adjustment of product structures and strive to get rid of loss as soon as possible.

All risk factors that may have the unfavorable influence on the achievement of future development strategy and operation objective of the company

In 2012, the unfavorable influences on pharmaceutical industry are, apart from the slump of increase rate of macro-economy, adjustment of industry policies, such as the decrease of drug prices. Secondly, there are the influences of increase of production cost brought by the increase of raw materials and energy prices and labor cost.

## 1. Main business and operation status of company

### (1) The main business income is classified according to the profession and product:

Unit: RMB 10 thousand Yuan

Profession or product	Operating income	Operating cost	Operating profit margin	Increase or decrease of operating income compared with the previous year (%)	Increase or decrease of operating cost compared with the previous year (%)	Increase or decrease of operating profit margin compared with the same period of previous year (%)
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							%)
<b>Profession</b>							
Western medicine preparation	Digestive tract	14,850.65	1,992.22	86.58%	20.56%	10.17%	Up 1.26 percentage points
	Cardiac and cerebral blood vessel	7,211.21	1,687.21	76.60%	33.45%	12.65%	Up 4.32 percentage points
	Antimicrobial drugs	14,121.64	4,660.20	67.00%	-15.50%	-22.79%	Up 3.12 percentage points
	Gonadotropic hormone	21,911.94	7,800.37	64.40%	54.19%	67.09%	Down 2.75 percentage points
	Blood and hemopoietic system drugs	1,228.41	1,171.99	4.59%	-15.85%	8.89%	Down 21.68 percentage points
	Others	6,930.76	1,768.38	74.49%	44.48%	31.14%	Up 2.60 percentage points
Raw material drugs		40,290.45	34,127.19	15.30%	0.52%	3.92%	Down 2.77 percentage points
Chinese traditional drug preparation		65,480.96	13,813.77	78.90%	73.96%	22.24%	Up 8.93 percentage points
Diagnostic reagents and equipments		15,237.05	6,946.46	54.41%	21.89%	16.02%	Up 2.31 percentage points
Imported drugs		242.46	42.36	82.53%	-46.45%	-51.77%	Up 1.93 percentage points
<b>Product</b>							
Shenqifuzheng injection		47,345.67	6,409.41	86.46%	104.21%	38.33%	Down 6.44 percentage points

Note: remarks about main business according to the industry and product: list the operating income according to the industry and product or main industry and products with over 10% operating profits.

Remarks about huge increase and decrease of operating profit margin compared with same period of previous year

The operating profit margin of blood and hemopoietic system drugs decreases by 21.68%. the main cause is that, the raw material price of Urokinase product for injection increases, which causes the cost increase.

**(2)The main business is classified according to the regions**

Unit: RMB 10 thousand Yuan

Region	business income	Increase or decrease of main business income compared with the previous year (%)
Northeast China	14,912.59	11.37%
North China	27,858.46	12.47%
Central China	21,474.67	44.78%
East China	38,414.82	28.19%
South China	30,475.90	17.40%
Southwest China	24,465.29	41.97%
Northwest China	11,285.90	54.10%
Export	18,617.89	36.71%

Remarks about main business according to regions: the company products are mainly sold domestically, and a small quantity of products are exported to the nations and areas such as Hongkong, Veitnam, Parkistan, Japan and India, etc.

Remarks about main business composition: The company specializes in the development, production and marketing of medicine products. The main products are Bismuth Potassium Citrate Granules series, Shenqifuzheng injection, antivirus granules, Urofollitropin for Injection (follicle stimulating), Kanglineng(Cefodizime Sodium for Injection), Lifukang (voriconazole), Lizhuwei (Valaciclovir Hydrochloride Tablets), Qianliean Suppository, New Liaolilong (Divitamins Notonginseng and Cinarizine), Factive film-coated tablets (Gemifloxacin), Yili'an(Ilaprazole), Beiyi (Leuprorelin Acetate Microspheres for Injection), mouse nerve growth factor for injection and other medical preparations, as well as Mevastatin, Pravachol, Mycophenolic acid, Ceftriaxone, Cefuroxime, Cefodizime, Phenylalanine, vancomycin and some other raw-material drugs, which involve the chemical drugs, biochemical drugs, micro-ecological preparations, Chinese patent drugs, chemical raw materials, diagnostic reagents and so on, totaling hundreds of kinds of products in various medical fields.

**(3) Remarks about main business and reasons for key changes of its structures**

☐ Applicable ☒ Inapplicable

During the report period, there are no key changes of main business and its structures

**(4) Remarks about reasons for key changes of main business profitability (operating profit margin)**

☐ Applicable ☒ Inapplicable

During the report period, there are no key changes of main business profitability (operating profit margin)

## (5) Analysis about reasons for key changes of profits compared with last year

☐ Applicable ☒ Inapplicable

During the report period, there are no key changes of profit composition compared with last year.

## 2. Internal control system related to the fair value Calculation

☒ Applicable ☐ Inapplicable

The items that are calculated in fair value by company are mainly about "The financial assets that are calculated in the fair values" and "controllably sold financial assets". The company has formulated the external investment management system to regulate the procedures of acquisition, disposal and risk control of above assets, and detailedly specify the feasibility research, approval authority and policy-making procedures about acquisition and disposal of above assets as well as the routine management and accounting disposal of above assets, etc. At the same time, the company specifies the determination method of fair values of relevant assets calculated in fair values as well as initial confirmation and sequent calculation method: (1) The financial assets that are calculated in the fair values and whose changes are accrued to the current profit and loss: the fair values to get them will be the initial confirmation amount and the relevant transaction expenses will be accrued to the current profit and loss at the time of occurrence. The cash dividends or bond interests in the payments that have been declared to be distributed will be separately confirmed as the receivable items. The interests or cash dividends obtained during the holding period will be confirmed as the investment gains. On the preparation date of financial statement, the changes of fair values will be accrued to the current profit and loss. (2) Saleable financial assets: the sum of fair values and relevant expenses to get them will be deemed as the initial confirmation amount. The cash dividends or bond interests in the payments that have been declared to be distributed will be separately confirmed as the receivable items. The interests and cash dividends generated during the holding period will be accrued to the interest gains. At the end of the period, the saleable financial assets will be calculated in the fair values and the changes of fair values will be accrued to the capital reserves (other capital reserves).

Items related to fair value calculation

Unit: RMB Yuan

<u>Item</u>	<u>Amount at the beginning of the period</u>	<u>Profit and loss in the changes of fair values in this period</u>	<u>Accumulated changes of fair values that are accrued to the equities</u>	<u>Withdrawn depreciation in this period</u>	<u>Amount at the end of period</u>
Financial assets					
Including: 1. Financial assets that are calculated in the fair values and whose changes are accrued to the current profit and loss	44,343.01	941.33			45,284.34
including: the derivative fi					

Financial assets					
2. Saleable financial assets	9,238.79		418.87		9,657.66
Subtotal of financial assets	53,581.80	941.33	418.87		54,942.00
Financial liabilities					
Real estate for investment					
Production biological asset					
Others					
Total	53,581.80	941.33	418.87		54,942.00

In the past two years, the company employs the evaluation technique to determine the fair value of same or similar items, and is there any key difference about evaluation results? If so, please specify.

☐ Yes ☒ No.

### 3. Foreign currency financial assets and foreign currency financial liabilities

☒ Applicable ☐ Inapplicable

Unit: RMB Yuan

Item	Amount at the beginning of period	Profit and loss in the changes of fair values in this period	Accumulated changes of fair values that are accrued to the equities	Withdrawn depreciation in this period	Amount at the end of period
Financial assets					
Including: 1. Financial assets that are calculated in the fair values and whose changes are accrued to the current profit and loss	43,819.54	917.42			44,736.96
Including: the derivative financial assets					
2. Loans and accounts receivable	61,544.97			570.88	70,375.13
3. Saleable financial assets					
4. Investments that are held to the					

maturity dates					
Subtotal of financial assets	105,364.51	917.42	0.00	570.88	115,112.09
Financial liabilities	251,449.80				329,514.72

## (II) Company investment

### 1. General use of raised funds

☐ Applicable ☒ Inapplicable

### 2. Commitment items of raised funds

☐ Applicable ☒ Inapplicable

### 3. Change items of raised funds

☐ Applicable ☒ Inapplicable

### 4. Key and non-raised fund investment projects

☒ Applicable ☐ Inapplicable

Unit: RMB 10 thousand Yuan

Project name	First announcement disclosure date	Project amount	Project progress	Project returns
Relocation project of new Livzon Pharmaceutical Factory under Livzon Group	Disclosure date of Phase I of project: July 1, 2005 Disclosure date of Phase II of project: April 3, 2007	88,723	By the end of report period, this project has completed two building of packaging material plants, P10 and P08 preparation plant building, four single staff dormitories, one dinning hall, one boiler plant and wastewater disposal, etc. The production lines of hormone freeze-dried plant and non-hormone freeze-dried plant in P10 and P08 preparation plants have passed the GMP certification, and have been put into use. P07 preparation building has been roughly completed, and is scheduled to complete the structural acceptance this August and start the machine installation; P09 cephalosporins injection building and W02 automatic high rack warehouse is under construction; the company will complete the main structures of other executive and development buildings, animal room, Chinese medicine experiment building in June 2013 and complete the decoration	Be unable to separately calculate.

			and put it to use by the end of 2013.	
Ningxia Livzon Pharmaceutical Industry Park project	May 31, 2011	30,000	The Phase I of this industry park project covers 600 mu to establish "Ningxia Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group" and "Ningxia Fuxing Pharmaceutical Co., Ltd under Livzon Group. The fermentation plants constructed by Ningxia Xinbeijiang Pharmaceutical Co., Ltd has been roughly completed, and the equipment will be installed; the main part of boiler room and power plant have been completed and the equipment will be installed; the auxiliary equipment such as the warehouse has been partially completed. The fermentation and refinery plants constructed by Ningxia Fuxing Pharmaceutical Co., Ltd has been fully completed, the auxiliary equipment such as the boiler room, power and warehouse has been partially completed. The company plans to complete the equipment installation and auxiliary equipment construction, and put it to trial production by the end of year.	Not completed.
Total		118,723	--	--
Remarks about Key and non-raised fund investment projects				
By the end of report period, the actual expense of Relocation project of new Livzon Pharmaceutical Factory under Livzon Group amounts to RMB 457.8869 million Yuan, and the actual expense of Ningxia Livzon Pharmaceutical Industry Park project amounts to RMB 328.4795 million Yuan				

### (III) Revision plan of Board of Directors about operation plan in the second half of this year

☐ Applicable ☒ Inapplicable

### (IV) Forecast about operation performance from January to September 2012

Warning that forecasts the accumulated net profit from the beginning of year to the end of next report period may suffer from loss or have the huge changes compared with same period of previous year and reason remarks

☐ Applicable ☒ Inapplicable

### (V) Remarks of Board of Directors about "non-standard auditing report" of public accountants firm during this report period

☐ Applicable ☒ Inapplicables

## **(VI) Remarks of Board of Directors about changes and disposal of events involved in “non-standard auditing report” of public accountants firm in previous year**

☐ Applicable ☒ Inapplicable

## **(VII) Description about discussion results of Board of Directors about the reasons and influences of Accounting Policies, Accounting Evaluation changes and key accounting Error correction of the Company**

☐ Applicable ☒ Inapplicable

## **(VIII) Formulation and implementation of cash bonus policies**

On July 6, 2012, the company convened the 2012 first temporary shareholders' meeting, and examined and passed the Proposal on Revising the Articles of Association, revised the profit distribution system, and specified the conditions for cash bonus distribution and bonus percentage. The revised profit distribution system of company is as follows:

” the article 155 of Articles of Association the profit distribution system is:

(I) The profit distribution of company should emphasize both the reasonable investment returns to shareholders and sustainable development of company, and try to maintain the continuity and steadiness of distribution policies.

(II) The company may distribute the profits by employing the cash, stock, and combination of cash and stock or other modes permitted by the laws and regulations

(III) In principle, the company distributes the profits each year, but if the conditions permit, the company may distribute the cash bonus in the middle of year.

(IV) On the condition that the cash flow meets the normal operation and long-term development, the company will actively take the cash bonus, and ensure that the profits accumulatively distributed in cash in the past three years will not be less than 30% of annually average distributable profits achieved in the past three years; the annual cash bonus percentage will be proposed by the Board of Directors in accordance with relevant regulations and current operation status of company and then be determined by the shareholders' meeting.

(V) the implementation of cash bonus distributed by the company should meet the following conditions:

1. The distributable profits (the taxation-after profits after the company makes up for the loss and withdraws the reserves) achieved by the company in the current year is positive;

2. The auditing agency has issued qualified opinions about current financial reports.

(VI) Policy-making procedures of profit distribution policies

To prepare the profit distribution plan, the company management and Board of Directors will put forward the bonus distribution suggestions and plans by combining the profit status, capital demand and shareholder return. After the examination of Board of Directors, such plans will be submitted to the shareholders' meeting for approval. The independent directors should express the opinions about profit distribution plan.

While examining the cash bonus distribution plans, the shareholders' meeting should learn the opinions and requirements of social public shareholders, and the Board of Directors, independent directors and shareholders who have meet some conditions may collect the voting rights in the shareholders' meeting from company shareholders.

When the company makes profits in a year but does not put forward the cash bonus distribution plan, the management should submit the detailed explanation to the Board of Directors, including the reasons for failure to distribute the cash bonus, the purpose and use plan of undistributed bonus, and the independent directors shall express

the independent opinions about profit distribution plan and publicly disclose it. After the examination of Board of Directors, such plans will be submitted to the shareholders' meeting for approval. While convening the shareholders' meeting, the company should, apart from the on-site meeting, establish the voting platform for the shareholders in the mode of network.

(VII) The company should disclose the implementation status of profit distribution plan and cash bonus policies in the annual report and semi-annual report in accordance with relevant regulations. When the company makes profits in a year but does not put forward the cash bonus distribution plan, the company should detailedly specify the reasons for failure to distribute the cash bonus, and the purpose and use plan of undistributed bonus in the annual report. The Board of Supervisors should supervise the implementation status of profit distribution plan and shareholder return plan and policy-making procedures by the Board of Directors and the management.

(VIII) If the company must adjust or change the profit distribution policies due to the key changes of external operation environments or operation status, after the detailed demonstration, the Board of Directors will make a resolution, and the independent directors will express the independent opinions and publicly disclose it, and submit to the shareholders' meeting for voting in the mode of special resolution.

(IX) If the shareholders illegally use the company capitals, the company should deduct the cash dividend of these shareholders to repay the used capitals."

The company has always strictly implemented the profit distribution policies, and employed the cash bonus distribution mode in the past three years. The implementation status of cash bonus distribution complies with the regulations of articles of association and requirements of resolutions passed in the shareholders' meeting. This profit distribution policy of the company has been examined and passed by the shareholders' meeting, and the policy-making procedures are legal; the independent directors of the company have expressed the independent opinions about the revision of this profit distribution system, performed their responsibilities and play their roles. Through the revision of this profit distribution system, the company has specified the conditions of cash bonus distribution as well as the cash bonus standards and percentages. The revised profit distribution policy regulates that, while convening the shareholders' meeting that examines profit distribution or adjust the profit distribution policies, the Board of Directors, independent directors and the shareholders complying with some conditions may shareholders who have meet some conditions may collect the voting rights in the shareholders' meeting from company shareholders or establish the internet voting platform to provide the opportunity for the middle and small-sized shareholders to fully express their opinions and requirements and effectively maintain their legal interests.

### **(IX) Profit distribution plan or capital reserve transfer plan**

☐ Applicable ☒ Inapplicable

In the middle of 2012, the company will not make the profit distribution nor implement the transfer from the reserve to share capitals.

### **(X) The accumulately undistributed profits of company was positive, but did not put forward the cash bonus distribution plan**

☐ Applicable ☒ Inapplicable

### **(XI) Establishment and implementation of the system for registration and management of people in possession of inside information**

To further regulate the management of inside information, strengthen the confidentiality work of inside information, and m



maintain the openness, fairness and equity principles of information disclosure, in accordance with relevant regulations of the *Company Law, Securities Law, And Regulation About Listed Companies Establishing The System About The Registration And Administration Of People In Possession Of Inside Information, Management Method Of Information Disclosure Of Listed Companies, Listing Rules Of Shenzhen Stock Exchange, And The Articles Of Association Of Livzon Pharmaceutical Group Inc.*, on November 29, 2011, after the examination of the 5<sup>th</sup> meeting of the 7<sup>th</sup> Board of Directors, the company formulated and implemented the *system about the Registration and Administration of People in Possession of Inside Information*.

During the report period, the company strictly implemented the *system about the Registration and Administration of People in Possession of Inside Information*, and completely recorded the list of all insiders in the process of reporting, submission, preparation, approval and disclosure before public disclosure, and timely submit it to the stock exchange and securities regulatory department. During the report period, the company and relevant personnel have not received the supervision measures and executive penalty from the regulatory department due to the implementation of the *system about the Registration and Administration of People in Possession of Inside Information* or being suspected to participate in the inside trading.

Self inspection and responsibility penalty about the people in possession of inside information buying or selling the stocks of this company or their derivative products

☐ Yes ☒ No.

The listed company and relevant personnel received the supervision measures and executive penalty from the regulatory department due to the implementation of the *system about the Registration and Administration of People in Possession of Inside Information* or being suspected to participate in the inside trading

☐ Yes ☒ No

## **(XII) Other Disclosure Events**

The independent directors of Company issued the special explanations and gave their independent opinions about the capital use and external guaranty of controlling shareholders and associated parties:

In accordance with the laws and regulations such as the Direction Opinions about Establishing the Independent Director Systems and the Articles of Association, as the independent director of Livzon Group, we take the principle of being practical and realistic, and comply with the laws and regulations such as Notice of Relevant Problems about the Standardization of Fund Transfer Between the Listed Companies and Associated Parties and the External Guaranty of Listed Companies and the Notice of Standardizing the External Guaranty of Listed Company issued by China Securities Regulatory Commission, we closely audit the capital use and external guaranty of associated parties in the first half of 2012. We will explain as follows:

Particulars about capital use of associated parties and independent opinions:

1. By June 30, 2012, the capital use of controlling shareholders and other associated parties is listed as follows:

The balance of capital use of controlling shareholders and other associated parties amounted to RMB 311.2859 million Yuan. The balance of capital use of controlling shareholders and affiliated enterprise is RMB 0.1761 million Yuan; the capital use amount of joint company Guangdong Blue Treasure Pharmaceutical Co. Ltd is RMB 7.1162 million Yuan (the ac

counts payable to Guangdong Blue Treasure Pharmaceutical Co. Ltd is RMB 1.0853 million Yuan); The balance of capital use of subcompanies is RMB 303.9936 million Yuan.

Therefore, we conclude that, the capital use of controlling shareholders and other associated parties has not violated the Notice of Relevant Problems about the Standardization of Fund Transfer Between the Listed Companies and Associated Parties and the External Guaranty of Listed Companies, and has not damaged the interests of medium and small sized shareholders.

## 2. Remarks and independent opinions about external guaranty of company

(1) External guaranty of company (not including the guaranty to the controlled subcompanies):

During the report period, the company has not provided any external guaranty to any parties except the controlled subcompanies.

(2) During the report period, the guaranties provided by the company to the controlled subcompanies are listed as follows:

Unit: RMB 10,000 Yuan

Name of Guarantee	Occurrence Date (Signing date of agreement)	Balance at the end of period	Actual guarantee amount	Guarantee limit	Guaranty type	Period
Zhuhai Livzon Reagents Co., Ltd	2012.3.12	0.00	0.00	2,000.00	Credit guaranty	2012.3.12-2015.3.21
Zhuhai Livzon Reagents Co., Ltd	2012.3.22	0.00	0.00	1,264.98	Credit guaranty	2012.3.22-2015.3.21
Zhuhai Livzon Medicine Trade Co., Ltd	2009.7.20	0.00	0.00	1,000.00	Credit guaranty	2009.7.20-2012.7.20
Limin Pharmaceutical Co., Ltd under Livzon Group	2012.4.17	0.00	0.00	15,000.00	Credit guaranty	2012.4.17-2015.4.16
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	2012.6.7	2,445.60	2,445.60	3,000.00	Credit guaranty	2012.6.7-2015.6.7
Livzon Pharmaceutical Factory under Livzon Group	2012.5.17	0.00	0.00	16,000.00	Credit guaranty	2012.5.17-2015.5.16
Livzon Pharmaceutical Factory under Livzon Group	2012.6.7	0.00	0.00	9,000.00	Credit guaranty	2012.6.7-2015.6.7
Livzon Pharmaceutical Factory under Livzon Group	2009.8.21	0.00	0.00	5,000.00	Credit guaranty	2009.8.21-2012.8.21
Livzon Pharmaceutical Factory under Livzon Group	2010.12.23	50.00	50.00	32,000.00	Credit guaranty	2010.12.14-2018.12.14
Livzon Pharmaceutical Factory under Livzon Group	2009.11.27	0.00	0.00	5,000.00	Credit guaranty	2009.11.27-2012.11.27
Livzon Pharmaceutical Factory under Livzon Group	2009.9.10	0.00	0.00	6,000.00	Credit guaranty	2009.9.10-2012.9.10
Livzon Pharmaceutical Factory under Livzon Group	2009.10.15	0.00	0.00	12,000.00	Credit guaranty	2010.6.12-2018.6.3
Livzon Pharmaceutical Factory under Livzon Group	2012.6.21	0.00	0.00	10,000.00	Credit guaranty	2012.6.21-2015.6.21
Livzon Pharmaceutical Factory under Livzon Group	2010.5.13	0.00	0.00	8,316.20	Credit guaranty	2010.7.20-2013.7.20

Name of Guarantee	Occurrence Date (Signing date of agreement)	Balance at the end of period	Actual guarantee amount	Guarantee limit	Guaranty type	Period
Livzon Pharmaceutical Factory under Livzon Group	2011.9.27	1,222.80	1,222.80	4,095.585	Credit guaranty	2011.9.27-2014.9.27
Livzon Pharmaceutical Factory under Livzon Group	2011.8.4	4,483.60	4,483.60	4,458.85	Credit guaranty	2011.8.4-2014.8.4
Total guaranty amount to its controlling subcompanies in the report period			8,202.00			
Total balance of guaranty amount to its controlling subcompanies in the report period			8,202.00			

During the report period, the company has not provided any external guaranty to any parties except the controlled subcompanies the actual guaranty amount provided to the controlled subcompanies is RMB 82.0200 million Yuan. By June 30, 2012, the total loan amount of its controlled subcompanies is RMB 82.0200 million Yuan, accounting for 2.65% of the unaudited net assets of the Company at the first half of 2012.

Except the above guaranties, the Company has not provided any guaranty to any shareholders, actual controllers or associated parties, nor directly or indirectly provides the guaranty to any guarantees whose assets/liabilities ratio exceeds 70%. There are no overdue guaranties. The approval procedures about above guaranties have been completed.

Therefore, based on the above facts, the independent directors of the Company think that, the guaranty behaviors of the Company fully comply with the relevant laws and regulations and will not influence the sustainable operation capacity of the Company nor damage the interests of medium and small shareholders, so the guaranty behaviors meet the demands of company operation.

**(XIII) The liabilities, credit changes and cash arrangement of the company for repayment in next years (this sheet is only applicable to the listed companies issuing the convertible bonds)**

☐ Yes ☒ No

## Section 7 Important Events

### (I). Company Governance

During the report period, in accordance with the requirements of the *Company Law of People's Republic of China*, *Securities Law of People's Republic of China*, Governance Rules Of Listed Companies, Guidance Of Standardized Operation Of Mainboard Listed Company of Shenzhen Stock Exchange, and normative documents related to listed companies issued by China Securities Regulatory Commission and Shenzhen Stock Exchange, the Company has strengthened the system construction, perfected the governance structure, regulated the company operation, further pushed the deepening of company governance, and enhanced the governance level of Company.

During the report period, the shareholders' meeting, Board of Directors and Board of Supervisors of the company strictly performed the management policy-making and supervision in accordance with the normative operation rules and internal systems, and the three agencies operate effectively. All special commissions under Board of Directors have performed their own responsibilities, and strengthen the policy-making capacity of Board of Directors in all fields. The operation management has established the efficient and compliant policy-making system, fully embodied the operation management function, and effectively ensure the achievement of operation objectives.

During the report period, in accordance with the notice of relevant events for further implementing the cash bonus distribution of listed companies (Zheng Jian Fa [2012] No. 37 document) issued by Guangdong Supervision Bureau of China Securities Regulatory Commission, the company revised the profit distribution in the article of association, specified the implementation conditions and percentages of cash bonus, and perfected the policy-making system about profit distribution. In accordance with the requirements of the notice of improving the implementation of internal control regulations for the mainboard listed companies (Guangdong Zheng Jian [2012] No. 27 document), the company further launched the construction work of internal control system, perfected the organization structure of internal control items, and expanded the internal control scope based on original foundation, and further strengthened the risk control capacity.

During the report period, the actual situation of company governance complies with the requirements of normative documents about governance of listed companies.

### **(II) Implementation of profit distribution plan, plan about reserve transferring to share capitals or issuing plan of new shares that were proposed in previous period and were implemented in the report period,**

√ Applicable □ Inapplicable

In the 2011 annual Shareholders' Meeting held on April 13, 2012, the company examined and passed the *2010 Profit Distribution Plan*: Taking the total quantity of 295,721,852 shares at the end of 2010 as the base, the company will distribute the bonus of RMB 5.00 Yuan (including the tax) to all shareholders for every 10 shares. In this year, the Company will not transfer the capital reserves to the share capitals.

On June 1, 2012, the Company issued the bonus distribution announcement and completed the distribution of dividends of A-shares and B-shares on June 8 and 12, 2012. The 2010 profit distribution plan has been completely implemented.

**(III). Key lawsuits and arbitrations**

□ Applicable √ Inapplicable

There were no major lawsuits and arbitrations about the Company during the report period.

**(IV) Relevant affairs about bankruptcy and restructuring**

□ Applicable √ Inapplicable

There were no bankruptcy and restructuring about the Company during the report period

**(IV) Security investment in other listed companies or participation in financial enterprises during the report period****1. Security investment**

√ Applicable □ Inapplicable

No.	Security Type	Security Code	Security abbreviation	Initial investment amount (RMB Yuan)	Holding quantity (Share)	Book Values at the end of period	Percentage of total investment in this security at the end of period (%)	Profit and loss during the report period
1	Stock	00135	Kunlun Energy	6,551,190.32	1,500,000	15,089,352.00	33.32%	1,828,774.92
2	Stock	00883	China National Offshore Oil Corporation	2,671,210.68	560,000	7,030,284.80	15.52%	943,103.83
3	Stock	00152	Shenzhen International	9,402,939.97	17,000,000	6,582,740.00	14.54%	-28,228.23
4	Stock	02007	Phoenix Island	19,435,054.58	2,570,317	6,348,826.93	14.02%	534,954.19
5	Stock	01880	Baili International	2,185,041.55	428,000	4,577,641.47	10.11%	-112,049.58
6	Stock	00438	Rainbow group	5,827,348.89	5,016,000	1,390,274.69	3.07%	-387,386.93
7	Stock	00390	China Railway Engineering Group Co.	1,494,451.17	314,000	824,232.42	1.82%	201,660.38

8	Stock	01186	China Railway Construction Corporation	1,004,414.26	114,000	595,699.25	1.32%	197,400.52
9	Stock	00368	Sinotrans Shipping	1,754,628.88	260,500	384,370.88	0.85%	-8,521.75
10	Stock	206001	Penghua Fund	150,000.00	619,573	547,392.71	1.21%	23,915.52
Other securities investment at the end of this period				681,913.04	--	1,913,532.81	4.23%	
Profit and loss of sold Securities investment during the report period				--	--	--	--	358,596.80
Total				51,158,193.34	--	45,284,347.96	100%	3,552,219.67

Remarks about securities investment: in the above securities, the relevant amount of H-share market investment has been converted to RMB for calculation at the exchange rate at the end of report period.

## 2. Shareholding particulars of other listed companies

√ Applicable □ Inapplicable

Securities code	Securities abbreviation	Initial investment capital	Percentage of total shares of this Company	Book value at the end of this period	Profit and loss during the report period	Change of owners' equity during the report period	Accounting calculation subject	Source
601328	Bank of Communications	2,450,179.00	0.00245%	6,892,578.06	151,818.90	91,091.34	Saleable financial assets	Share participation
000963	Huadong Medicine Co., Ltd	39,851.86	0.0211%	2,765,081.80	--	327,781.22	Saleable financial assets	Share participation
Total		2,490,030.86	--	9,657,659.86	151,818.90	418,872.56	--	--

Remarks about shareholding particulars of other listed companies

## 3. Shareholding particulars of non-listed financial enterprises

√ Applicable □ Inapplicable

Object name	Initial	Shareholding	Percentage of	Book value at	Profit and	Change of	Accountin	Sour
-------------	---------	--------------	---------------	---------------	------------	-----------	-----------	------

	investment capital	quantity	total shares of this Company	the end of this period	loss during the report period	owners' equity during the report period	g calculation subject	ce
China Resources Bank of Zhuhai Co., Ltd	95,325,760.00	84,936,000	1.5065%	95,325,760.00	0	0	Long-term equity investment	Share participation
Guangdong Development Bank Co., Ltd	177,348.84	68,854	0.0004%	177,348.84	0	0	Long-term equity investment	Share participation
Total	95,503,108.84	85,004,854.00		95,503,108.84	0	0		

Remarks about shareholding particulars of non-listed financial enterprises

#### 4 Particulars about buying or selling the shares of other listed companies

☒ Applicable ☐ Inapplicable

Securities name	Share quantity at the beginning of period(share)	Quantity of shares bought/sold at the report period(share)	Share quantity at the end of period(share)	Amount of used capitals (RMB Yuan)	Investment returns (RMB Yuan)
Little sheep	212000	-212000	0	0	566,701.27
Alibaba	78000	-78000	0	0	-8,779.62

During the report period, the total investment returns brought by newly purchased shares is RMB 0 Yuan.

Particulars about buying or selling the shares of other listed companies: during the report period, the company only sold the shares and did not buy any shares.

### (VI) Asset transaction events

#### 1. Purchase of assets

☐ Applicable ☒ Inapplicable

#### 2. Selling of assets

☐ Applicable ☒ Inapplicable

#### 3 Asset replacement

☐ Applicable ☒ Inapplicable

**4. Enterprise merger**√ Applicable ☐ Inapplicable

On October 31, 2011, in accordance with the resolutions of the Board of Directors of Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area, the company absorbed and merged with Lida Pharmaceutical Co., Ltd in Zhuhai Bonded Area and completed the merger on June 21, 2012. the registration of Lida Pharmaceutical Co., Ltd in Zhuhai Bonded Area with the administration of industry and commerce was legally canceled.

**5 The influence of the development of this event on the operation results and financial status during the report period after the publishing of asset restructuring report or announcement about buying or selling assets**☐ Applicable √ Inapplicable**(VII) Remarks about big shareholders and persons acting in concert putting or implementing the share increase plan**√ Applicable ☐ Inapplicable

During the report period, the fully-owned subcompany of Joincare - Tiancheng Industry Co., Ltd increased 4,651,970 tradable B-shares through trading system of Shenzhen Securities Exchange, accounting for 1.57% of total shares. By the end of report period, the total quantity of company shares that are directly or indirectly held or controlled by Joincare amounted to 140,122,590 shares, accounting for 47.38% of total shares.

Remarks about sequent increase of shares: Tiancheng Industry Co., Ltd may, based on the market situation, randomly increase the B-shares through trading system of Shenzhen Securities Exchange, but the accumulative increase percentage within 12 months from this first increase date will not exceed 2% of total shares issued by the company. (including this first increase of shares)

**(VIII) Implementation and influence of equity stimulus of company**☐ Applicable √ Inapplicable**(IX) Key associated transaction (the original statistics is mistaken, and the accounting department is revising and will supplement to it)****1. Routine operating associated transactions**√ Applicable ☐ Inapplicable**(1) Sales of Commodities**



<u>Name of Associated Parties</u>	<u>January to June 2012</u>		<u>January to June 2011</u>	
	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	10,077.94	0.00%	7,083.49	0.00%
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	3,076.92	0.00%	0.00	0.00%
Guangdong Blue Treasure Pharmaceutical Co. Ltd	4,836,505.58	0.26%	0.00	0.00%
<b>Total</b>	<b>4,849,660.44</b>	<b>0.26%</b>	<b>7,083.49</b>	<b>0.00%</b>

**(2) Provision of labors (water, electricity and power)**

<u>Name of Associated Parties</u>	<u>January to June 2012</u>		<u>January to June 2011</u>	
	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>
Guangdong Blue Treasure Pharmaceutical Co. Ltd	3,033,195.13	71.38%	5,003,733.63	66.47%

**(3) Purchase of commodities**

<u>Name of Associated Parties</u>	<u>January to June 2012</u>		<u>January to June 2011</u>	
	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>
Guangdong Blue Treasure Pharmaceutical Co. Ltd	4,186,303.80	0.40%	184,089.42	0.04%
Shenzhen Haibin Pharmaceutical Co., Ltd	22,649.57	0.00%	7,351,495.73	1.49%
Health Pharmaceutical (China) Co., Ltd	10,089.60	0.00%	0.00	0.00%
Joincare pharmaceutical Group Industry Co., Ltd	102,564.10	0.01%	53,914.53	0.01%

Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	29,478,803.42	2.82%	52,180,106.84	10.61%
<b>Total</b>	<b>33,800,410.49</b>	<b>3.23%</b>	<b>59,769,606.52</b>	<b>12.15%</b>

**(4) Receiving of labors**

Name of Associated Parties	January to June 2012		January to June 2011	
	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>
Shenzhen Taitai Pharmaceutical Company Limited	170,000.00	0.01%	0.00	0.00%

**(5) Leasing of Assets**

Name of Associated Parties	January to June 2012		January to June 2011	
	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	85,343.60	5.36%	54,146.88	3.58%
Health Pharmaceutical (China) Co., Ltd	49,974.00	3.14%	49,974.00	3.31%
<b>Total</b>	<b>135,317.60</b>	<b>8.50%</b>	<b>104,120.88</b>	<b>6.89%</b>

**(6) Payments for renting**

Name of Associated Parties	January to June 2012		January to June 2011	
	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>
Joincare pharmaceutical Group Industry Co., Ltd	--	--	453,287.80	

Associated transaction related to routine operation

Associated parties	Sales of commodities and provisions of labors to associated parties	Purchase of commodities and receiving of labors from associated parties
--------------------	--	--

	<u>Amount (unit: RMB 10,000 Yuan)</u>	<u>Percentage of Similar Transaction Amount (%)</u>	<u>Amount(unit: RMB 10,000 Yuan)</u>	<u>Percentage of Similar Transaction Amount (%)</u>
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	1.01	0.00%		
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	0.31	0.00%		
Guangdong Blue Treasure Pharmaceutical Co. Ltd	483.65	0.26%		
Guangdong Blue Treasure Pharmaceutical Co. Ltd	303.32	71.38%		
Guangdong Blue Treasure Pharmaceutical Co. Ltd			418.63	0.40%
Shenzhen Haibin Pharmaceutical Co., Ltd			2.26	0.00%
Health Pharmaceutical (China) Co., Ltd			1.01	0.00%
Joincare pharmaceutical Group Industry Co., Ltd			10.26	0.01%
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd			2,947.88	2.82%
Shenzhen Taitai Pharmaceutical Company Limited			17.00	0.01%
<b>Total</b>	<b>788.29</b>		<b>3,397.04</b>	

During the report period, the associated transaction amount about Sales of commodities and provisions of labors to controlling shareholders and their subcompanies is RMB 13200 Yuan.

Remarks about routine associated transaction: The above-mentioned associated transaction came from the operation and production demand of the company. The associated transaction follows the principle of equity, justice and no damage to the company's benefits. Because the associated transaction amount accounts for the small percentage of total sales revenue or purchasing amount, it makes no effect on financial status and operation results of the company in the current period and in the future. And it also makes no effect on the independence of the company. The company also will not depend on the associated persons due to this associated transaction.

The company has forecast the total amount (RMB 110.4475 Yuan) of routine associated

transactions in this year, performed relevant approval procedure. During the report period, the completed associated transactions have not exceeded the approved amount.

## 2. Associated transaction about asset purchase and sales

☐ Applicable ☒ Inapplicable

Remarks about associated transaction about asset purchase and sales: there are no associated transactions about asset purchase and sales during the report period.

## 3. Key associated transactions about joint external investment

☐ Applicable ☒ Inapplicable

Remarks about key associated transactions about joint external investment: during the report period, there are no key associated transactions about joint external investment

## 3. Transfer of associated claims and debts (to be supplemented)

☒ Applicable ☐ Inapplicable

Associated party	Associated relationship	Provision of funds to associated party (unit: RMB 10,000 Yuan)						Funds that the associated party paid to listed company (unit: RMB 10,000 Yuan)					
		Balance at the beginning of period	Occurring amount	Repayment amount	Balance at the end of period	Interest income	Interest payment	Balance at the beginning of period	Occurring amount	Repayment amount	Balance at the end of period	Interest income	Interest payment
Jiaozuo Joicare Pharmaceutical Group Industry Co., Ltd	Suubcompany of controlled shareholders	0	4.15	0	4.15	0	0	--	--	--	--	--	--
Health Pharmaceutical (China) Co., Ltd	Suubcompany of controlled shareholders	0	6.01	6.01	0	0	0	--	--	--	--	--	--
Jiaozuo Joicare Pharmaceutical Group Industry Co., Ltd	Suubcompany of controlled shareholders	--	--	--	--	--	--	0.01	501.04	508.21	7.17	0	0
Guangdong Blue Treasure Ph		286.5	318.29	235.	369.	0	0						

armaceutical Co. Ltd.		1		61	19								
Total		286.51	328.45	241.62	373.34	0	0	0.01	501.04	508.21	7.17	0	0
during the report period, the capital amount that the listed companies provided to the controlling shareholders and their subcompanies (unit: RMB 10,000 Yuan)		10.16											
The capital amount that the listed companies provided to the controlling shareholders and their subcompanies (unit: RMB 10,000 Yuan)		4.15											
Reasons for associated claims and debts		Sales of commodities or provisions of labors											
Settlement of associated claims and debts		Settle the goods expense and labor expense in accordance with agreements											
Commitments about associated claims and debts		None											
Influence of associated claims and debts on operation results and financial status		No key influence											

During the report period, the capital use amount provided by listed companies to controlling shareholders and their subcompanies is RMB 101600Yuan, and the balance is RMB 41500 Yuan.

During the report period, capital use and settlement development

☐ Applicable ☒ Inapplicable

By the end of report period, the listed companies did not complete the settlement of non-operating capital use, and the Board of Directors put forward the responsibility penalty plan.

☐ Applicable ☒ Inapplicable

## 5. Other key associated transactions

### (X) Key contracts and their performance status

#### 1. Custody, contracting and leasing of the assets that have brought the company interest and accounted for over 10% (including 10%) of total profits in the current period

##### (1)Custody

☐ Applicable ☒ Inapplicable

Remarks about custody: The Company has no key events about custody, contracting and leasing of the assets that have brought the company profits and accounted for over 10% (including 10%) of total profits in the current period.

**(2) Contracting**

☐ Applicable ☒ Inapplicable

Remarks about contracting: The Company has no key contracting events that have brought the company profits and accounted for over 10% (including 10%) of total profits in the current period.

**(3) Leasing**

☐ Applicable ☒ Inapplicable

Remarks about contracting: The Company has no key leasing events that have brought the company profits and accounted for over 10% (including 10%) of total profits in the current period.

**2. Guaranty**

☒ Applicable ☐ Inapplicable

Unit: RMB 10 thousand Yuan

External guaranties provided by the company (not including the guaranties provided to the subcompany)								
Name of Guarantee	Disclosure date of relevant announcement of guaranty amount	Guaranty amount	Occurrence Date (Signing date of agreement)	Actual guarantee amount	Guaranty type	Period	Whether the guaranty has been completed	Whether the guaranty is the guaranty to associated parties? (Yes or No)
--	--	--	--	--	--	--	--	--
Total external guaranty amount approved during the report period(A1)		0		Total actual external guaranty amount during the report period (A2)		0		
Total external guaranty amount that has been approved by the end of report period (A3)		0		Total actual external guaranty amount by the end of report period Total(A4)		0		
Guaranties provided to subcompanies								
Name of Guarantee	Disclosure date of relevant announcement of guaranty a	Guaranty amount	Occurrence Date (Signing date of agreement)	Actual guarantee amount	Guaranty type	Period	Whether the guaranty has been completed	Whether the guaranty is the guaranty to associ

	mount							ate parties? (Yes or No)
Zhuhai Livzon Reagents Co., Ltd	2012.3.24	2,000.00	2012.3.12		0 Warranty	2012.3.12-2015.3.21	No	No
Zhuhai Livzon Reagents Co., Ltd	2012.3.24	1,264.98	2012.3.22		0 Warranty	2012.3.22-2015.3.21	No	No
Zhuhai Livzon Medicine Trade Co., Ltd	2012.3.24	1,000.00	2009.7.20		0 Warranty	2009.7.20-2012.7.20	No	No
Limin Pharmaceutical Co., Ltd under Livzon Group	2012.3.24	15,000.00	2012.4.17		0 Warranty	2012.4.17-2015.4.16	No	No
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	2012.3.24	3,000.00	2012.6.7	2,445.60	Warranty	2012.6.7-2015.6.7	No	No
Livzon Pharmaceutical Factory under Livzon Group	2012.3.24	16,000.00	2012.5.17		0 Warranty	2012.5.17-2015.5.16	No	No
Livzon Pharmaceutical Factory under Livzon Group	2012.3.24	9,000.00	2012.6.7		0 Warranty	2012.6.7-2015.6.7	No	No
Livzon Pharmaceutical Factory under Livzon Group	2012.3.24	5,000.00	2009.8.21		0 Warranty	2009.8.21-2012.8.21	No	No
Livzon Pharmaceutical Factory under Livzon Group	2012.3.24	32,000.00	2010.12.23	50.00	Warranty	2010.12.14-2018.12.14	No	No
Livzon Pharmaceutical Factory under Livzon Group	2012.3.24	5,000.00	2009.11.27		0 Warranty	2009.11.27-2012.11.27	No	No
Livzon Pharmaceutical Factory under Livz	2012.3.24	6,000.00	2009.9.10		0 Warranty	2009.9.10-2012.9.10	No	No

on Group								
Livzon Pharmaceutical Factory under Livzon Group	2012.3.24	12,000.00	2009.10.15	0	Warranty	2010.6.12- 2018.6.3	No	No
Livzon Pharmaceutical Factory under Livzon Group	2012.3.24	10,000.00	2012.6.21	0	Warranty	2012.6.21- 2015.6.21	No	No
Livzon Pharmaceutical Factory under Livzon Group	2012.3.24	8,316.20	2010.5.13	0	Warranty	2010.7.20- 2013.7.20	No	No
Livzon Pharmaceutical Factory under Livzon Group	2012.3.24	4,095.585	2011.9.27	1,222.80	Warranty	2011.9.27- 2014.9.27	No	No
Livzon Pharmaceutical Factory under Livzon Group	2012.3.24	4,458.85	2011.8.4	4,483.60	Warranty	2011.8.4- 2014.8.4	No	No
Total guaranty amount provided to the subcompanies approved during the report period (B1)		191,408.00		Total actual guaranty amount provided to the subcompanies during the report period (B2)		8202.00		
Total guaranty amount provided to the subcompanies that has been approved by the end of report period (B3)		191,408.00		Total actual guaranty amount provided to the subcompanies by the end of report period (B4)		8202.00		
Total guaranty amount of company (Total of first two items)								
Total guaranty amount approved during the report period (A1+B1)		191,408.00		Total actual guaranty amount during the report period (A2+B2)		8202.00		
Total guaranty amount that has been approved by the end of report period (A3+B3)		191,408.00		Total actual guaranty amount by the end of report period (A4+B4)		8202.00		
Percentage of actual guaranty amount (A4+B4) in net assets of company				2.65%				
Including:								
Guaranty amount provided to shareholders, actual				0				



controllers and their associated parties (C)	
Debt guaranty amount directly or indirectly provided to to the guarantees whose assets/liabilities ratio exceeds 70% (D)	0
Amount of the part whose total guaranty amount exceeds 50% of net assets (E)	0
Total of above three guaranty amounts (C+D+E)	0
Remarks about possibly bearing the joint and several settlement responsibilities for the undue guaranties	
Remarks about external guaranty which violates relevant regulations and procedures	No external guaranty which violates relevant regulations and procedures

### 3. Entrusted wealth management

☐ Applicable ☒ Inapplicable

### 4. Performance of key contracts about routine operation

☐ Applicable ☒ Inapplicable

During the report period, there are no key operation contracts that should be disclosed.

Note: the listed companies should continuously disclosed the performance status of key contracts about routine operation, including but not limited to the progress of contract performace, confirmed sales incomes and receiving of accounts receivable, etc.

### 5. Other key contracts

☐ Applicable ☒ Inapplicable

### (XI) Remarks about issuing the company bonds

☒ Applicable ☐ Inapplicable

On April 13, 2012, the 2011 annual shareholders' meeting examined and approved the Proposal Of The Company Complying With The Conditions For Issuing The Company Bonds, The Proposal Of The Company Issuing The Company Bonds, The Proposal Of Requesting The Shareholders' Meeting To Authorize The Board Of Directors To Fully Handle The Issuing Of The Company Bonds and agreed that the company would issue the company bonds with the total amount of no more than RMB 1 billion Yuan and also agreed about relevant authorization affairs(for more details, please see the announcements passed at the 2011 annual shareholders' meeting). At present, the company has the good cash flow, and has not launched the issuing of company bonds, and has not submitted the issuing application to China Securities Regulatory Commission.

**(XII) Performance of commitment events****1. Commitment events of the company or shareholders holding over 5% of total shares during the report period or that continued to the report period**

√ Applicable □ Inapplicable

Commitment events	Promiser	Commitment content	Commitment time	Commitment period	Performance status
Commitment about equity reform	/	/	/	/	/
Commitments made in purchase report or equity change report	/	/	/	/	/
Commitments made in asset splitting	/	/	/	/	/
Commitments in the process of issuing	/	/	/	/	/
Other commitments to medium and small sized shareholders	Joincare pharmaceutical Group Industry Co., Ltd	The controlling shareholder Joincare of the Company makes the following commitments at the time of handling the release of trading restriction: 1. When Joincare transfers its tradable shares of Livzon Group whose trading restriction has been released, it will strictly comply with the relevant regulations of the <i>Guiding Opinions on the Listed Companies' Transfer of Original Shares Released from Trading Restrictions</i> ([2008] No. 15 announcement) issued by China Securities Regulatory Commission. 2. Joincare 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 Joincare will disclose the reminder announcement about the selling affairs via Livzon Group in 2 tradi	2008-12-18	Not specified	During the report period, Joincare has not decreased the shares of the company.

		ng days before the first reduction.			
Whether the commitments have timely performed	√ Yes □ No				
Reasons for failure of perform the commitments and next plans	/				
Whether the commitments have been made regarding the same industry competition and associated transactions	□ Yes √ No				
Resolution period of commitments	/				
Resolution mode	/				
Performance status of commitments	/				

**2. When the company assets and projects have the profit forecast and the report period is in the profit forecast time, remarks of the company regarding the original profit forecast of assets or projects and the reasons**

□ Applicable √ Inapplicable

**(XIII) List of other comprehensive returns**

Unit: RMB Yuan

Item	January to June 2012	January to June 2011
1. Profit (loss) caused by the saleable financial assets	418,872.56	-704,597.08
Minus: Income tax effect of saleable financial assets	62,830.89	-105,689.56
Net amount that was accrued to other comprehensive gains in the previous periods and is transferred to the current profit and loss	0.00	0.00
Subtotal	356,041.67	-598,907.52
2. Shares in the other comprehensive gains of invested units calculated by Equity Method	0.00	0.00
Minus: Income tax effect of the shares in the other comprehensive gains of invested units calculated by Equity Method	0.00	0.00
Net amount that was accrued to other comprehensive gains in the previous periods and is transferred to the current profit and loss	0.00	0.00

Subtotal	0.00	0.00
3. Profit (or loss) caused by cash flow hedging instruments	0.00	0.00
Minus: Income tax effect of cash flow hedging instruments	0.00	0.00
Net amount that was accrued to other comprehensive gains in the previous periods and is transferred to the current profit and loss	0.00	0.00
Adjusted amount that was transferred as the initial confirmation amount of hedged item	0.00	0.00
Total	0.00	0.00
4. Conversion difference of foreign currency financial statements	408,419.30	-2,019,381.17
Minus: Net amount that is transferred to the current profit and loss due to disposal of overseas operation	0.00	0.00
Subtotal	408,419.30	-2,019,381.17
5. Others	0.00	0.00
Minus: Effect of income tax that is accrued to the other comprehensive gains	0.00	0.00
Net amount that was accrued to other comprehensive gains in the previous periods and is transferred to the current profit and loss	0.00	0.00
Subtotal	0.00	0.00
Total	764,460.97	-2,618,288.69

**(XIV). Activities that the Company receives the investigation, communication and interview, etc. during the report period**

Reception date	Reception place	Reception mode	Object type	Objects	Discussion topics and provided materials
March 30, 2012	Headquarters	Local investigation	Agency	Shanghai Fuxi Assets Management Co., Ltd	Production and operation management status of company
March 30, 2012	Headquarters	Local investigation	Agency	Shanghai Choas Asset Management Co., Ltd	Production and operation management status of company
April 23, 2012	Headquarters	Local investigation	Agency	Shanghai Securities Co., Ltd	Production and operation management status of company

May 9, 2012	Headquarters	Local investigation	Agency	Bosera Funds Management Co., Ltd	Production and operation management status of company
May 9, 2012	Headquarters	Local investigation	Agency	Harvest Fund Management Co., Ltd	Production and operation management status of company
May 9, 2012	Headquarters	Local investigation	Agency	Shenzhen Jinzhonghe Investment Management Co., Ltd	Production and operation management status of company
May 9, 2012	Headquarters	Local investigation	Agency	Huachuang Securities Co. Ltd	Production and operation management status of company
May 9, 2012	Headquarters	Local investigation	Agency	Shenzhen Dingnuo Investment Management Co., Ltd	Production and operation management status of company
May 9, 2012	Headquarters	Local investigation	Agency	Greatwall Fund Management Co., Ltd	Production and operation management status of company
May 17, 2012	Headquarters	Local investigation	Agency	First State Cinda Fund Management Co.,Ltd	Production and operation management status of company
May 17, 2012	Headquarters	Local investigation	Agency	Guolian Securities Equity Co.,Ltd	Production and operation management status of company
May 18, 2012	Headquarters	Local investigation	Agency	Industrial Securities Co.,Ltd	Production and operation management status of company
May 18, 2012	Headquarters	Local investigation	Agency	China Galary Securities Co.,Ltd	Production and operation management status of company
May 18, 2012	Headquarters	Local investigation	Agency	Guangfa Fund Management Co.,Ltd	Production and operation management status of company
May 18, 2012	Headquarters	Local investigation	Agency	Baoying Fund Management Co.,Ltd	Production and operation management status of company
May 18, 2012	Headquarters	Local investigation	Agency	China International Capital Corporation Limited	Production and operation management status of company
May 23, 2012	Headquarters	Local	Agency	Hwabao Trust Co., Ltd	Production and

		investigation	y		operation management status of company
May 23, 2012	Headquarters	Local investigation	Agency	Pingan Dahua Fund Management Co., Ltd	Production and operation management status of company
May 23, 2012	Headquarters	Local investigation	Agency	Rongtong Fund Management Co., Ltd	Production and operation management status of company
May 23, 2012	Headquarters	Local investigation	Agency	China International Fund Management Co., Ltd	Production and operation management status of company
June 28, 2012	Headquarters	Local investigation	Agency	Industrial Securities Co.,Ltd	Production and operation management status of company

### **(XV) Engagement and disengagement of public accountants firm**

Whether the semi-annual report has been audited.

☐ Yes ☒ No

### **XVI) Penalty and correction of listed companies and their directors, supervisors, senior executives, company shareholders, actual controllers and purchasers**

☐ Applicable ☒ Inapplicable

### **(XVII) Remarks about other key events**

☒ Applicable ☐ Inapplicable

Remarks about the establishment and perfection of internal control system: during the report period, based on the successful experience in constructing the internal control system in the previous year, the company continues to perfect and improve the internal control system. In accordance with the requirements and work arrangement of the Notice Of Improving The Implementation Of Internal Control Regulations For The Mainboard Listed Companies (Guangdong Zheng Jian [2012] No. 27 document) issued by Guangdong Supervision Bureau of China Securities Regulatory Commission, the company further launched the construction work of internal control system, formulated the detailed internal control implementation plan, determined the objective and milestones of implementing the work; perfected the organization structure of internal control items, established the leadership team with the Chairman as the first principal as well as implementation team and business team responsible for project management and actual implementation, and effectively ensured the smooth implementation; and expanded the internal control scope and included in the internal control scope the key and fully owned or controlled subcompanies such as Sichuan Guangda, Limin Pharmaceutical Factory, Shanghai Livzon, Xinbeijiang company and Fuxing company, etc. by now, the construction work of internal control system has been smoothly implemented, and the company has completed the compilation of business procedures of all subcompanies within the internal control scope, prepare the risk list, and thought recognizing the key control activities in the recognition procedures, prepared the internal control documents such as the procedure description and risk control matrix, etc, and

recorded the control activities and control points. Through the sutting test, sampling and comparative analysis, etc, the company may effectively evaluate the validity of business procedure design, and find the defects.

During the report period, the internal control of company is regulated and effective. In the future, the company will continue to perfect the internal control system, optimize the business procedures, strengthen the control capacity of secondary enterprises, improve the operation efficiency and results of company operation and ensure the steady and effective operation of company.

### **(XVIII) Key changes about profitability capacity, asset status and credit status of guarantors**

(this sheet is only applicable to the listed companies issuing the convertible bonds)

☐ Applicable ☒ Inapplicable

### **(XVI). Indexes of announcement disclosure during the report period**

Item	Newspaper name	Disclosure date	Internet website and searching route
Announcement about China Securities Regulatory Commission approving of exemption of offer and purchase obligations while the controlling shareholders and the persons acting in concert increase the company shares	Securities Times and China Securities Journal	January 16, 2012	Juchao website( <a href="http://www.cninfo.com.cn/">http://www.cninfo.com.cn/</a> )
Announcement about the persons acting in concert of controlling shareholders increasing the company shares	Securities Times and China Securities Journal	February 28, 2012	
2012 discounting announcement of first installment of short-term financing bonds issued in 2011	Securities Times and China Securities Journal	February 29, 2012	
Notice about convening the 2011 annual shareholders' meeting	Securities Times and China Securities Journal	March 24, 2012	
Announcement about the company providing the financing guaranty to controlled subcompanies	Securities Times and China Securities Journal	March 24, 2012	
Announcement about routine associated transactions in 2012	Securities Times and China Securities Journal	March 24, 2012	
Special explanation about capital use of controlling shareholders and other associated parties		March 24, 2012	
Announcement about the resolution passed	Securities Times and C	March 24, 2012	

at the 4th meeting of the 7 <sup>th</sup> Board of Supervisors	China Securities Journal	
internal control self-appraisal report of the company in 2011		March 24, 2012
Independent opinions of independent directors about the company providing the financing guaranty to controlled subcompanies		March 24, 2012
Independent opinions of independent directors about routine associated transactions in 2012		March 24, 2012
Special explanation and independent opinions of independent directors about capital use and external guaranty of controlling shareholders and other associated parties		March 24, 2012
Independent opinions of independent directors about internal control self-appraisal report in 2011		March 24, 2012
Announcement about the resolution passed at the 6 <sup>th</sup> meeting of the 7 <sup>th</sup> Board of Directors	Securities Times and China Securities Journal	March 24, 2012
2011 working report of independent directors		March 24, 2012
Summary of 2011 annual report	Securities Times and China Securities Journal, Hongkong Wenhui Daily(English version)	March 24, 2012
2011 annual auditing report		March 24, 2012
2011 annual report		March 24, 2012
Announcement about the resolution passed at the 7 <sup>th</sup> meeting of the 7 <sup>th</sup> Board of Directors	Securities Times and China Securities Journal	March 31, 2012
Working plan about implementing internal control regulations		March 31, 2012
Reminder announcement about convening 2011 annual shareholders' meeting		April 10, 2012
Announcement about the resolution passed at 2011 annual shareholders' meeting	Securities Times and China Securities Journal	April 14, 2012



Legal opinions about 2011 annual shareholders' meeting		April 14, 2012	
Full text of 2012 first quarterly report		April 21, 2012	
Main body of 2012 first quarterly report	Securities Times and China Securities Journal, Hongkong Wenhui Daily(English version)	April 21, 2012	
Announcement about implementing the dividend distribution	Securities Times and China Securities Journal	June 1, 2012	
Announcement about the resolution passed at the 9 <sup>th</sup> meeting of the 7 <sup>th</sup> Board of Directors	Securities Times and China Securities Journal	June 15, 2012	
Shareholder return plan in the next three years (2012 -2014)		June 15, 2012	
Notice about Convening the 2012 first Temporary Shareholders' Meeting	Securities Times and China Securities Journal	June 15, 2012	
Independent opinions of independent directors about the company revising the dividend distribution policies and shareholder return plan in the next three years (2012 -2014)		June 15, 2012	
2012 discounting announcement of second installment of short-term financing bonds issued in 2011	Securities Times and China Securities Journal	June 25, 2012	
Announcement about issuing the first installment of short-term financing bonds in 2012	Securities Times and China Securities Journal	July 4, 2012	
Announcement about the resolution passed at the 2012 first Temporary Shareholders' Meeting	Securities Times and China Securities Journal	July 7, 2012	
Legal opinions about the 2012 first Temporary Shareholders' Meeting		July 7, 2012	
Article of association(revised on July 6, 2012)		July 7, 2012	

## **Section 8 Financial Reports**

### **(I) Auditing report**

Whether the semi-annual report is audited.

☐ Yes ☒ No

### **(II) Financial statements**

Whether the statements need to be consolidated.

☒ Yes ☐ No

Unless otherwise specified, the unit of financial statements in the financial reports is RMB Yuan.

Unless otherwise specified, the unit of financial statements in the notes is RMB Yuan

## 1. Consolidated Balance sheet

2012年6月30日

Kuai He Statement No. 01

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB Yuan

Assets	Note	Balance at the end of period	Balance at the beginning of period	Liabilities and shareholders' equity	Note	Balance at the end of period	Balance at the beginning of period
Current assets:				Current liabilities:			
Currency capital	V. 1	899,777,682.73	1,447,743,555.70	Short-term loans	V. 21	376,006,853.06	251,324,743.01
Tradable financial assets	V. 2	45,284,347.96	44,343,013.65	Tradable financial liability			
Notes receivable	V. 3	78,683,228.59	171,033,783.72	Notes payable		83,238,308.58	
Accounts receivable	V. 4	726,944,998.04	562,146,013.18	Accounts payable	V. 22	306,820,855.90	207,941,294.31
Advance money	V. 5	172,942,069.60	213,817,751.28	Advance accounts	V. 23	31,032,089.79	39,028,703.01
Interests receivable				Payroll payable	V. 24	52,313,036.37	52,328,883.82
Dividend receivable				Tax payable	V. 25	79,790,969.33	90,201,700.34
Other receivables	V. 6	55,639,367.04	44,488,052.86	Interests payable		4,707,121.52	16,841,492.68
Inventory	V. 7	482,657,284.64	424,422,841.35	Dividend payable	V. 26	2,531,984.46	2,531,984.46
Non-current assets due within one year				Other accounts payable	V. 27	569,133,645.78	460,447,555.37
Other current assets				Non-current liabilities due within one year	V. 28	400,000.00	400,000.00
<b>Total of current assets</b>		<b>2,461,928,978.60</b>	<b>2,907,995,011.74</b>	Other current liabilities	V. 29		400,000,000.00
Non-current assets:				<b>Total of current liabilities</b>		<b>1,505,974,864.79</b>	<b>1,521,046,357.00</b>
Saleable financial assets	V. 8	9,657,659.86	9,238,787.30	Non-current liabilities			
Investment held to the maturity date				Long-term loan	V. 30	1,200,000.00	1,200,000.00
Long-term accounts receivable				Bonds payable			
Long-term equity investment	V. 10	118,670,941.80	118,529,007.91	Long-term accounts payable			
Real estate for investment				Special accounts payable			
Fixed assets	V. 11	1,120,926,844.30	1,090,566,880.22	Deferred profit	V. 31	57,986,720.44	67,143,287.92
Engineering under construction	V. 12	579,175,152.94	148,841,628.16	Anticipation liability			
Engineering goods	V. 13	1,785,250.00	2,536,926.00	Liabilities with the deferred income taxes	V. 32	2,101,924.49	1,901,504.87
Liquidation of fixed assets				Other non-current liabilities			
Production biology assets				<b>Sub total of non-current liabilities</b>		<b>61,288,644.93</b>	<b>70,244,792.79</b>
Oil and gas assets				<b>Total of liabilities</b>		<b>1,567,263,509.72</b>	<b>1,591,291,149.79</b>
Intangible assets	V. 14	207,848,712.91	170,385,550.58	Shareholders' equities:			
Development expenses	V. 15	1,510,153.51	1,510,153.51	Share capital	V. 33	295,721,852.00	295,721,852.00
Goodwill	V. 16	103,040,497.85	103,040,497.85	Capital reserve	V. 34	348,449,178.08	348,093,136.41
Long-term deferred and prepaid expenses	V. 17	15,215,129.64	14,270,426.26	Minus: treasury share			
Assets with deferred income taxes	V. 18	39,573,762.22	35,994,112.21	Surplus reserve	V. 35	479,211,417.19	479,211,417.19
Other non-current assets				Undistributed profit	V. 36	1,821,489,958.99	1,740,645,868.60
<b>Sub total of non-current assets</b>		<b>2,197,404,105.03</b>	<b>1,694,913,970.00</b>	Conversion difference of foreign currency financial statements		-20,094,148.69	-20,502,568.00
				<b>Sub total of equities attributable to the shareholders of parent company</b>		<b>2,924,778,257.57</b>	<b>2,843,169,706.20</b>
				Equities of the minority of shareholders	V. 37	167,291,316.34	168,448,125.75
				<b>Sub total of shareholders' equities</b>		<b>3,092,069,573.91</b>	<b>3,011,617,831.95</b>
<b>Total of assets</b>		<b>4,659,333,083.63</b>	<b>4,602,908,981.74</b>	<b>Total of liabilities and shareholders' equities</b>		<b>4,659,333,083.63</b>	<b>4,602,908,981.74</b>

Principal of the Company: Zhu Baoguo

Principal of the Financial Department: An Ning

Principal of the Accounting Department: Si Yanxia

## 2. Balance sheet of parent company

2012年6月30日

Kuai Qi Statement No. 01

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB Yuan

Assets	Note	Balance at the end of period	Balance at the beginning of period	Liabilities and shareholders' equities	Note	Balance at the end of period	Balance at the beginning of period
Current assets:				Current liabilities:			
Currency capital		812,134,603.67	1,321,193,456.29	Short-term loans		156,441,973.06	82,699,143.01
Tradable financial assets				Tradable financial liability			
Notes receivable		3,590,274.07	11,041,114.87	Notes payable		133,238,308.58	
Accounts receivable	VI. 1	321,075,099.50	255,482,126.08	Accounts payable		95,000,507.27	181,117,755.18
Advance money		22,473,037.41	9,137,814.04	Advance accounts		6,833,745.72	11,373,981.60
Interests receivable				Payroll payable		17,814,816.14	20,721,517.12
Dividend receivable				Tax payable		21,187,720.49	10,233,643.04
Other accounts receivable	VI. 2	340,615,247.07	275,891,035.87	Interests payable		2,535,552.89	15,068,501.59
Inventory		95,579,419.56	110,291,112.80	Dividend payable		20,174.46	20,174.46
Non-current assets due within one year				Other accounts payable		1,377,481,056.57	1,390,842,714.00
Other current assets				Non-current liabilities due within one year		-	
<b>Total of current assets</b>		<b>1,595,467,681.28</b>	<b>1,983,036,659.95</b>	Other current liabilities			400,000,000.00
Non-current assets:				<b>Total of current liabilities</b>		<b>1,810,555,855.18</b>	<b>2,112,077,430.00</b>
Saleable financial assets		9,657,659.86	9,238,787.30	Non-current liabilities			
Investment held to the maturity date				Long-term loan			
Long-term accounts receivable				Bonds payable			
Long-term equity investment	VI. 3	1,525,896,050.27	1,526,671,374.58	Long-term accounts payable			
Real estate for investment				Special accounts payable			
Fixed assets		90,119,361.63	91,805,857.98	Deferred profit		12,907,258.92	24,138,969.42
Engineering under construction				Anticipation liability			
Engineering goods				Liabilities with the deferred income taxes		1,075,144.36	1,012,313.47
Liquidation of fixed assets				Other non-current liabilities			
Production biology assets				<b>Sub total of non-current liabilities</b>		<b>13,982,403.28</b>	<b>25,151,282.89</b>
Oil and gas assets				<b>Total of liabilities</b>		<b>1,824,538,258.46</b>	<b>2,137,228,712.89</b>
Intangible assets		32,681,857.12	34,053,322.48	Shareholders' equities:			
Development expenses		1,289,662.78	1,289,662.78	Share capital		295,721,852.00	295,721,852.00
Goodwill				Capital reserve		338,307,224.67	337,951,183.00
Long-term deferred and prepaid expenses				Minus: treasury share			
Assets with deferred income taxes		13,756,193.19	12,369,049.28	Surplus reserve		274,248,363.61	274,248,363.61
Other non-current assets				Undistributed profit		536,052,767.39	613,314,602.85
<b>Sub total of non-current assets</b>		<b>1,673,400,784.85</b>	<b>1,675,428,054.40</b>	<b>Sub total of shareholders' equities</b>		<b>1,444,330,207.67</b>	<b>1,521,236,001.46</b>
<b>Total of assets</b>		<b>3,268,868,466.13</b>	<b>3,658,464,714.35</b>	<b>Total of liabilities and shareholders' equities</b>		<b>3,268,868,466.13</b>	<b>3,658,464,714.35</b>

Principal of the Company: Zhu Baoguo

Principal of the Financial Department: An Ning

Principal of the Accounting Department: Si Yanxia

### 3. Consolidated profit statement

2012年1-6月

Kuai He Statement No. 02

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB Yuan

Item	Note	Amount in this period	Amount in same period of previous year
I. Total operating income	V. 38	1,884,997,175.44	1,471,437,500.63
Including: operating income	V. 38	1,884,997,175.44	1,471,437,500.63
II. Total operating cost		1,606,774,916.02	1,209,582,539.66
Including: operating cost	V. 38	748,752,436.28	677,093,407.27
Operating tax and surtax	V. 39	24,276,036.50	18,332,023.55
Sales expense		674,023,464.01	383,909,416.26
Management expense		157,636,704.20	129,567,315.75
Financial expense	V. 40	-11,059,371.29	-5,259,139.19
Loss from asset depreciation	V. 41	13,145,646.32	5,939,516.02
Plus: returns from the changes of fair values (the loss is listed beginning with "-").	V. 42	2,114,503.89	43,870.70
Investment returns (the loss is listed beginning with "-").	V. 43	1,731,468.57	-654,572.56
Including: the investment returns from the associated enterprises and joint enterprises		141,933.89	-1,472,733.50
<b>III. Operating profit (the loss is listed beginning with "-")</b>		<b>282,068,231.88</b>	<b>261,244,259.11</b>
Plus: non-operating income	V. 44	12,560,093.79	22,250,983.03
Minus: non-operating payments	V. 45	224,395.39	254,085.94
Including: loss in the disposal of non-current assets		200,045.53	60,007.09
<b>IV. Total profit (the loss is listed beginning with "-")</b>		<b>294,403,930.28</b>	<b>283,241,156.20</b>
Minus: income tax expense	V. 46	47,671,992.09	47,000,861.44
<b>V. Net profit (the loss is listed beginning with "-")</b>		<b>246,731,938.19</b>	<b>236,240,294.76</b>
Net profit attributable to the owners of parent company		228,705,016.39	220,861,695.59
Profit and loss of the minority of shareholders		18,026,921.80	15,378,599.17
<b>VI. Profit per share:</b>			
(I) Basic profit per share		0.77	0.75
(II) Diluted profit per share		0.77	0.75
<b>VII. Other comprehensive profit</b>	V. 47	764,460.97	-2,618,288.69
<b>VIII. Total amount of comprehensive profit</b>		<b>247,496,399.16</b>	<b>233,622,006.07</b>
Subtotal of comprehensive profits attributable to the owners of parent company		229,469,477.36	218,243,406.90
Subtotal of comprehensive profits attributable to the minority of shareholders		18,026,921.80	15,378,599.17

Principal of the Company: Zhu Baoguo

Principal of the Financial Department: An Ning

Principal of the Accounting Department: Si Yanxia

**4. Profit statement of parent company**

2012年1-6月

Kuai Qi Statement No. 02

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB Yuan

Item	Note	Amount in this period	Amount in same period of previous year
<b>I. Operating income</b>	VI. 4	<b>858,957,803.70</b>	<b>595,079,834.80</b>
Minus: operating cost	VI. 4	409,099,933.35	361,595,561.74
Operating tax and surtax	VI. 5	9,283,845.60	4,213,110.43
Sales expense		363,491,123.89	146,279,281.99
Management expense		49,055,574.70	43,761,660.42
Financial expense		-1,937,808.58	-8,559,937.81
Loss from asset depreciation		9,612,273.16	2,323,249.41
Plus: returns from the changes of fair values (the loss is listed beginning with "-").			
Investment returns (the loss is listed beginning with "-").	VI. 6	51,492,091.39	98,841,956.11
Including: the investment returns from the associated enterprises and joint enterprises		-775,324.31	-1,035,051.89
<b>II. Operating profit (the loss is listed beginning with "-")</b>		<b>71,844,952.97</b>	<b>144,308,864.73</b>
Plus : non-operating income		1,212,359.47	258,629.31
Minus: non-operating payments		19,320.08	25,408.59
Including: loss in the disposal of non-current assets		1,957.50	5,592.48
<b>III. Total profit (the loss is listed beginning with "-")</b>		<b>73,037,992.36</b>	<b>144,542,085.45</b>
Minus: income tax expense		2,438,901.82	6,854,612.22
<b>IV. Net profit (the loss is listed beginning with "-")</b>		<b>70,599,090.54</b>	<b>137,687,473.23</b>
<b>V. Profit per share:</b>			
(I) Basic profit per share			
(II) Diluted profit per share			
<b>VI. Other comprehensive profit</b>		<b>356,041.67</b>	<b>-598,907.52</b>
<b>VII. Total amount of comprehensive profit</b>		<b>70,955,132.21</b>	<b>137,088,565.71</b>

Principal of the Company: Zhu Baoguo

Principal of the Financial Department: An Ning

Principal of the Accounting Department: Si Yanxia

**5. Consolidated cash flow statement**

2012年1-6月

Kuai He Statement No. 03

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB Yuan

Item	Note	Amount in this period	Amount in same period of previous year
<b>I. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		1,878,718,303.45	1,450,643,478.21
Tax refunding		8,939,874.67	5,144,588.34
Cash received related to other operating activities	V. 48	94,160,443.50	52,955,778.77
Subtotal of cash inflow from the operating activities		1,981,818,621.62	1,508,743,845.32
Cash paid for purchase of goods or receiving of services		423,673,542.11	466,400,482.54
Cash paid to and on behalf of employees		157,985,609.88	131,372,853.32
Tax payments		305,140,097.60	232,994,965.21
Other cashes paid to operating activities	V. 49	759,602,986.09	385,321,063.48
Subtotal of cash outflow from operating activities		1,646,402,235.68	1,216,089,364.55
<b>Net cash flow from operating activities</b>		<b>335,416,385.94</b>	<b>292,654,480.77</b>
<b>II. Cash flow from investment activities:</b>			
Cash received from disposal of investments		1,975,960.82	-
Cash received from investment returns		1,031,835.90	805,602.61
Net cash received from disposal of fixed assets, intangible assets		171,522.00	516,000.00
Net cash received in disposal of the subcompanies and other			-
Cash received related to other investment activities			
Subtotal of cash inflow from the investment activities		3,179,318.72	1,321,602.61
Cash paid to acquire and construct fixed assets, intangible assets		416,265,732.59	108,535,578.28
Cash paid to acquire investments			-
Net cash paid to acquire the subcompanies and other operating units			-
Cash paid related to other investment activities			-
Subtotal of cash outflow from investment activities		416,265,732.59	108,535,578.28
<b>Net amount of cash flow received from the investment activities</b>		<b>-413,086,413.87</b>	<b>-107,213,975.67</b>
<b>III. Cash flow from financing activities:</b>			
Cash received from investors			11,270,000.00
Cash from loans		157,422,169.70	69,254,604.00
Cash from the issuing of short-term financing bonds			400,000,000.00
Cash received related to other financing activities	V. 50		6,200,000.00
Subtotal of cash inflow from the financing activities		157,422,169.70	486,724,604.00
Repayments of loans		434,183,560.74	199,758,400.34
Cash paid for distribution of dividends, profits and repayment of interests		193,353,385.14	54,832,030.36
Including: the dividends and profits paid to the minority of shareholders by the subcompanies		19,183,731.20	22,359,672.00
Cash payments related to other financing activities	V. 51		1,600,000.00
Sub-total of cash outflow from the financing activities		627,536,945.88	256,190,430.70
<b>Net cash flow from financing activities</b>		<b>-470,114,776.18</b>	<b>230,534,173.30</b>
<b>IV. Effect of foreign exchange fluctuation on cash and cash equivalents</b>		<b>1,071,218.01</b>	<b>-1,236,410.64</b>
<b>V. Net increase of cash and cash equivalents</b>		<b>-546,713,586.10</b>	<b>414,738,267.76</b>
Plus: Balance of cash and cash equivalents at the beginning of the period		1,432,175,794.78	844,481,857.59
<b>VI Balance of cash and cash equivalents at the end of the period</b>		<b>885,462,208.68</b>	<b>1,259,220,125.35</b>

Principal of the Company: Zhu Baoguo

Principal of the Financial Department: An Ning

Principal of the Accounting Department: Si Yanxia

## 6. Cash flow statement of parent company

2012年1-6月

Kuai Qi Statement No. 03

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB Yuan

Item	Note	Amount in this period	Amount in same period of previous year
<b>I. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		867,770,928.23	592,524,144.64
Tax refunding		-	
Cash received related to other operating activities		134,181,508.17	79,202,732.34
Subtotal of cash inflow from the operating activities		1,001,952,436.40	<b>671,726,876.98</b>
Cash paid for purchase of goods or receiving of services		401,573,153.89	344,005,545.77
Cash paid to and on behalf of employees		38,217,766.09	33,559,585.19
Tax payments		90,059,826.90	41,566,417.55
Other cashes paid to operating activities		562,438,803.54	216,645,420.12
Subtotal of cash outflow from operating activities		1,092,289,550.42	<b>635,776,968.63</b>
<b>Net cash flow from operating activities</b>		<b>-90,337,114.02</b>	<b>35,949,908.35</b>
<b>II. Cash flow from investment activities:</b>			
Cash received from disposal of investments			
Cash received from investment returns		52,267,415.70	99,877,008.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		25,000.00	187,095.00
Net cash received in disposal of the subcompanies and other operating units			
Cash received related to other investment activities			
Subtotal of cash inflow from the investment activities		52,292,415.70	<b>100,064,103.00</b>
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		10,801,196.20	10,215,057.50
Cash paid to acquire investments			
Net cash paid to acquire the subcompanies and other operating units			105,730,000.00
Cash paid related to other investment activities			70,499.95
Subtotal of cash outflow from investment activities		10,801,196.20	<b>116,015,557.45</b>
<b>Net amount of cash flow received from the investment activities</b>		<b>41,491,219.50</b>	<b>-15,951,454.45</b>
<b>III. Cash flow from financing activities:</b>			
Cash received from investors			
Loans from subcompanies			196,540,333.08
Cash from loans		133,017,169.70	26,985,744.00
Cash from the issuing of short-term financing bonds			400,000,000.00
Cash received related to other financing activities			
Subtotal of cash inflow from the financing activities		133,017,169.70	<b>623,526,077.08</b>
Repayments of loans		409,778,560.74	131,942,600.11
Cash paid for distribution of dividends, profits and repayment of interests		183,481,993.91	36,944,858.54
Loans paid to subcompanies			
Cash payments related to other financing activities			1,600,000.00
Sub-total of cash outflow from the financing activities		593,260,554.65	<b>170,487,458.65</b>
<b>Net cash flow from financing activities</b>		<b>-460,243,384.95</b>	<b>453,038,618.43</b>
<b>IV. Effect of foreign exchange fluctuation on cash and cash equivalents</b>		<b>30,426.85</b>	<b>-10,095.88</b>
<b>V. Net increase of cash and cash equivalents</b>		<b>-509,058,852.62</b>	<b>473,026,976.45</b>
<b>Plus: Balance of cash and cash equivalents at the beginning of the</b>		<b>1,306,877,982.24</b>	<b>652,428,797.62</b>
<b>VI Balance of cash and cash equivalents at the end of the period</b>		<b>797,819,129.62</b>	<b>1,125,455,774.07</b>

Principal of the Company: Zhu Baoguo

Principal of the Financial Department: An Ning

Principal of the Accounting Department: Si Yanxia



## 7. Consolidated Change statement of owners' equities

Amount in this period

2012年1-6月

Kuai He Statement No. 04

Unit: RMB Yuan

Prepared by: Livzon Pharmaceutical Group Inc.

Item	January to June 2012							Total of Shareholders' Equities
	Equities attributable to shareholders of parent company						Equities of the Minority of Shareholders	
	Share capital	Capital reserve	Minus: treasury shares	Surplus Reserve	Undistributed Profit	Conversion difference of foreign		
I. Balance at the end of previous year	295,721,852.00	348,093,136.41	0.00	479,211,417.19	1,740,645,868.60	-20,502,568.00	168,448,125.75	3,011,617,831.95
Plus: changes of accounting policies								
Correction of errors in the early stage								0.00
II. Balance at the beginning of this year	295,721,852.00	348,093,136.41	0.00	479,211,417.19	1,740,645,868.60	-20,502,568.00	168,448,125.75	3,011,617,831.95
III. Increase or decrease of change amount	0.00	356,041.67	0.00	0.00	80,844,090.39	408,419.31	-1,156,809.41	80,451,741.96
(I) Net profit					228,705,016.39		18,026,921.80	246,731,938.19
(II) Other comprehensive gains		356,041.67				408,419.31		764,460.98
Subtotal of (I) and (II)		356,041.67			228,705,016.39	408,419.31	18,026,921.80	247,496,399.17
(III) Increase and decrease of capitals by the shareholders	0.00	0.00	0.00				0.00	0.00
1. Capital investment by owners								0.00
2. Repurchase of treasury shares in the year								0.00
3. Others								0.00
(IV) Profit distribution				0.00	-147,860,926.00		-19,183,731.21	-167,044,657.21
1. Withdrawal of surplus reserve				0.00	0.00			
2. Withdrawal of general risk reserve								
3. Distribution to shareholders					-147,860,926.00		-19,183,731.21	-167,044,657.21
4. Others								
(V) Internal settlement and transfer of owners' equities								
1. Transfer of capital reserve to share capital								
2. Transfer of surplus reserve to share capital								
3. Surplus reserve makes up for the loss								
4. Others								
IV. Others								0.00
V. Balance at the end of this year	295,721,852.00	348,449,178.08	0.00	479,211,417.19	1,821,489,958.99	-20,094,148.69	167,291,316.34	3,092,069,573.91

Principal of the Company: Zhu Baoguo

Principal of the Financial Department: An Ning

Principal of the Accounting Department: Si Yanxia

Amount in previous year

2011年度

Kuai He Statement No. 04

Unit: RMB Yuan

Prepared by: Livzon Pharmaceutical Group Inc.

Item	2011							
	Equities attributable to shareholders of parent company						Equities of the Minority of Shareholders	Total of Shareholders' Equities
	Share capital	Capital reserve	Minus: treasury shares	Surplus Reserve	Undistributed Profit	Conversion difference of foreign		
I. Balance at the end of previous year	295,721,852.00	348,436,179.34	-	443,274,429.10	1,446,714,876.09	-16,709,226.29	121,712,478.41	2,639,150,588.65
Plus: changes of accounting policies								
Correction of errors in the early stage								-
II. Balance at the beginning of this year	295,721,852.00	348,436,179.34	-	443,274,429.10	1,446,714,876.09	-16,709,226.29	121,712,478.41	2,639,150,588.65
III. Increase or decrease of change amount	-	-1,133,984.66	-	35,936,988.09	293,930,992.51	-3,793,341.71	46,735,647.34	371,676,301.57
(I) Net profit					359,369,880.94		28,428,519.87	387,798,400.81
(II) Other comprehensive gains		-1,133,984.66				-3,793,341.71		-4,927,326.37
Sub total of (I) and (II)		-1,133,984.66			359,369,880.94	-3,793,341.71	28,428,519.87	382,871,074.44
(III) Increase and decrease of capitals by the owners	-	-	-				40,670,000.00	40,670,000.00
1. Capital investment by shareholders							40,670,000.00	40,670,000.00
2. Repurchase of treasury shares in the year								-
3. Others								-
(IV) Profit distribution				35,936,988.09	-65,438,888.43		-22,362,872.53	-51,864,772.87
1. Withdrawal of surplus reserve				35,936,988.09	-35,936,988.09			
2. Withdrawal of general risk reserve								
3. Distribution to shareholders					-29,501,900.34		-22,362,872.53	-51,864,772.87
4. Others								
(V) Internal settlement and transfer of owners' equities								
1. Transfer of capital reserve to share capital								
2. Transfer of surplus reserve to share capital								
3. Surplus reserve makes up for the loss								
4. Others								
IV. Others		790,941.73						790,941.73
V. Balance at the end of this year	295,721,852.00	348,093,136.41	-	479,211,417.19	1,740,645,868.60	-20,502,568.00	168,448,125.75	3,011,617,831.95

Principal of the Company: Zhu Baoguo

Principal of the Financial Department: An Ning

Principal of the Accounting Department: Si Yanxia

## 8. Change Statement of Owners' Equities of Parent Company

Amount in this period

2012年1-6月

Kuai Qi Statement No. 04

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB Yuan

Item	Note	January to June 2012					
		Share capital	Capital reserve	Minus: treasury shares	Surplus Reserve	Undistributed Profit	Total of Shareholders' Equities
<b>I. Balance at the end of previous year</b>		295,721,852.00	337,951,183.00	0.00	274,248,363.61	613,314,602.85	1,521,236,001.46
Plus: changes of accounting policies							
Correction of errors in the early stage							
<b>II. Balance at the beginning of this year</b>		295,721,852.00	337,951,183.00	0.00	274,248,363.61	613,314,602.85	1,521,236,001.46
<b>III. Increase or decrease of change amount (the loss is listed beginning with "-")</b>		0.00	356,041.67	0.00	0.00	-77,261,835.46	-76,905,793.79
(I) Net profit in this year						70,599,090.54	70,599,090.54
(II) Other comprehensive gains			356,041.67				356,041.67
<b>Subtotal of (I) and (II)</b>			356,041.67			70,599,090.54	70,955,132.21
<b>(III) Increase and decrease of capitals by the shareholders</b>				0.00			0.00
1. Capital investment by shareholders in this period							0.00
2. Repurchase of treasury shares in the year							0.00
3. Share amount that is accrued to the shareholders' equities							
<b>(IV) Profit distribution</b>					0.00	-147,860,926.00	-147,860,926.00
1. Withdrawal of surplus reserve					0.00	0.00	
2. Distribution to shareholders						-147,860,926.00	-147,860,926.00
3. Others							
<b>(V) Internal settlement and transfer of shareholders' equities</b>							
1. Transfer of capital reserve to share capital							
2. Transfer of surplus reserve to share capital							
3. Surplus reserve makes up for the loss							
4. Others							
<b>IV. Balance at the end of this year</b>		295,721,852.00	338,307,224.67	0.00	274,248,363.61	536,052,767.39	1,444,330,207.67

Principal of the Company: Zhu Baoguo

Principal of the Financial Department: An Ning

Principal of the Accounting Department: Si Yanxia

Amount in previous year

2011年度

Kuai Qi Statement No. 04

Prepared by: Livzon Pharmaceutical Group Inc.

Unit: RMB Yuan

Item	Note	2,011.00					
		Share capital	Capital reserve	Minus: treasury shares	Surplus Reserve	Undistributed Profit	Total of Shareholders' Equities
<b>I. Balance at the end of previous year</b>		295,721,852.00	339,085,167.66	0.00	260,712,690.11	520,995,441.67	1,416,515,151.44
Plus: changes of accounting policies							
Correction of errors in the early stage							
<b>II. Balance at the beginning of this year</b>		295,721,852.00	339,085,167.66	0.00	260,712,690.11	520,995,441.67	1,416,515,151.44
<b>III. Increase or decrease of change amount (the loss is listed beginning with "-")</b>		0.00	-1,133,984.66	0.00	13,535,673.50	92,319,161.18	104,720,850.02
(I) Net profit in this year						135,356,735.02	135,356,735.02
(II) Other comprehensive gains			-1,133,984.66				-1,133,984.66
<b>Sub total of (I) and (II)</b>			-1,133,984.66			135,356,735.02	134,222,750.36
<b>(III) Increase and decrease of capitals by the shareholders</b>				0.00			0.00
1. Capital investment by shareholders in this period							0.00
2. Repurchase of treasury shares in the year							0.00
3. Share amount that is accrued to the shareholders' equities							
<b>(IV) Profit distribution</b>					13,535,673.50	-43,037,573.84	-29,501,900.34
1. Withdrawal of surplus reserve					13,535,673.50	-13,535,673.50	
2. Distribution to shareholders						-29,501,900.34	-29,501,900.34
3. Others							
<b>(V) Internal settlement and transfer of shareholders' equities</b>							
1. Transfer of capital reserve to share capital							
2. Transfer of surplus reserve to share capital							
3. Surplus reserve makes up for the loss							
4. Others							
<b>IV. Balance at the end of this year</b>		295,721,852.00	337,951,183.00	0.00	274,248,363.61	613,314,602.85	1,521,236,001.46

Principal of the Company: Zhu Baoguo

Principal of the Financial Department: An Ning

Principal of the Accounting Department: Si Yanxia

## **Livzon Pharmaceutical Group Inc.**

### **Notes to Financial Statement**

June 30, 2012

(The amount is expressed in RMB unless otherwise specified)

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#### **I. Company Profile**

##### **1 History**

In March 1992, approved by Zhu Ti Gai Wei [ 1992 ] No. 29 document issued by Zhuhai Economic System Reform Commission and 1992] No. 45 document issued by the joint examination team under Guangdong Enterprise Shareholding System Pilot Reform and Guangdong Economic System Reform Commission, Livzon Pharmaceutical Group Inc. (hereinafter referred to as "This Company" or "Company") is a limited company raising funds from targeted sources that has been sponsored by Macau Nanyue (Group) Co., Ltd, Zhuhai Credit Cooperative, Guangdong Medicine Group Co., Ltd, Zhuhai Medicine Company, Guangdong Medicines & Health Products IMP.& EXP. CORP, Zhuhai branch of Bank of China, Zhuhai Guihua Staff Mutual Help Association, contributed with the net assets of the original joint venture Co., Ltd as the shares, and raised other funds from the domestic legal persons and internal staffs.

In 1993, approved by Yue Zheng Jian Fa Zi [ 1993 ] No. 001 document issued by Guangdong Securities Regulatory Commission, Shen Ren Yin Fu Zi [1993] No. 239 document issued by Shenzhen Special Economic Zone branch of the People's Bank of China and Zheng Jian Fa Shen Zi [1993] No. 19 document issued by China Securities Regulatory Commission, the company was listed in Shenzhen Stock Exchange.

In 1998, the sponsoring shareholders of company including Zhuhai Credit Cooperative, Guangdong Pharmaceutical Industry Company, Zhuhai Guihua Staff Mutual Help Association and Zhuhai branch of Bank of China signed the *Equity Transfer Agreement* with China Everbright Bank (Group) Co., Ltd and transferred all their equities to China Everbright Bank (Group) Co., Ltd. After the transfer, China Everbright Bank (Group) Co., Ltd held 38,917,518 domestic legal person shares of the company. The foreign-owned sponsor Macau Nanyue (Group) Co., Ltd signed the *Equity Transfer Agreement* with China Everbright Medicine Co., Ltd and completely transferred 18,893,448 foreign legal person shares to China Everbright Medicine Co., Ltd.

On April 12, 2002, China Everbright Bank (Group) Co., Ltd and Xi'an Topsun Group Co., Ltd signed the *Equity Custody Agreement* and China Everbright Bank (Group) Co., Ltd put all its domestic legal person shares (38,917,518 shares) under the custody of Xi'an Topsun Group Co., Ltd. On December 21, 2004, Xi'an Topsun Group Co., Ltd received the 38,917,518 legal person shares of the company from China Everbright Bank (Group) Co., Ltd. By December 31, 2004, China Everbright Bank (Group) Co., Ltd did not hold any of the company shares, and Xi'an Topsun Group Co., Ltd directly

held 38,917,518 legal person shares of the company, accounting for 12.72% of total shares.

On February 4, 2005, Joincare Pharmaceutical Group Industry Co., Ltd (hereinafter referred to as Joincare) and Xi'an Topsun Group Co., Ltd signed the *Equity Transfer Agreement* and *Equity Mortgage Agreement*. Xi'an Topsun Group Co., Ltd directly transferred and mortgaged 38,917,518 domestic legal person shares of the company to Joincare and handled the formalities for equity transfer on August 3, 2006.

By December 31, 2011, Joincare Group and its holding subcompanies has owned 135,470,620 shares of the company through the agreement transfer and direct purchase from the secondary markets, accounting for 45.8101% of total shares and becoming the largest shareholder, so it has owned the actual control right of the company. The formalities for transferring the equities of 6,059,428 legal person shares held in the name of Guangzhou Begol Trading Corporation to Joincare Group have not been handled.

In the 2008 First Temporary Shareholders' Meeting, the company examined and passed the *Proposal on Repurchasing Some of Domestically Listed Shares for Overseas Investors (B Shares) of Livzon Pharmaceutical Group Inc.* By December 2, 2009 (the expiry date of implementing the repurchase), the company has accumulatively repurchased 10,313,630 B-shares. On December 4, 2009, the company handled the cancellation affairs about repurchased shares with Shenzhen Branch of China Securities Depository & Clearing Corporation Limited; the total share capital of company decreased by 10,313,630 shares, and the registered capital of company is reduced from RMB 306,035,482 Yuan to RMB 295,721,852 Yuan. On April 20, 2010, the company handled the registration formalities of industrial and commercial changes, and was issued the business license for enterprise legal person with the registration No. of 440400400032571.

## 2 Industry

The company is in the pharmacy industry.

## 3 Business scope

The approved business scope of the company: the company mainly produces and sells the raw materials for Chinese and western medicines, medicine intermediate, Chinese medicine materials, tablet of Chinese medicines, medical instruments, sanitation materials, healthcare products, medical cosmetics, Chinese and western finished medicines, bio-chemical reagents, and also handles the chemical industry, food and information business, raw materials for medicines etc; also involves the import and export businesses of its products and relevant technologies; wholesale of the Chinese finished medicines, chemical material medicines and their preparations, antibiotic material medicines and their preparations, biological products (except the preventive biological products), bio-chemical medicines. (The products administrated with quota license or special regulations shall be subject to the relevant national rules; the projects that need the administrative approvals cannot be dealt with unless such approvals are given).

## 4 Change of main business

During the report period, the company has not changed its main business.

## II. Main Accounting Policies, Accounting Evaluation and Early Error of the Company

### (I) Preparation Basis of Financial Statement

Based on the continuous operation assumption of company and the actual transactions and Items, in accordance with the *Enterprise Accounting Standards* issued by the Ministry of Finance in February 15, 2006, this financial statement is prepared under the following important accounting and valuation policies.

### (II) Declaration of Compliance with the Enterprise Accounting Standards

The financial statement prepared by the company meets the requirements of the enterprise accounting standards, and exactly and completely reflects the financial status, operation result and cash flow, etc of the company.

### (III) Accounting Period

The company employs the period of the calendar days from the January 1 to December 31 each year as the accounting year.

### (IV) Currency Used in Book-keeping

The Company takes the RMB as the currency in book-keeping.

### (V) Book-keeping Basis and Pricing Principles

The accounting calculation of this company takes the accrual system as the book-keeping basis.

While making the calculation about accounting factors, in general, this company employs the historical cost. If the accounting factor amount to be determined may be obtained and reliably calculated, with respect to the individual accounting factors, the company employs the replacement costs, net realizable values, present values and fair values for calculation.

#### (1) Calculation nature employed in this report period

In the historical cost calculation, the assets are calculated based on the amounts of cash or cash equivalents paid for purchase or fair values of considerations paid for asset purchase; the liabilities are calculated based on the actually received incomes or asset amounts in performing the current obligations, or contract amounts to perform such current obligations, or the amounts of cash or cash equivalents that are expected to be needed for repaying the liabilities in the routine activities.

Except that the financial assets and saleable financial assets employ the fair values for calculation, the Items in this statement employ the historical costs for calculation.

#### (2) Statement Items whose calculation natures have been changed during the report period

During the report period, no calculation natures have been changed.

### (VI) Accounting Processing Method of Merger of enterprises which are under the same control and are not under the same control

(1) Merger of enterprises which are under the same control

For the merger of enterprises which are under the same control, the assets and liabilities that are obtained by the merging party in the such merger will be measured at the book values of merged party on the merging date. The difference between the book values of net assets and book values of paid merger considerations (or total amount of book values of issued shares) will be supplemented by the capital reserve; in case the capital reserve is not enough, the remaining gains will be adjusted. All direct expenses occurring for enterprise merger, including the auditing expenses, evaluation expenses, legal service expenses paid for enterprise merger, are accrued to the current profit and loss at the time of occurrence.

(2) Merger of enterprises which are not under the same control

For the merger of enterprises which are not under the same control, the merger cost will be the paid assets, existing liabilities and fair values of the issued equity securities on the purchasing date to purchase the control right of such enterprises on the purchase date. In case the enterprise merger is gradually realized in many transactions, the merger cost will be the sum of each individual transaction cost. All direct expenses related to the enterprise merger will be accrued to the current profit and loss (except the issuing expenses of bonds and equity instruments). The purchase date is the date when the company actually obtains the control right of purchased party.

In case the enterprise merger cost of purchasing party is more than the fair values of identifiable net assets of such enterprises, the difference will be confirmed as the goodwill in the consolidated balance sheet; in case the enterprise merger cost of purchasing party is less than the fair values of identifiable net assets of such enterprises, after the repeated checks still find the same fact, the difference will be accrued to the current profit and loss.

**(VII) Preparation Method of Consolidated Financial Statements**

(1) Determination of consolidation scope

The consolidated financial statements will be subject to the *No. 33 Enterprise Accounting Standards – Consolidated Financial Statement* that was issued by the Ministry of Finance in February 2006. The combination scope of the consolidated financial statement will be determined on the basis of the control; this financial statement consolidates the financial statements of this company, subcompanies and special objectives that are directly or indirectly controlled by the company. The control means that the company has the right to determine the financial and operation policies of invested units, and may obtain the benefits from the operation activities of this enterprise.

In case there are evidences indicating that the parent company cannot control the invested units, such units will not be included in the consolidated statement scope.

(2) Disposal of purchasing or selling the shares of subcompanies.

The company confirms the date when the risks and rewards related to the purchase or sales of company shares actually transfer as the purchase date and selling date. For the subcompanies that are obtained or sold in the merger of enterprises which are not under the same control, the operation results and cash flow after the purchase date and before the selling date have been duly included in the consolidated profit statement and consolidated cash flow statement; for the



subcompanies that are obtained in the merger of enterprises which are under the same control, the operation results and cash flow from the beginning of current merger period to the merger date have been included in the consolidated profit statement and consolidated cash flow statement, and are separately listed; the comparison data of consolidated financial statements have also been adjusted.

For the long-term equity investment that is formed by purchasing the minority of company equities, in preparing the consolidated financial statements, the difference between the long-term equity investment for purchasing the minority of equities and amounts of net assets of company in the subcompanies that are continuously calculated at the newly added share-holding percentage from the purchase date (or merger date) will be adjusted as the owners' equities (capital reserve); if the capital reserve is not enough, the remaining gains will be adjusted.

(3) In case the accounting policies and accounting periods of subcompanies differ from those of parent company, the financial statements of subcompanies will be adjusted.

In case the accounting policies of subcompanies differ from those of the company, in preparing the consolidated financial statements, the company has made the appropriate adjustments about the financial statements of subcompanies in accordance with the accounting policies of this company; for the subcompanies that are obtained in the merger of enterprises which are not under the same control, the company has made the appropriate adjustments about the financial statements of subcompanies based on their identifiable assets, liabilities and fair values of contingent securities on the purchasing date.

#### (4) Consolidation methods

In preparing the consolidated financial statements, all key accounts and transactions between the company and subcompanies, subcompanies and subcompanies will be offset.

The net assets of merged subcompanies that are attributable to the minority of shareholder equities will be separately listed in the shareholder equities of consolidated financial statements. If the loss that is borne by the minority of shareholders in the subcompanies exceeds the shares of owners' equities at the beginning of the subcompanies, the balance will be offset by the minority of shareholder equities.

### **(VIII) Determination Standard for Cash and Cash Equivalent**

In preparing the cash flow statement, the cash equivalents of the company include the investments with short period (it usually expires within three months from the purchase date), characteristics of high flow, easy conversion to the known amount of cash and little risk of value change. The equity investment will not be deemed as the cash equivalents.

### **(IX) Calculation Method of Foreign Currency Business**

For the foreign currency transactions, the company employs the spot exchange rate (it normally means the intermediate price of foreign exchange rates issued by People's Bank of China, the same as below) on the current transaction day and convert them to RMB for book keeping.

On the preparation date of balance sheet, the foreign currency monetary items will be converted to RMB for book-keeping

in accordance with the spot exchange rate. The difference of spot exchange rates between the preparation date of the balance sheet and the initial confirmation on the previous date of the balance sheet will be accrued to the current profits and losses. The foreign currency non-monetary Items calculated with the historical cost method will be converted at the spot exchange rate on the transaction day and the amount of currency used in book-keeping will not be changed. The foreign currency non-monetary Items calculated at the fair values will be converted at the spot exchange rate on the transaction day, and the difference between the amount of currency used in book-keeping after the conversion and the amount of original currency used in book-keeping will be deemed as the change of fair values and be accrued to the current profits and losses.

#### **(X) Conversion of Financial Statement in Foreign Currency**

1. The asset and liability Items in the balance sheet will be converted at the spot exchange rate on the preparation date of balance sheet. Among the owners' equity Items, all Items except the "undistributed profit" Item will be converted at the spot exchange rate on the occurrence date.
2. The income and expense Items in the profit statement will be converted at the spot exchange rate on the occurrence date.

The conversion difference of financial statement in foreign currency caused by the above conversion will be separately listed in the owners' equity Item in the balance sheet.

3. The cash flow statement will be converted at the spot exchange rate on the occurrence date. The effect amount of exchange rate change on the cash will be the adjustment Item, and be separately listed in the cash flow statement.

#### **(XI) Confirmation and Calculation of Financial Instruments**

1. Classification. The financial instruments may be classified to five categories based on the investment purpose and economic essence:

① The financial assets or financial liabilities that are calculated in the fair values and whose changes are accrued to the current profit and loss, including the tradable financial assets or financial liabilities; the financial assets or financial liabilities that are designated to be calculated in the fair values and whose changes will be accrued to the current profit and loss;

② The investments that are held to the maturity dates;

③ Loans and accounts receivable;

④ Saleable financial assets;

⑤ Other financial liabilities.

2. Initial confirmation and subsequent calculation

① The financial assets or financial liabilities that are calculated in the fair values and whose changes are accrued to the current profit and loss: the fair values to get them will be the initial confirmation amount and the relevant transaction expenses will be accrued to the current profit and loss at the time of occurrence. The cash dividends or bond interests in

the payments that have been declared to be distributed will be separately confirmed as the receivable Items. The interests or cash dividends obtained during the holding period will be confirmed as the investment gains. On the preparation date of financial statement, the changes of fair values will be accrued to the current profit and loss.

② The investments that are held to the maturity dates: the sum of fair values and relevant expenses to get them will be deemed as the initial confirmation amount. The cash dividends or bond interests in the payments that have been declared to be distributed will be separately confirmed as the receivable Items. The interest incomes confirmed in accordance with the effective interest rate method during the holding period will be accrued to the investment gains.

③ Accounts receivable: the prices in the contracts and agreements with the purchasers will be the initial book-keeping amount. The company employs the actual interest method, and makes the subsequent calculation based on the amortized cost. The profits and losses after termination of confirmation, depreciation or amortization will be accrued to the current profit and loss.

④ Saleable financial assets: the sum of fair values and relevant expenses to get them will be deemed as the initial confirmation amount. The cash dividends or bond interests in the payments that have been declared to be distributed will be separately confirmed as the receivable Items. The interests and cash dividends generated during the holding period will be accrued to the investment gains. At the end of the period, the saleable financial assets will be calculated in the fair values and the changes of fair values will be accrued to the capital reserves (other capital reserves).

⑤ Other financial liabilities: the sum of fair values and relevant expenses to get them will be deemed as the initial book-keeping amount. The subsequent calculation will employ the amortized cost method. The profits and losses after termination of confirmation or amortization will be accrued to the current profit and loss.

### 3. Determination Method about Fair Values of Main Financial Assets and Financial Liabilities

① For the active financial assets or financial liabilities in the market, the quotations will be used for determination of their fair values.

② For the inactive financial instruments, the enterprises will employ the evaluation technology to determine their fair values.

③ The financial assets that are initially obtained or derived or financial liabilities will take the market transaction prices as the basis to determine their fair values.

④ In case the enterprise employs the discounted cash flow method to determine the fair values, the market return rates of other financial instruments with the essentially same contract terms and characteristics may be used as the discounting rate. In case the short-term accounts receivable without indicating the interest rate and current values of accounts payable have the very small price difference with the actual transaction prices, they will be calculated at the actual transaction prices.

### 4. Disposal of Financial Asset Depreciation

At the end of the period, in case enough evidences prove that all financial assets except those that are calculated in the fair values and whose changes are accrued to the current profit and loss have been depreciated, the depreciation reserve will be withdrawn based on the difference between the expected cash flow values in the future and the book values.

(1) Accounts receivable (including the accounts receivable and other accounts receivable)

Confirmation standard and withdrawal method of the bad debt reserve for accounts receivable with large individual amount:

Judgment basis or amount standard of large individual amount	Accounts accounting for over 10% of book values of accounts receivable
Withdrawal method of bad debt reserve for large individual amount	If the company makes the depreciation test and there are enough evidences proving that they have been depreciated, the bad debt reserve will be withdrawn based on the difference between the expected cash flow values in the future and the book values. If the company makes the depreciation test and finds that they have not been depreciated, the bad debt reserve will be withdrawn in the age analysis method in line with the credit risk combination.

Accounts receivable whose bad debt reserves are withdrawn based on the combination

Basis for combination determination	The age is taken the confirmation basis of credit risk combination
Withdrawal method to withdraw the bad debt reserve based on combination	Age analysis method

Withdrawal method to withdraw the bad debt reserve for accounts receivable with the age as the credit risk combination:

<u>Age</u>	<u>Withdrawal percentage of a</u> <u>ccounts receivable</u>	<u>Withdrawal Percentage of</u> <u>other accounts receivable</u>
Less than one year (including one year)	5%	5%
One to two years (including two years)	6%	6%
Two to three years (including three years)	20%	20%
Three to four years (including four years)	70%	70%
Four to five years (including five years)	90%	90%
Over five years	100%	100%

For the fund transfer between the companies within the consolidation scope, no bad debt reserve will be withdrawn.

While making the combination test, if there are the signs indicating that the recovery of some accounts receivable are obviously different from other accounts receivable at this age and

otherwise this cannot truly reflect the recovered amount if the bad debt reserve are withdrawn, the individual confirmation method will be employed for withdrawing the bad debt reserve.

Accounts receivable whose individual amount is not large but whose individual bad debt reserve is withdrawn

Basis for combination confirmation	The confirmation basis is that the individual amount is not large but the age is over 3 years.
Withdrawal method of bad debt reserve	The company makes the single depreciation test, and the bad debt reserve will be withdrawn based on the difference between the expected cash flow values in the future and the book values. If the company cannot accurately forecast the present value of cash flow in the future, the bad debt reserve will be withdrawn in the age analysis method in line with the credit risk combination.

For other accounts receivable (including the notes receivable, prepaid accounts, interests receivable and long-term accounts receivable, etc), the bad debt reserve will be withdrawn based on the difference between the expected cash flow values in the future and the book values.

For the accounts that cannot finally be recovered, report them for the approval of writing off such bad debts.

(2)The investments that are held to the maturity dates

For the investments that are held to the maturity dates, the depreciation test will be made based on numbers of packages of the individual or accounts receivable with similar credit risk characteristics. In case enough evidences prove that they have been depreciated, the depreciation loss will be confirmed and withdrawn based on the difference between the expected cash flow values in the future and the book values.

If the depreciation reserves are withdrawn for the investments that are held to the maturity dates, and enough evidences prove that their values have been restored and actually it is related to the facts after confirmation of such loss, the originally confirmed depreciation reserve will be reversed in case it does not exceed the amortized cost on the transfer date of such financial assets without withdrawing the depreciation reserve and will be accrued to the current profit and loss.

(3) Saleable Financial Assets

In case the fair values of saleable financial assets have greatly dropped, or after considering various relevant factors, this drop tendency is deemed as long-term, the depreciation reserve will be withdrawn based on the difference between the expected cash flow values in the future and the book values.

In case the saleable financial assets have been depreciated, the accumulated losses caused by the drop of fair values that have been accrued to the owners' equities will be transferred, and then the depreciation reserve will be confirmed and withdrawn.

For the saleable liability instruments whose depreciation loss has been confirmed, if their fair values during the subsequent accounting period have gone up and it is actually related to the facts occurring after the confirmation of original depreciation loss, the originally confirmed depreciation reserve will be reversed and accrued to the current profit and loss. The depreciation loss of the investments in saleable liability instruments will be reversed and accrued to the owners' equities.

## **(XII) Inventory Calculation Method**

### **1. Inventory Classification**

Inventory classification: the inventories of the company mainly include the raw materials, packaging materials, products under production, products at stock, processing materials and low-value consumable products, etc.

### **2. The company employs the perpetual inventory method.**

3. Pricing method in purchasing and delivery: The purchased inventories shall be accrued at the actual cost. The purchase and warehousing of various inventories in the company are priced based on the actual cost; The delivery of stock commodities shall be calculated by the weighted average method and the first-in first-out method; while the low-value consumable products and packaging materials are taken, they will be accrued to the cost at one time.

### **4. Confirmation standard and withdrawal method of inventory depreciation reserve**

After the complete check about the inventories at the end of the period, the inventory depreciation reserve will be withdrawn or adjusted based on the lower between the inventory cost and discountable net value. The discountable net value will be determined after the deduction of the possible cost, marketing expense and relevant taxes from the current evaluation of inventories in the normal production and operation period. Normally, the inventory depreciation reserve will be withdrawn in accordance with the individual inventory item, but for the large quantity of low-unit-price inventories, the inventory depreciation reserve will be withdrawn in accordance with the inventory type; for the inventories that are related to the product series produced and sold in the same area, have the same or similar final usage and purposes and are hard to be separately calculated from other items, their depreciation reserves will be consolidated.

On the preparation date of balance sheet, in case the impact factors of the withdrawn inventory depreciation reserve disappear, the deducted inventory values will be restored and reversed in the originally withdrawn inventory depreciation reserve; the transferred amount will be accrued to the current profit and loss.

## **(XIII) Long-term Equity Investment**

### **1. Initial Calculation**

#### **(1) Long-term equity investment caused by the enterprise merger**

① In case the long-term equity investment are made to obtain the equities of the enterprises under the same control and the company pays the cash, transfers the non-cash assets or bears the liabilities as the consideration for the merger, the book value share on the merging date to obtain the owners' equities of the merging party will be deemed as the initial

investment cost of long-term equity investment. The difference between the initial investment cost of long-term equity investment and paid cash, transferred non-cash assets and book values of liabilities will be supplemented by the capital reserve; in case the capital reserve is not enough, the remaining gains will be adjusted. In case the company issues the equity securities as the merger consideration, the book value share on the merging date to obtain the owners' equities of the merging party will be deemed as the initial investment cost of long-term equity investment. If the book value amount of the issued shares is deemed as the capital, the difference between the initial investment cost of long-term equity investment and the book value amount of the issued shares will be supplemented by the capital reserve; in case the capital reserve is not enough, the remaining gains will be adjusted. All direct expenses related to the enterprise merger, including the auditing expense, evaluation expense, legal service expense, etc will be accrued to the current profit and loss.

② In case the long-term equity investment are made to obtain the equities of the merging enterprises which are not under the same control, the merger cost will be the paid assets, existing liabilities and fair values of the issued equity securities on the purchasing date to purchase the control right of such enterprises. In case the absorption merger method is employed, the difference between the enterprise merger cost and the identifiable net asset values of such enterprises will be confirmed as the goodwill or accrued to the current profit and loss. In case the controlling merger is employed and the enterprise merger cost is more than the identifiable net asset values of such enterprises in the merger, the difference between them will be confirmed as the goodwill in the consolidated balance sheet. In case the enterprise merger cost is less than the identifiable net asset values of such enterprises in the merger, the difference between them will be accrued to the current profit and loss. All direct expenses related to the enterprise merger will be accrued to the enterprise merger cost (except the issuing expenses of bonds and equity instruments).

## (2) Other types of long-term equity investment

① In case the cash investment is made to obtain the long-term equity, the actual payment amount will be deemed as the initial investment cost. The initial investment costs also include the direct expenses related to the long-term equity investment, taxes and other necessary expenses.

② In case the long-term equity investment is made by issuing the equity securities, the fair values of issued equity securities will be deemed as the initial investment cost.

③ For the long-term equity investment made by the investors, the values agreed in the investment contracts or agreements will be deemed as the initial investment cost, except that the contracts or agreements provide that the values are not fair.

④ In case the long-term equity investment is made by exchanging the non-currency assets, and this exchange has the commercial substance and the fair values of said assets can be reliably calculated, the fair values of the assets and relevant taxes will be deemed as the initial investment cost; the difference between the fair values of the assets and book values will be accrued to the current profit and loss; in case the non-currency asset exchange does not have the above

two conditions, the book values of the assets and relevant taxes will be deemed as the initial investment cost.

⑤ In case the long-term equity investment is made by the mode of liability restructure, the fair values of the obtained equities will be deemed as the initial investment cost; the difference between the initial investment cost and book values of liabilities will be accrued to the current profit and loss.

## 2. Subsequent Calculation

(1) The cost method is employed to calculate the long-term equity investment of subcompanies and will be adjusted in accordance with the equity method in the preparation of the consolidated financial statements.

(2) The cost method is used to calculate the long-term equity investments in the invested units which are not under the common control or of important impact, are not quoted in the active market or whose fair values cannot be reliably calculated. In employing the cost method, add or return the cost used for adjusting the long-term equity investment. The current investment gains are only limited to the distributed amount of accumulative net profit generated by the investment in the invested units since the investment completion. The profits or cash dividends exceeding the above amount that are declared to be distributed by the invested units will be deemed as the return of initial investment cost, deducting the book values of investments.

(3) The equity method is used to calculate the long-term equity investments in the invested units, which are under the common control or of important impact. In employing the cost method, in line with the net profit and loss share of invested units to be distributed or borne, confirm the profit and loss of investments and adjust the book values of long-term equity investments. The profit and loss of current investment will be the net profit or net loss share of invested units to be distributed or borne in the current year. In confirming the net loss of invested units to be borne, the limit is the zero of book values of investment (except that the investment enterprises bear the obligations for additional loss); in case the invested units make the net profits in the future and the distribution amount of gains exceeds the unconfirmed loss amount, the book values of investment will be restored subject to the unconfirmed loss amount to be borne.

(4) In case the invested units employs the different accounting policies and accounting periods from the investment enterprises, the accounting policies and accounting periods of the investment enterprises will be employed to adjust the financial statements of invested units and confirm the investment gains. As regards the other changes of owners' equities except the net profit and loss of the invested units, the investment units will adjust the book values of long-term equity investments and accrue them to the owners' equities.

(5) In disposing of the long-term equity investment, the difference between the book values and actual payments will be accrued to the current profit and loss. In case the equity method is employed to calculate the long-term equity investment and the other changes of owners' equities except the net profit and loss of the invested units are accrued to the owners' equities, the part that has been accrued to the owners' equities will be proportionally transferred to the current profit and



loss.

### 3. Confirmation standard and withdrawal method of depreciation reserve for long-term equity investment

In case the cost method is used to calculate the long-term equity investments which are not quoted in the active market or whose fair values cannot be reliably calculated, the depreciation loss will be determined based on the difference between the book values and current values determined by the discounting of future cash flow in line with the current market return rate of similar financial assets. For the other long-term equity investments, in case the calculation results of receivable amounts indicate that the receivable amount of this long-term equity investment is less than their book values, the difference will be confirmed as the asset depreciation losses. Once the depreciation loss of long-term equity investment is confirmed, they will not be reversed.

## **(XIV) Real Estate for Investment**

The real estates for investment refer to the real estates that are held for the purpose of earning the rent or capital increment, or for both of them, including the land use rights that have been rented or will be transferred after the value increment, or the structures that have been rented.

The company employs the cost mode to calculate the current real estates for investment and withdraws the depreciation or amortization in accordance with the same depreciation or amortization policies of fixed assets and intangible assets in the company. In case the real estates for investment are transferred to other assets or other assets are transferred to the real estates for investment, the book values of real estates before the transfer will be the book values after the transfer. In case the company sells, transfers and rejects the real estates for investment or the real estates for investment are damaged, the remaining amount after the deduction of book values and relevant taxes from disposal incomes will be accrued to the current profit and loss. In case the received amount is less than the book values, the depreciation reserve will be withdrawn based on the difference between the receivable amount of individual real estate for investment and their book values; Once the depreciation losses are withdrawn, they will not be reversed.

## **(XV) Fixed Asset Pricing and Depreciation Method**

### 1. Confirmation condition for fixed assets

The fixed assets refer to the tangible assets with the usage life of over one accounting year that are held for commodity production, labor provision, renting or operational management. The fixed assets will be confirmed if they meet the following conditions:

- (1) The economic benefits related to this fixed asset probably flow to the enterprise;
- (2) The cost of this fixed asset may be reliably calculated.

### 2. Classification of Fixed Assets

The fixed assets may be classified into the following items: houses and buildings, machine equipments, transportation equipments, electronic equipment and others.

### 3. Calculation of fixed assets

The actual costs of fixed assets will be deemed as the initial calculation amount.

(1) In case the prices to purchase the fixed assets exceed the normal credit conditions and cause the payment deferment and are characteristic of the financing nature, the costs of fixed assets will be determined based on the current values of purchase prices.

(2) In case the fixed assets are obtained by the liability restructure to write off the liabilities of debtors, their book values will be determined based on the fair values of this fixed asset. The difference between the book values of restructuring liabilities and the fair values of this fixed asset will be accrued to the current profit and loss. In case the non-currency asset exchange is characteristic of commercial substance and the fair values of received or delivered assets can be reliably calculated, the book values of received fixed assets in the non-currency asset exchange will normally be determined based on the fair values of delivered assets, except that the accurate evidences indicate that the fair values of received assets are more reliable. In case any non-currency asset exchange does not meet the above conditions, the book values of delivered assets and the payable taxes will be deemed as the costs of received fixed assets. No profit and loss will be confirmed.

(3) The book values of fixed assets to be obtained by the absorption merger from the enterprises which are under the same control will be determined based on the book values of merging party; the book values of fixed assets to be obtained by the absorption merger from the enterprises which are not under the same control will be determined based on their fair values.

The rejection expenses of fixed assets will be calculated and accrued to the book values of fixed assets based on the current values.

In case the subsequent payments related to the fixed assets make the economic benefits generated by the inflow of this fixed asset to the enterprise exceed the original evaluations, the exceeding part will be accrued to the book values of fixed assets. The increased amount will not exceed the receivable amount of this fixed asset.

4. The depreciation method of fixed assets: the average life method is used to calculate the depreciation of fixed assets in the company from the next month after such fixed assets meet the expected usable conditions. The depreciation life, annual depreciation rate and assessed residual value rate of various fixed assets are listed as follows:

<u>Fixed Asset category</u>	<u>Depreciation life (years)</u>	<u>Annual depreciation rate</u>	<u>Assessed residual value rate</u>
Houses and buildings	20	4.5%-4.75%	5%-10%
Machine equipments	10	9%-9.5%	5%-10%
Transportation equipment	5	18%-19%	5%-10%

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Electronic equipment and	5	18%-19%	5%-10%
others			

5. Confirmation about the depreciation reserve of fixed assets: at the end of each period, the company will judge if relevant assets have any signs of possible depreciation. If so, the company will evaluate the receivable amount. The receivable amount will be determined based on the larger one between the net amount after the deduction of disposal expenses from the fair values of this asset and the current values of expected cash flow of this asset in the future. If the receivable amount of this asset is less than the book values, the difference will be confirmed as the depreciation loss of assets. The depreciation reserves of fixed assets will be withdrawn subject to the individual asset. Once the depreciation losses of assets are confirmed, they will not be reversed in the future accounting period.

In withdrawing the depreciation for the fixed assets whose depreciation reserves have been withdrawn, based on the book values of this fixed asset and the remaining usage life, the depreciation rate and depreciation amount will be calculated and determined once again. The fixed assets whose depreciation reserves have been fully withdrawn will not be withdrawn once again.

#### **(XVI) Calculation Method of Projects under Construction**

##### 1. Classification of projects under construction

The projects under construction will be calculated based on the classification of proposed projects.

##### 2. Transfer time of projects under construction to fixed assets

For the projects under construction, all expenses occurring before they are ready for the use will be the book values as the fixed assets. In case the projects under construction has been ready for use but the final accounts for completion have not been handled, from the date when such projects has been ready for use, the company will evaluate the values and determine the costs based on the project budgets, prices or actual costs of projects, etc and the depreciation amount will also be withdrawn; when the final accounts for completion are handled, the company will adjust the originally evaluated values subject to the actual costs, but will not adjust the withdrawn depreciation amount.

3. Depreciation of projects under construction: at the end of the period, the company will judge if the depreciation reserves are withdrawn based on the depreciation signs of such projects. In case the projects that have been stopped for a long time and will not be rebuilt within three years are expected to be depreciated, the depreciation reserves for such projects will be withdrawn for the difference amount between the receivable amount and the book values. Once the depreciation reserves for such projects are withdrawn, they will not be reversed.

#### **(XVII) Loan expense**

1. In case the loan expenses occurring in the company may directly be attributable to the construction and productions of assets complying with the capitalization conditions , they will be capitalized and accrued to the relevant capital costs; other loan expenses will be confirmed as the expenses based on the actual amount in the time of occurrence and accrued to the current profit and loss. The assets complying with the capitalization conditions mean the assets such as fixed assets, real estates for investment and inventory, etc that need a long time of construction and production activities before being ready for use or for sales. The loan expenses begin to be capitalized under the following circumstances:

- (1) The asset payments that have been made include the payments such as the paid cashes, transferred non-currency assets or borne liabilities with the interests to construct or produce the assets complying with the capitalization conditions;
- (2) The loan expenses have occurred;
- (3) The necessary construction or production activities to make the assets ready for use or sales have been launched.

2. During the capitalization period, the capitalized amounts of interests (including the amortization of discounting or premium) during each accounting period will be determined in accordance with the following provisions:

(1) For the special loans that are borrowed to construct or produce the assets complying with the capitalization conditions, the company will determine capitalized amounts by deducting the interest incomes generated from the depositing of unused loan capitals in the banks or the investment returns from temporary investments from the interest expenses occurring in the current period of special loans.

(2) For the general loans that are used to construct or produce the assets complying with the capitalization conditions, the interest amount of general loans to be capitalized will be determined by multiplying the weighed average amount of the asset payments by which the accumulated assets exceed the special loans with the capitalization rate of general loans. The capitalization rate will be determined based on the weighed average interest rate of general loans. The capitalization period means the period from the starting time to ending time of the loan expense capitalization, and the period in which the loan expense capitalization is suspended will not be included.

3. In case the loans have the discounts or premiums, the company will adjust the interest amount in each period based on the amortized discount and premium amounts in each accounting period in accordance with the effective interest rate method.

4. During the capitalization period, the company will capitalize the difference between foreign exchanges about the principals and interests of special foreign currency loans, and accrue it to the asset costs complying with the capitalization conditions.

5. The capitalization of loan expenses for the assets complying with capitalization conditions that have been constructed or produced and are ready for use or sales will be stopped. The loan expenses occurring after the assets complying with capitalization conditions are ready for use or sales will be confirmed as the expenses based on the actual amounts and be

accrued to the current profit and loss.

### **(XVIII) Biological assets**

#### **1. Confirmation standard and classification of biological assets**

The biological assets of company are the consumable biological assets such as the Chinese traditional medicines, etc.

The biological assets of company will be initially calculated based on the cost. The costs of purchased biological assets include the purchase prices, relevant taxes, insurance expenses and other expenses which may be directly attributable to the purchase of such assets. For the biological assets of investors, the values specified by the investment contracts or agreements plus the payable taxes will be the book-keeping values of biological assets. However, if the values specified by contracts or agreements are not fair, the actual costs will be determined based on the fair values. The self-made consumable biological assets, including the necessary expenses such as the forest expenses before coverage, alimony, operational equipment expenses, testing expense of good species, investigation and design expenses, capitalized interests and amortized indirect expenses. The subsequent expenses for the management and protection or for the breeding of a biological asset after coverage or after the accomplishment of the expected objective of production and operation will be included in the current profit and loss.

For the consumable biological assets, the company will calculate the costs based on the book values at the time of cutting, and the method for calculating the cost will employ the weighed average method.

#### **2. Testing method of biological assets depreciation and withdrawal method of depreciation reserve**

The company will check the consumable biological assets at least at the end of each year. If obvious evidences indicate that the net realizable value of consumable biological assets or receivable amounts of production biological assets is less than their book values for the reasons of natural calamities, disease and insect pest, infection of animal diseases or changes about market demands, etc, and the depreciation reserve of biological assets will be withdrawn based on the difference between the net realizable values or receivable amounts and book values, and be accrued to the current profit and loss.

If the impact factors of consumable biological asset depreciation disappear, the deducted amounts will be recovered, and the originally withdrawn depreciation reserve amounts will be reversed and the reversed amounts will be accrued to the current profit and loss.

### **(XIX) Calculation Method of Intangible Assets**

#### **1. Confirmation condition of intangible assets**

The intangible assets mean the identifiable non-currency assets without the actual substance status that are owned or controlled by the enterprises. Only the intangible assets meeting the following conditions will be confirmed:

- (1) The economic benefits related to this intangible asset probably flow to the enterprise;
- (2) The cost of this fixed asset may be reliably calculated.

## 2. Pricing of intangible assets

The intangible assets will be originally calculated based on the actual costs.

(1) In case the prices to purchase the intangible assets exceed the normal credit conditions and cause the payment deferment and are characteristic of the financing nature, the costs of intangible assets will be determined based on the current values of purchase prices

(2) In case the intangible assets are obtained by the liability restructure to write off the liabilities of debtors, their book values will be determined based on the fair values of this intangible asset. The difference between the book values of restructuring liabilities and the fair values of this intangible asset will be accrued to the current profit and loss. In case the non-currency asset exchange is characteristic of commercial substance and the fair values of received or delivered assets can be reliably calculated, the book values of received intangible assets in the non-currency asset exchange will normally be determined based on the fair values of delivered assets, except that the accurate evidences indicate that the fair values of received assets are more reliable. In case any non-currency asset exchange does not meet the above conditions, the book values of delivered assets and the payable taxes will be deemed as the costs of received intangible assets. No profit and loss will be confirmed.

(3) The book values of intangible assets to be obtained by the absorption merger from the enterprises which are under the same control will be determined based on the book values of merging party; the book values of intangible assets to be obtained by the absorption merger from the enterprises which are not under the same control will be determined based on their fair values.

## 3. Usage life and amortization of intangible assets

In obtaining the intangible assets, the company will analyze and judge their usage life. In case their usage life is limited, the company will evaluate the usage years or the quantity of calculation units such as the capacity constituting the usage life; in case it's impossible to evaluate the usage life when the intangible assets bring the benefits to enterprises, it will be deemed that the usage life of such intangible assets is uncertain.

Amortization method of intangible assets: for the intangible assets with the limited usage life, the average amortization amount in the usage life will be accrued to the profit and loss. For the intangible assets with the uncertain usage life, no amortization will be made. At the end of each year, the company will recheck the usage life of intangible assets with the limited usage life and amortization method. In case the usage life and amortization method are different from the original ones, the amortization life and method after the recheck will be employed.

4. The depreciation of intangible assets will be handled in accordance with the accounting policies about asset depreciation. Once the depreciation losses of intangible assets are confirmed, they will not be reversed in the future accounting period.

**(XX) Research and Development Expenses**

The expenses for the research and development of projects in the company include the expenses for the research stage and development stage.

The expense for the research stage means the expense occurring for the planned investigations of the company about the innovative exploration in order to obtain and understand the latest science and technical knowledge, which are the preparations made for the further development activities; whether the already done research activities will be transferred to the development or the development will turn to the intangible assets has a lot of uncertainty.

The expense for the development stage means the expense occurring to apply the research results or other knowledge to a certain plan or design and produce the new or substantially improved materials, equipments and products, etc before the launch of commercial production and use. Compared with the research stage, the development stage comes on the basic condition that the research stage work is completed and has greatly turned to a new product or technology.

The expense in the research stage of projects in the company will be accrued to the current profit and loss in the time of occurrence; the expense in the development stage will be confirmed as the intangible assets if the following conditions are met:

1. The completion of this intangible asset will make it have the feasibility to be able to be used or sold.
2. Complete this intangible asset for the purpose of use and selling.
3. The means by which the intangible assets bring the economic benefits.
4. Have enough technical and financial resources and other supports to complete the development of this intangible asset and be able to use and sell this intangible asset.
5. The expense attributable to the development stage of this intangible asset can be reliably calculated.

**(XXI) Amortization Method of Long-term Amortization Expenses**

The overhaul payment of fixed assets in the company will be averagely amortized during the overhaul interval; other long-term amortization expenses will be averagely amortized during the benefiting period.

**(XXII) Asset Depreciation**

1. Definition of asset depreciation

The asset depreciation means that the receivable amount of assets is less than their book values. On the preparation date of balance sheet, the company will judge if relevant assets have any signs of possible depreciation. If so, the company will evaluate the receivable amount. In case the receivable amount of assets is less than their book values, such book values will be deducted to the receivable amount and the deducted amount is confirmed as the depreciation loss of assets and accrued to the current profit and loss; at the same time, the relevant depreciation reserves of assets will be withdrawn.

Once the depreciation losses of assets are confirmed, they will not be reversed in the future accounting period. After the confirmation of depreciation losses of assets, the depreciation or amortization expenses of assets will be adjusted in the future period so that in the remaining usage life of this asset, the company will systemically amortize the adjusted book values of assets. The following signs indicate that the assets are possibly depreciated:

- (1) The market prices of assets drop greatly and the drop extent is clearly higher than the expected drop for the time passage or normal use.
- (2) The economic, technical or legal environments and markets where the company is operating are greatly changing in the current period or in the near future, which will exercise the unfavorable impacts on the company.
- (3) The interest rate or other investment return rate in the market have been enhanced in the current period, which will influence on the calculation of the discounting rate of cash flow values in the future and lead to the great decrease of receivable amount of assets.
- (4) The evidences indicate that the assets have been too old or the substances have been damaged.
- (5) The assets have been or will be left unused, stopped to be used or planned to be disposed in advance.
- (6) The evidences from the internal reports in the company indicate that the economic performance of assets have been or will be less than the expected performance. For example, the net cash flow or operating profits (or losses) created by the assets are greatly less (more) than the expected amounts, etc.
- (7) Other signs that indicate the assets may possibly be depreciated.

## 2. Determination of depreciation loss of assets

(1) At the end of the period, the company will inspect the long-term equity investment, fixed assets, projects under construction, intangible assets and goodwill, etc to judge if there are any signs of possible depreciation. For the goodwill caused by the enterprise merger and the intangible assets with the uncertain usage life, whether there are signs of possible depreciation, the depreciation tests will be made each year.

(2) If the assets have any signs of possible depreciation, the company will evaluate the receivable amount. The receivable amount will be determined based on the larger one between the net amount after the deduction of disposal expenses from the fair values of this asset and the current values of expected cash flow of this asset in the future. If the receivable amount of this asset is less than the book values, such book values will be deducted to the receivable amount and the deducted amount is confirmed as the depreciation loss of assets and accrued to the current profit and loss. The depreciation tests of goodwill and its relevant asset groups (or asset group combination, the same below) will be made. The goodwill reflected in the consolidated financial statement will not include the goodwill of subcompany attributable to the equity for the minority of shareholders; but the tests of the depreciation about relevant asset groups will include the



goodwill attributable to the equity for the minority of shareholders; the company will adjust the book values of asset groups and compare the adjusted book values of asset groups with their receivable amounts to determine if the asset groups (including the goodwill) are depreciated. If so, the company will deduct the equity share of the minority of shareholders from the above losses to determine the depreciation losses of goodwill attributable to the parent company. Once the depreciation losses of assets such as the long-term equity investment, the real estates for investment calculated by the cost mode, fixed assets, intangible assets and goodwill are confirmed, they will not be reversed in the future accounting periods.

### 3. Calculation method of asset group

(1) Generally, the company will evaluate the receivable amount subject to the individual asset. In case the receivable amount of individual asset cannot be evaluated, the receivable amount of asset groups will be determined based on the asset groups containing this asset. The determination of asset groups will be based on whether the main cash inflow generated by the asset groups are independent from other assets or cash inflow of asset groups; at the same time, it's necessary to consider the production and operation management mode of the company and the policy-deciding mode about the continuous use or disposal of assets, etc. Once the asset groups are determined, they will not be changed in each accounting period.

(2) The receivable amount of asset groups will be determined based on the larger one between the net amount after the deduction of disposal expenses from the fair values of this asset group and the current values of expected cash flow in the future.

(3) If the receivable amount of the asset group or asset group combination is less than the book values, the relevant depreciation loss will be confirmed. The depreciation loss amount will at first write off the book values of goodwill that are amortized to the asset groups or asset group combinations, then based on the percentage of book values of various other assets except the goodwill in the asset groups or asset group combination, write off the book values of various other assets in the above proportion.

## **(XXIII) Confirmation Principle of Expected Liabilities**

### 1. Confirmation Principle of Expected Liabilities

The obligations related to contingent events that meet the following conditions at the same time will be confirmed as the liabilities:

- (1) This obligation is the current obligation of the company;
- (2) The performance of this obligation will probably cause the economic benefits to flow out of the company;

(3) The amount of this obligation can be reliably calculated.

In case the loss contracts and restructuring obligations of the company meet the above conditions, they will be confirmed as the expected liabilities.

## 2. Determination method about optimum evaluation amount of expected liabilities

In case the necessary payments have a amount scope, the optimum evaluation amount will be determined based on the average amount between the upper and lower limits of amounts; in case the necessary payments do not have such a amount scope, the optimum evaluation amount will be determined in the following method:

(1) If the contingent events involve the individual project, the optimum evaluation amount will be determined based on the possible amount;

(2) If the contingent events involve many projects, the optimum evaluation amount will be determined based on the possible amount and occurrence probability. In case all or parts of payments about the confirmed liquidation liabilities are expected to be compensated by the third parties or other parties and the compensation amount are surely received, such amounts will be separately confirmed. The confirmed compensation amounts will not exceed the book values of confirmed liabilities.

## **(XXIV) Repurchase of company shares**

If, after obtaining the approval in accordance with the legal procedures, the company reduces the share capitals by repurchasing the company shares, the share capitals will be reduced based on the total book values of cancelled shares; the owners' equities will be adjusted based on the differences between the prices (including the transaction expenses) paid to repurchase the shares and book values of shares; the remaining amount exceeding the total book values will be offset against the capital reserve (share premium), surplus reserve and undistributed profit in sequence; if the prices are less than the total book values, the amounts less than total book values will be compensated by adding the capital reserve (share premium).

Before the shares repurchased by the company are cancelled or transferred, they will be managed as the inventory shares; all payments to repurchase the shares will be transferred to the costs of inventory shares.

In transferring the inventory shares, if the incomes from such transfers exceed the costs of inventory shares, the remaining incomes will be added to the capital reserves (share premiums); if the incomes from such transfers are less than the costs of inventory shares, the part less than such costs will be offset against the capital reserves (share premiums), surplus reserve and undistributed profit in sequence.

## **(XXV) Confirmation Principle of Income**

### 1. Commodity sales

The company has transferred the main risks and rewards about commodity ownership to the purchasers; the company does not reserve any continuous management rights normally related to the ownership nor performs any effective control about the sold commodities; the income amounts will be reliably calculated; the relevant economic benefit will probably flow into the enterprise; in case the relevant costs that have occurred or will occur may be reliably calculated, the achievement of operating incomes will be confirmed.

## 2. Provision of labors

In case on the preparation date of balance sheet the results about labor provision transaction can be reliably evaluated, the labor income will be confirmed by the completion percentage method. Based on the actual situation, the completion progress of labor provision will be determined in the following methods:

- (1) Measurement about the work that has already been completed.
- (2) The percentage of the provided labors in the total labor capacity.
- (3) The percentage of the occurring costs in the total costs.

The company will determine the total amount of labor provision based on the prices in contracts and agreements that have been received or will be receivable, except that such prices are not fair. On the preparation date, the current labor incomes will be determined based on the amount after the total labor income amount multiplied by the completion progress deducts the accumulated labors in the past accounting periods.

In case the labor transaction results on the preparation date of balance sheet cannot be reliably evaluated, they will be handled by the following means:

- (1) In case the labor costs that have occurred can be compensated, the labor income will be confirmed based on such labor costs and the same amounts will be settled as the labor costs.
- (2) In case the labor costs that have occurred cannot be compensated, such labor costs will be accrued to the current profit and loss and will not be confirmed as the labor costs.

## 3. Use right of transferred assets

In case the economic benefits related to the transaction will probably flow into the enterprise and the income amounts can be reliably calculated, the company will determine the income amount about use right of transferred assets by the following means:

- (1) The interest income amount will be calculated and determined based on the use time of currency capital from the company by others and effective interest rate.
- (2) The income amount of use expenses will be calculated and determined subject to the charging time and method agreed in the relevant contracts and agreements.

**(XXVI) Governmental allowance**

1. Confirmation principle: only the governmental allowance meeting the following conditions will be confirmed:

- (1) The enterprises can meet the relevant conditions required by the governmental allowance;
- (2) The enterprises can receive the governmental allowance.

2. Calculation: If the governmental allowances are the monetary assets, they will be calculated at the received or receivable amounts. If the governmental allowances are the non-monetary assets, they will be calculated at the fair values; if the fair values are not reliably given, they will be calculated at the nominal amounts.

3. Accounting processing: the governmental allowances related to assets will be confirmed as the deferred gains, be averagely distributed in the usage life of relevant assets, and be accrued to the current profit and loss. The governmental allowances calculated in the nominal amounts will be directly accrued to the current profit and loss.

The governmental allowances related to gains will be separately processed in the following cases:

- (1) The governmental allowances that are used to compensate the relevant expenses and losses of enterprises in the future periods will be confirmed as the deferred gains, and be accrued to the current profit and loss in the confirmed periods of relevant expenses.
- (2) The governmental allowances that are used to compensate the relevant expenses and losses of enterprises that have occurred will be accrued to the current profit and loss.

**(XXVII) Confirmation about deferred income tax assets and liabilities**

Based on the differences between the book values of assets and liabilities and taxation basis (for the Items that have not been confirmed as the assets and liabilities, if their taxation basis may be determined in accordance with the taxation provisions, the difference between such taxation basis and their book values will be applied), the deferred income tax assets or deferred income tax liabilities will be confirmed at the applicable tax rate during the expected periods of returning such assets or settling such liabilities.

The company will confirm the deferred income tax assets generated by the deductible temporary difference within the limit of taxable income amount that may be obtained and used to deduct such difference. On the preparation date of balance sheet, if enough evidences prove that the taxable income amounts that may be probably obtained in the future periods may be used to deduct the deductible temporary differences, they will be confirmed as the deferred income tax assets that have not been confirmed in the previous accounting periods.

On the preparation date of balance sheet, the company will recheck the book values of deferred income tax assets. If the taxable income amounts cannot be obtained in the future periods to be used to deduct the benefits of deferred income tax assets, the company will reduce the book values of deferred income tax assets. If there is great possibility to obtain

enough taxable income amounts, the reduced amounts may be reversed.

### **(XXVIII) Accounting Processing Method of Income Tax**

The accounting processing of income tax in the company employs the balance sheet liability method.

#### **1. Confirmation of deferred income tax assets**

(1) The company will confirm the deferred income tax assets generated by the deductible temporary difference within the limit of taxable income amount that may be obtained and used to deduct such difference. But, at the same time, the deferred income tax assets generated by the initial confirmation of assets or liabilities in the transactions with the following characteristics will not be confirmed:

- ① This transaction is not the enterprise merger;
- ② The occurrence of transactions will not affect the accounting profits nor affect the taxable income amount (or the deductible loss).

(2) In case the deductible temporary difference related to the investments in the subcompany, affiliated companies and joint ventures by the company meet the following conditions at the same time, they will be confirmed as the corresponding deferred income tax assets:

- ① The temporary difference will probably be reversed in the foreseeable future;
  - ② The taxable income tax amount that is used to deduct the temporary difference will probably be obtained in the future.
- (3) If the company can settle the deductible loss and tax deduction in the coming years, the company will confirm the relevant deferred income tax assets within the limit of taxable income amount in the future that may be obtained and used to deduct such deductible loss and tax deduction.

#### **2. Confirmation of deferred income tax liabilities**

Except the deferred income tax liabilities generated by the following cases, the company will confirm the deferred income tax liabilities generated by the all taxable temporary difference.

(1) Initial confirmation of goodwill;

(2) Initial confirmation of assets or liabilities generated by the transactions complying with the following characteristics at the same time:

- ① This transaction is not the enterprise merger;
- ② The occurrence of transactions will not affect the accounting profits nor affect the taxable income amount (or the deductible loss).

(3) The taxable temporary difference related to the investments in the subcompany, affiliated companies and joint ventures by the company meet the following conditions at the same time:

- ① The investment enterprises can control the reversion time of temporary difference;
- ② The temporary difference will not probably be reversed in the foreseeable future.

### 3. Calculation of income tax expenses

The company will accrue the current income taxes and deferred income taxes to the current profit and loss as the income tax expenses and benefits, but will not include the income taxes generated in the following cases:

- ① Enterprise merger;
- ② Transactions or Items that are directly confirmed in the owners' equities.

### (XXIX) Accounting Policies, Accounting Evaluation Changes and Correction of Accounting Errors

During this period, the company has not made any changes about accounting policies and accounting evaluation or any correction of accounting errors.

## III. Taxes

The applicable tax Items and tax rate of the company are listed as follows:

<u>Tax Item</u>	<u>Taxation Basis</u>	<u>Tax Rate</u>
		The value-added tax rate for selling
Value-added tax	Sales income of products and the biological preparations and materials	is 6%, and the value-added tax rate for selling the other products is 17%.
Sales tax	Taxable sales income	5%
Urban maintenance and construction tax	Payable circulating tax amount	5%、7%
Educational surtax	Payable circulating tax amount	3%
Local educational surtax	Payable circulating tax amount	Note 1
Enterprise income tax	Payable income tax amount	Note 2

Note 1: the company and subcompanies that are registered in Zhuhai will pay the local educational surtax at 2% of payable circulating tax amount; the other subcompanies will pay the local educational surtax at the payable circulating tax amount in accordance with the regulations of its registration place.

Note 2: the enterprise income tax rates will be subject to the following regulations:

<u>Company Name</u>	<u>Actual Tax</u>	<u>Note</u>
	<u>Rate</u>	

Livzon (Hongkong) Co., Ltd and Hongkong Antao Development Limited	16.5%	The policies about enterprise income taxes in Hongkong area will be applied.
Livzon Pharmaceutical Group Inc., Limin Pharmaceutical Co., Ltd under Livzon Group, Livzon Pharmaceutical Factory under Livzon Group, Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area, Shanghai Livzon Pharmaceutical Co., Ltd, Lida Pharmaceutical Co., Ltd in Zhuhai Bonded Area, Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group, Sichuan Guangda Pharmaceutical Co., Ltd, Zhuhai Livzon Reagent Co., Ltd and Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group	15%	Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group, Zhuhai Livzon Reagent Co., Ltd was granted as the hi-tech enterprises in 2010, and other companies were granted as the hi-tech enterprises in 2011; the validity period is 3 years.
Other subcompanies	25%	

## IV. Enterprise Merger and Consolidated Financial Statements

### (I) Subcompanies that are obtained by the establishment or investment, etc

<u>Subcompany Name</u>	<u>Subcompany type</u>	<u>Registered place</u>	<u>Business nature</u>	<u>Registered capital</u>	<u>Operation scope</u>
Antao Development Limited	Wholly-owned subcompany	Hongkong	Investment	HKD 0.5 million	
Livzon (Hongkong) Co., Ltd	Wholly-owned subcompany	Hongkong	Investment	HKD 61 million	
Zhuhai Modern Chinese Medicine Hi-tech Co., Ltd	Wholly-owned subcompany	Zhuhai City	Service industry	RMB 6 million Yuan	Research and development of Chinese medicines and Chinese medicine technologies and equipments; technical service and consultancy
Livzon Pharmaceutical Factory under Livzon Group	Wholly-owned subcompany	Zhuhai City	Pharmaceutical production	RMB 442.10930913 million Yuan	Production and sales of Chinese and western medicines, medical instruments and sanitation materials
Livzon Medicine Marketing Co., Ltd under Livzon Group	Wholly-owned subcompany	Zhuhai City	Commodity sales	RMB20 million Yuan	Sales of products from the company and all medical subcompanies
Zhuhai Livzon Medicine Trade Co.,	Wholly-owned subco	Zhuhai City	Commodity sal	RMB 60 million Yuan	Import and export of Chinese and wes

<u>Subcompany Name</u>	<u>Subcompany type</u>	<u>Registered place</u>	<u>Business nature</u>	<u>Registered capital</u>	<u>Operation scope</u>
Ltd	company		es		tern medicine preparations and materials and medical intermediates, etc. Chinese and western medicine preparations and materials, medical intermediates, chemical materials, sanitation materials, sanitation products, healthcare foodstuffs, invigorant, biological products, bio-chemical preparations, medical cosmetics and medical instruments
Shanghai Livzon Pharmaceutical Co., Ltd	Wholly-owned subcompany	Shanghai City	Pharmaceutical production	RMB 87.33 million Yuan	Production and sales of water injection, capsules, power, tablets, lyophilized preparation, bio-chemical and peptide material medicines
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	Wholly-owned subcompany	Zhuhai City	Pharmaceutical production	RMB 102.28 million Yuan	Production and sales of chemical n material medicine, medical preparations, medical intermediates and chemical products
Zhuhai Livzon Reagent Co., Ltd	Controlling subcompany	Zhuhai City	Pharmaceutical production	RMB 46.45 million Yuan	Production and sales of bio-chemical, immune and chemical reagents, biological products, sanitation products and medical analyzer equipments
Shanxi Datong Livzon Qiyuan Medicine Co., Ltd	Subcompany under controlling subcompany	Hunyuan County	Plantation industry	RMB 4 million Yuan	Plantation and processing of astragalus membranaceus; purchase and sales of Chinese medicines (except those that are restricted by the nation)
Longxi Livzon Shenyuan Medicine Co., Ltd	Subcompany under controlling subcompany	Longxi County	Plantation industry	RMB 4 million Yuan	Purchase, plantation, processing and storage of Chinese medicines allowed by the nation
Zhuhai Livzon Advertising Co., Ltd	Wholly-owned subcompany	Zhuhai City	Service industry	RMB 1 million Yuan	Design, production, agency and publication of various advertisements



<u>Subcompany Name</u>	<u>Subcompany type</u>	<u>Registered place</u>	<u>Business nature</u>	<u>Registered capital</u>	<u>Operation scope</u>
					at home and abroad
Zhuhai Livzon – Bai A Meng Biological Materials Co., Ltd	Controlling subcompany	Zhuhai City	Pharmaceutical production	RMB 12 million Yuan	Production and sales of Hydroxyapatite materials, plasma spraying HA-Ti artificial tooth and artificial hip, HA porous ceramic grains, and porous hydroxyapatite ceramic products.
Zhuhai Livzon Meidaxin Technology Development Co., Ltd	Wholly-owned subcompany	Zhuhai City	Service industry	RMB 1 million Yuan	Technical research and development of information and products related to medicines and health-care products; technical consultancy and service
Livzon Medicine Institute under Livzon Group	Wholly-owned subcompany	Zhuhai City	Service industry	RMB 10 million Yuan	Research and development of Chinese and western finished medicines, raw materials for medicines, medicine intermediate, Chinese medicine materials, tablet of Chinese medicines, healthcare and nutrition products, medical cosmetics, sanitation materials, bio-chemical reagents, medical instruments, as well as the technical inquiry and transfer.
Jiaozuo Livzon Syntpharm Co., Ltd	Wholly-owned subcompany	Jiaozuo City	Pharmaceutical production	RMB70 million Yuan	Production and sales of medical intermediates, chemical products (the above products do not include the dangerous chemical products and chemical products used for drugs-making) (for the above Items that involve the special approval, the license or relevant approval documents must be obtained before performing the production and operation)
Zhuhai Livzon Dankang Biotechnology Co., Ltd*1	Controlling subcompany	Zhuhai City	Service industry	RMB 100 million Yuan	Technical research and development of biological medicine products and antibody medicines
Livzon Group Vaccine Engineering Co., Ltd	Controlling subcompany	Zhuhai City	Service industry	RMB 65 million Yuan	Technical research and development of bio-medicine products and vaccines

<u>Subcompany Name</u>			<u>Subcompany type</u>	<u>Registered place</u>	<u>Business nature</u>	<u>Registered capital</u>	<u>Operation scope</u>
Wenshan	Livzon	Panax	Controlling	Wenshan	Plantation	RMB 3 million Yuan	Plantation and sales of Panax Notoginseng
Notoginseng Plantation Co., Ltd *2			subcompany	City	industry		and sales of agricultural side products (not including the grains purchase)
Ningxia Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group			Wholly-owned subcompany	Pingluo County	Pharmaceutical production	RMB 100 million Yuan	
Ningxia Fuxing Pharmaceutical Co., Ltd under Livzon Group			Wholly-owned subcompany	Pingluo County	Pharmaceutical production	RMB 100 million Yuan	

**Subcompanies that are obtained by the establishment or investment, etc (continued)**

<u>Subcompany Name</u>	<u>Actual investment amount at the end of period</u>	<u>Other Item balances that become the net investment to subcompanies</u>	<u>Shareholding percentage %</u>	<u>Voting percentage %</u>
Antao Development Limited	HKD 0.5 million	119,761,335..92	100%	100%
Livzon (Hongkong) Co., Ltd	HKD61 million	19,639,866.43	100%	100%
Zhuhai Modern Chinese Medicine Hi-tech Co., Ltd	RMB 6 million Yuan	0.00	100%	100%
Livzon Pharmaceutical Factory under Livzon Group	RMB 423.25 million Yuan	0.00	100%	100%
Livzon Medicine Marketing Co., Ltd under Livzon Group	RMB 20 million Yuan	0.00	100%	100%
Zhuhai Livzon Medicine Trade Co., Ltd	RMB 60 million Yuan	0.00	100%	100%
Shanghai Livzon Pharmaceutical Co., Ltd	RMB 87.33 million Yuan	0.00	100%	100%
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	RMB 102.28 million Yuan	0.00	100%	100%
Zhuhai Livzon Reagent Co., Ltd	RMB 23.69 million Yuan	0.00	51%	51%
Shanxi Datong Livzon Qiyuan Medicine Co., Ltd	RMB 3.7 million Yuan	0.00	81.48%	92.50%
Longxi Livzon Shenyuan Medicine Co.,	RMB 3.6 million Yuan	0.00	79.28%	90%

<u>Subcompany Name</u>	<u>Actual investment amount at the end of period</u>	<u>Other Item balances that become the net investment to subcompanies</u>	<u>Shareholding percentage %</u>	<u>Voting percentage %</u>
Ltd				
Zhuhai Livzon Advertising Co., Ltd	RMB 1 million Yuan	0.00	100%	100%
Zhuhai Livzon – Bai A Meng Biological Materials Co., Ltd	RMB 9.84 million Yuan	0.00	82%	82%
Zhuhai Livzon Meidaxin Technology Development Co., Ltd	RMB 1 million Yuan	0.00	100%	100%
Livzon Medicine Institute under Livzon Group	RMB 10 million Yuan	0.00	100%	100%
Jiaozuo Livzon Syntpharm Co., Ltd	RMB 52.5 million Yuan HKD 19.8685 million	0.00	100%	100%
Zhuhai Livzon Dankang Biotechnology Co., Ltd	RMB 51 million Yuan	0.00	51%	51%
Livzon Group Vaccine Engineering Co., Ltd	RMB54.50 million RMB	0.00	83.85%	83.85%
Wenshan Livzon Panax notoginseng Plantation Co., Ltd*2	RMB1.53 million Yuan	0.00	51%	51%
Ningxia Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	RMB 100 MILLION YUAN	0.00	100%	100%
Ningxia Fuxing Pharmaceutical Co., Ltd under Livzon Group	RMB 100 MILLION YUAN	0.00	100%	100%

**Subcompanies that are obtained by the establishment or investment, etc (continued)**

<u>Subcompany name</u>	<u>Whether they are included in the consolidated statements?</u>	<u>Equities of the minority of shareholders</u>	<u>Amounts that are used for offsetting against the equities of the minority of shareholders</u>
Antao Development Limited	Yes	0.00	0.00
Livzon (Hongkong) Co., Ltd	Yes	0.00	0.00

<u>Subcompany name</u>	<u>Whether they are included in the consolidated statements?</u>	<u>Equities of the minority of shareholders</u>	<u>Amounts that are used for offsetting against the equities of the minority of shareholders</u>
Zhuhai Modern Chinese Medicine Hi-tech Co., Ltd	Yes	0.00	0.00
Livzon Pharmaceutical Factory under Livzon Group	Yes	0.00	0.00
Livzon Medicine Marketing Co., Ltd under Livzon Group	Yes	0.00	0.00
Zhuhai Livzon Medicine Trade Co., Ltd	Yes	0.00	0.00
Shanghai Livzon Pharmaceutical Co., Ltd	Yes	0.00	0.00
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	Yes	0.00	0.00
Zhuhai Livzon Reagent Co., Ltd	Yes	80,032,274.78	0.00
Shanxi Datong Livzon Qiyuan Medicine Co., Ltd	Yes	164,205.99	0.00
Longxi Livzon Shenyuan Medicine Co., Ltd	Yes	302,065.98	0.00
Zhuhai Livzon Advertising Co., Ltd	Yes	0.00	0.00
Zhuhai Livzon – Bai A Meng Biological Materials Co., Ltd	Yes	1,111,467.95	0.00
Zhuhai Livzon Meidaxin Technology Development Co., Ltd	Yes	0.00	0.00
Jiaozuo Livzon Syntpharm Co., Ltd	Yes	0.00	0.00
Zhuhai Livzon Dankang Biotechnology Co., Ltd*1	Yes	40,531,890.33	0.00
Livzon Group Vaccine Engineering Co., Ltd	Yes	7,675,801.37	0.00
Wenshan Livzon Panax notoginseng Plantation Co., Ltd*2	Yes	898,522.43	0.00

On October 31, 2011, in accordance with the resolutions of the Board of Directors of Livzon Syntpharm Co., Ltd in Zhuhai

Bonded Area, the company absorbed and merged with Lida Pharmaceutical Co., Ltd in Zhuhai Bonded Area and completed the merger on June 21, 2012. the registration of Lida Pharmaceutical Co., Ltd in Zhuhai Bonded Area with the administration of industry and commerce was legally canceled.

## (II) Subcompanies that are obtained by the merger of enterprises which are not under the same control

<u>Full name of subcompany</u>	<u>Subcompany type</u>	<u>Registered place</u>	<u>Business nature</u>	<u>Registered capital</u>	<u>Operation scope</u>
Sichuan Guangda Pharmaceutical Co., Ltd	Wholly-owned subcompany	Pengzhou City	Pharmaceutical production	RMB14,900 万元	Research, development, production and sales of Chinese and western medicines and finished medicines
Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	Controlling subcompany	Qingyuan City	Pharmaceutical production	RMB 134.93 million Yuan	Export and production of its products and relevant technologies
Limin Pharmaceutical Co., Ltd under Livzon Group	Controlling subcompany	Shaoguan City	Pharmaceutical production	RMB 61.56 million Yuan	Production and sales of various medical preparations, medical materials, various foodstuff additives, feedstuff additives and nutrition health-care products
Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group	Wholly-owned subcompany	Fuzhou City	Pharmaceutical production	USD 41.70 million	Production of material medicines such as bacteriophage, intermediates, preparations and chemical materials for the purpose of medical production (not including the inflammable and dangerous chemical products; if required, the license must be obtained)
Gutian Fuxing Pharmaceutical Co., Ltd	Wholly-owned subcompany	Gutian County	Pharmaceutical production	RMB 26.7 million Yuan	Manufacturing and sales of material medicines (Kanamycin sulfate, Tetracycline Hydrochloride and Chlortetracline Hydrochloride)

## Subcompanies that are obtained by the merger of enterprises which are not under the same control (continued)

<u>Subcompany name</u>	<u>Actual investment amount at the end of period</u>	<u>Other Item balances that become the net investment to subcompanies</u>	<u>Shareholding percentage %</u>	<u>Voting percentage %</u>
Sichuan Guangda Pharmaceutical Co., Ltd	RMB 149 million Yuan	0.00	100%	100%

Xinbeijiang Pharmaceutical Co., Ltd	RMB 124.32 million Yuan	92.14%	92.14%
under Livzon Group	n	0.00	
Limin Pharmaceutical Co., Ltd under	RMB 56.18 million Yuan	88.09%	88.09%
Livzon Group		0.00	
Fuzhou Fuxing Pharmaceutical Co.,	USD 41.7 million	100%	100%
Ltd under Livzon Group		0.00	
Gutian Fuxing Pharmaceutical Co.,	RMB 26.7 million Yuan	100%	100%
Ltd		0.00	

**Subcompanies that are obtained by the merger of enterprises which are not under the same control (continued)**

<u>Subcompany name</u>	<u>Whether they are included in the consolidated statements?</u>	<u>Equities of the minority of shareholders</u>	<u>Amounts that are used for offsetting against the equities of the minority of shareholders</u>
Sichuan Guangda Pharmaceutical Co., Ltd	Yes	0.00	0.00
Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	Yes	15,060,630.86	0.00
Limin Pharmaceutical Co., Ltd under Livzon Group	Yes	21,514,456.65	0.00
Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group	Yes	0.00	0.00

**(III) Subcompanies that are obtained by the merger of enterprises which are under the same control: None.**

**(IV) Subcompanies that are newly included in the consolidated scopes: None.**

## V. Notes to Main Items in the Consolidated Financials Statements

### 1. Currency Capital

<u>Item</u>	<u>2012.6.30</u>			<u>2011.12.31</u>		
	<u>Original</u> <u>Currency</u>	<u>Exchange</u> <u>rate</u>	<u>Book-keeping</u> <u>Currency</u>	<u>Original</u> <u>Currency</u>	<u>Exchange</u> <u>rate</u>	<u>Book-keeping</u> <u>Currency</u>
Cash at stock			185,221.13			232,609.61
Including:						
RMB			110,775.32			157,310.55
Euro	9,225.00	7.871	72,609.98	9,225.00	8.1625	75,299.06

Singapore						
Dollar			0.00	4.8679		0.00
Hongkon						
g Dollar	2,252.00	0.8152	1,835.83			
Deposits in						1,442,741,276.3
banks			894,544,548.86			7
Including:						1,395,390,891.8
RMB			835,263,837.44			8
Hongkong						
Dollar	50,951,209.52	0.8152	41,535,426.00	38,498,172.86	0.81070	31,210,468.74
USD	2,605,089.77	6.3249	16,476,932.29	2,371,030.00	6.3009	14,939,622.93
Japanese						
Yuan	10,335,305.00	0.079648	823,186.37	8,263,260.00	0.081103	670,175.18
Euro	56,557.84	7.871	445,166.76	64,945.50	8.1625	530,117.64
Other						
Currency						
Capital			5,047,912.74			4,769,669.72
Including:						
RMB			384,636.16			2,549,998.85
Hongkong						
Dollar	5,720,407.97	0.8152	<u>4,663,276.58</u>	2,737,968.26	0.81070	<u>2,219,670.87</u>
						<u>1,447,743,555.7</u>
Total			<u>899,777,682.73</u>			<u>0</u>

(1) Other currency capitals at the end of this period mainly include the investment amounts and L/C deposits.

(2) RMB 13.25 million Yuan of deposits in banks that has been mortgaged for the short-term loans and the L/C deposits of RMB 1,065,474.05 Yuan in other currency capitals will be deducted from the cash and cash equivalents of cash flow statement. Besides, in the balances at the end of period, there are no Items which have the use restriction, are deposited in overseas banks and have the return risks due to the mortgage, pledgement or freezing, etc.

(3) The main cause of the decrease of 37.85% over the beginning of period is the repayment to short-term financing bonds of RMB 400 million Yuan in this period.

## 2. Tradable financial assets

<u>Item</u>	<u>2012.6.30</u>			<u>2011.12.31</u>		
	<u>Cost</u>	<u>Changes of Fair</u>	<u>Fair Values</u>	<u>Cost</u>	<u>Changes of Fair</u>	<u>Fair Values</u>
		<u>Values</u>			<u>Values</u>	
Stock	51,008,193.34	-6,271,238.09	44,736,955.25	52,140,958.83	-8,321,422.37	43,819,536.46
Fund	<u>150,000.00</u>	<u>397,392.71</u>	<u>547,392.71</u>	<u>150,000.00</u>	<u>373,477.19</u>	<u>523,477.19</u>
Total	<u>51,158,193.34</u>	<u>-5,873,845.38</u>	<u>45,284,347.96</u>	<u>52,290,958.83</u>	<u>-7,947,945.18</u>	<u>44,343,013.65</u>

In the balances at the end of period, there are no tradable financial assets with the discounting restriction.

### 3. Receivable Bills

#### (1) Classification of receivable bills

<u>Item</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
Bank Acceptance Drafts	78,683,228.59	171,033,783.72

(2) At the end of period, the company has no receivable bills that have been mortgaged.

(3) By June 30, 2012, the bills that have been endorsed but have not been due are listed as follows:

<u>Bill Type</u>	<u>Due Time</u>	<u>Amount</u>
Bank Acceptance Drafts	2012-12-31	112,485,361.78

(4) At the end of period, the company has no bills that have been transferred to the accounts receivable due to the failure of drawers to perform their obligations.

### 4. Accounts Receivable

#### (1) Composition of Accounts Receivable

<u>Item</u>	<u>2012.6.30</u>				<u>2011.12.31</u>			
	<u>Amount</u>	<u>Percent</u>	<u>Reserves for B</u>	<u>Net Value</u>	<u>Amount</u>	<u>Percent</u>	<u>Reserves for B</u>	<u>Net Value</u>
		<u>age</u>	<u>ad Debts</u>			<u>age</u>	<u>ad Debts</u>	
Accounts receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
whose individual								
amount is large and								
whose individual								
bad debt reserve is								



withdrawn

Accounts receivable

whose bad debt

reserve is

withdrawn based on 765,573,428.

the combination	30	99.38%	39,005,049.09	726,568,379.21	591,699,098.32	99.03%	30,108,482.57	561,590,615.75
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Accounts receivable

whose individual

amount is not large

but whose individual

bad debt reserve is

withdrawn	<u>4,767,753.11</u>	<u>0.62%</u>	<u>4,391,134.28</u>	<u>376,618.83</u>	<u>5,817,326.81</u>	<u>0.97%</u>	<u>5,261,929.38</u>	<u>555,397.43</u>
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Total

<u>770,341,181.</u>	<u>100.00</u>				<u>100.00</u>			
<u>41</u>	<u>%</u>	<u>43,396,183.37</u>	<u>726,944,998.04</u>	<u>597,516,425.13</u>	<u>%</u>	<u>35,370,411.95</u>	<u>562,146,013.18</u>	

(2) At the end of this period, for the accounts receivable totaling RMB 523,861.41 Yuan whose amounts are large, or whose amounts are not large but whose depreciation tests have been separately made, the reserves for them are fully withdrawn: the reserve for 3-4 years amounts to RMB 5,000.00 Yuan; the reserve for 4-5 years amounts to RMB 4,706.17 Yuan; the reserve for over 5 years amounts to RMB 514,155.24 Yuan.

(3) Accounts receivable whose bad debt reserves are withdrawn based on the age combination

	<u>2012.6.30</u>				<u>2011.12.31</u>			
<u>Age</u>	<u>Amount</u>	<u>Percentage</u>	<u>Reserves for Bad Debts</u>	<u>Net Value</u>	<u>Amount</u>	<u>Percent</u>	<u>Reserves for Bad Debts</u>	<u>Net Value</u>
Within 1 year							28,971,794.6	
1-2 years	746,461,854.39	96.90%	37,323,092.71	709,138,761.68	579,435,893.16	96.97%	6	550,464,098.50
2-3 years	15,288,274.30	1.98%	917,296.46	14,370,977.84	9,399,665.32	1.57%	563,979.93	8,835,685.39
Over 3 years	3,823,299.61	0.50%	764,659.92	3,058,639.69	2,863,539.84	0.48%	572,707.98	2,290,831.86
	<u>4,767,753.11</u>	<u>0.62%</u>	<u>4,391,134.28</u>	<u>376,618.83</u>	<u>5,817,326.81</u>	<u>0.98%</u>	<u>5,261,929.38</u>	<u>555,397.43</u>

Total					<u>100.00</u>	<u>35,370,411.9</u>	
	<u>770,341,181.41</u>	<u>100.00%</u>	<u>43,396,183.37</u>	<u>726,944,998.04</u>	<u>597,516,425.13</u>	<u>%</u>	
						<u>5</u>	<u>562,146,013.18</u>

(4) In 2012, the accounts receivable with the non-associated parties that have been actually written off amount to RMB 446,191.00 Yuan.

(5) By June 30, 2012, the top 5 accounts receivable are listed as follows:

<u>Debtor Name</u>	<u>Relationship</u> <u>with this</u> <u>company</u>	<u>Debt Amount</u>	<u>Nature or</u> <u>Content</u>	<u>Debt Time</u>	<u>Percentage</u> <u>in Total</u> <u>Amount</u>
	Non-associated				
BIOCON LIMITED	party	28,284,446.81	Loan	Within 1 year	3.67%
North China Pharmaceutical co.,Ltd	Non-associated party	15,751,773.84	Loan	Within 1 year	2.04%
Hebei Huamin Pharmaceutical Co.,Ltd under North China Pharmaceutical	Non-associated party	13,102,792.20	Loan	Within 1 year	1.70%
Sichuan Provincial Pharmaceutical co.,Ltd	Non-associated party	11,491,696.80	Loan	Within 1 year	1.49%
Sichuan Provincial Pharmaceutical Controlling Co.,Ltd	Non-associated party	<u>10,431,841.20</u>	Loan	Within 1 year	<u>1.35%</u>
Total		<u>79,062,550.85</u>			<u>10.25%</u>

(6) By June 30, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

## 5. Prepaid Accounts

(1) Age analysis

<u>Age</u>	<u>2012.6.30</u>	<u>Percentage</u>	<u>2011.12.31</u>	<u>Percentage</u>
Within 1 year	157,264,270.30	90.93%	187,411,846.41	87.65%
1-2 years	1,219,368.80	0.71%	20,119,685.37	9.41%
2-3 years	14,458,430.50	8.36%	5,716,219.50	2.67%
Over 3 years	<u>0.00</u>	<u>0.00%</u>	<u>570,000.00</u>	<u>0.27%</u>
Total	<u>172,942,069.60</u>	<u>100.00%</u>	<u>213,817,751.28</u>	<u>100.00%</u>

(2) The prepaid accounts with the age of over 1 year are mainly the lands accounts that have not been settled.

(3) By June 30, 2012, the top 5 prepaid accounts are listed as follows:

<u>Debtor Name</u>	<u>Relationship</u> <u>with this</u> <u>company</u>	<u>Debt Amount</u>	<u>Nature or</u> <u>Content</u>	<u>Debt Time</u>	<u>Percentage</u> <u>in Total</u> <u>Amount</u>
Management Commission of Sichuan Pengzhou Industrial Development Zone	Non-associated party	20,425,185.00	Land expense	Within 1 year, 2-3 years	11.81%
Public Resources Trade Administration of Ningxia Hui Autonomous Region	Non-associated party	11,267,200.00	Land expense	Within 1 year	6.52%
Siemens Healthcare Diagnostics Products (Shanghai) Co., Ltd	Non-associated party	10,030,506.95	Loan	Within 1 year	5.80%
Leshan Forui Pharmaceutical Co., Ltd	Non-associated party	10,000,000.00	Loan	Within 1 year	5.78%
Sichuan Leshan Health Pharmaceutical Co., Ltd	Non-associated party	9,986,292.00	Loan	Within 1 year	5.77%
		<u>61,709,183.9</u>			
Total		<u>5</u>			<u>35.68%</u>

(4) By June 30, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

## 6. Other Accounts receivable

(1) Composition of other accounts receivable

<u>Item</u>	<u>2012.6.30</u>				<u>2011.12.31</u>			
	<u>Amount</u>	<u>Percent</u>	<u>Reserves for</u> <u>age</u> <u>Bad Debts</u>	<u>Net Value</u>	<u>Amount</u>	<u>Percent</u>	<u>Reserves for</u> <u>age</u> <u>Bad Debts</u>	<u>Net Value</u>
Accounts receivable whose individual amount is large and	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

whose individual bad debt reserve

is withdrawn

Accounts receivable whose bad

debt reserve is withdrawn based

47,258,176.0

2,835,718.8

on the combination

59,029,106.94 97.10%

3,454,595.55 55,574,511.39

6 96.28%

0

44,422,457.26

Accounts receivable whose

individual amount is not large but

whose individual bad debt reserve

1,758,891.0

is withdrawn

1,765,171.14

2.90%

1,700,315.49

64,855.65

1,824,486.63

3.72%

3

65,595.60

Total

100.00

49,082,662.6

100.00

4,594,609.8

60,794,278.08

%

5,154,911.04

55,639,367.04

9

%

3

44,488,052.86

(2) At the end of this period, for the other accounts receivable totaling RMB 250,000.00 Yuan whose amounts are large, or whose amounts are not large but whose depreciation tests have been separately made, the reserves for them are fully withdrawn: the reserve for less than 1 year amounts to RMB 250,000.00 Yuan.

(3) Other accounts receivable whose bad debt reserves are withdrawn based on the age combination

<u>2012.6.30</u>					<u>2011.12.31</u>				
<u>Age</u>	<u>Amount</u>	<u>Percent</u>	<u>Reserves for Bad</u>	<u>Net Value</u>	<u>Amount</u>	<u>Percenta</u>	<u>Reserves for Bad</u>	<u>Net Value</u>	
		<u>age</u>	<u>Debts</u>			<u>ge</u>	<u>Debts</u>		
Within 1									
year	48,884,406.21	80.41%	2,681,720.29	46,202,685.92	38,327,573.20	78.09%	1,965,149.77	36,362,423.43	
1-2 years	8,971,892.02	14.76%	538,313.52	8,433,578.50	8,218,708.78	16.74%	728,190.21	7,490,518.57	
2-3 years	1,172,808.71	1.93%	234,561.74	938,246.97	711,894.08	1.45%	142,378.82	569,515.26	
Over 3									
years	1,765,171.14	2.90%	1,700,315.49	64,855.65	1,824,486.63	3.72%	1,758,891.03	65,595.60	
Total		<u>100.00</u>							
	<u>60,794,278.08</u>	<u>%</u>	<u>5,154,911.04</u>	<u>55,639,367.04</u>	<u>49,082,662.69</u>	<u>100.00%</u>	<u>4,594,609.83</u>	<u>44,488,052.86</u>	

(4) In 2012, there are no other accounts receivable with the non-associated parties that have been actually written off.

(5) By June 30, 2012, the top 5 other accounts receivable are listed as follows:

<u>Debtor Name</u>	<u>Debt Amount</u>	<u>Nature or</u> <u>Content</u>	<u>Debt Time</u>	<u>Percentage in</u> <u>Total Amount</u>
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Guangzhou Yinheyangguang

Pharmaceutical Group Industry

Co., Ltd	5,000,000.00	Loans	1—2 years	8.22%
Guangdong Blue Treasure		Receivable power	Within 1	
Pharmaceutical Co. Ltd.	3,691,904.74	expenses	year	6.07%
			Within 1	
Yuan Zhenjie	3,568,098.00	Loans for equipment	year	5.87%
		Payable Export tax	Within 1	
Payable Export tax rebate fund	2,501,815.89	rebate fund	year	4.12%
			Within 2	
Ding Gongcai	<u>2,302,000.00</u>	Loans for projects	years	<u>3.79%</u>
Total	<u>17,063,818.63</u>			<u>28.07%</u>

(6) By June 30, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

## 7. Inventory

### (1) Inventory classification

Item	Amount	<u>2012.6.30</u>		<u>2011.12.31</u>		Net Value
		<u>Depreciation</u>	<u>Net Value</u>	<u>Amount</u>	<u>Depreciation</u>	
		<u>Reserve</u>			<u>Reserve</u>	
Raw materials	199,834,872.43	1,526,887.87	198,307,984.56	202,423,005.91	1,861,885.09	200,561,120.82
Packages	25,348,358.06	50,152.67	25,298,205.39	22,461,455.53	106,644.99	22,354,810.54
Products	92,599,952.11	340,833.20	92,259,118.91	62,881,651.61	230,499.98	62,651,151.63
Inventory						
commodities	138,673,837.59	9,606,765.34	129,067,072.25	124,204,642.82	6,942,721.66	117,261,921.16
Entrusted						
materials for						
processing	729,412.19	0.00	729,412.19	332,203.60	0.00	332,203.60
Low-value						
consumables	1,047,949.65	0.00	1,047,949.65	123,902.99	0.00	123,902.99

## Delivered

commodities	377.81	0.00	377.81	98,691.41	0.00	98,691.41
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## Consumable

biological assets	20,180,075.12	0.00	20,180,075.12	3,623,758.25	0.00	3,623,758.25
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## Self-made semi-

finished products	<u>16,623,218.68</u>	<u>856,129.92</u>	<u>15,767,088.76</u>	<u>18,439,392.00</u>	<u>1,024,111.05</u>	<u>17,415,280.95</u>
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Total	<u>495,038,053.64</u>	<u>12,380,769.00</u>	<u>482,657,284.64</u>	<u>434,588,704.12</u>	<u>10,165,862.77</u>	<u>424,422,841.35</u>
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## (2) Depreciation reserve for inventory

Decrease in this period

Inventory type	<u>2011.12.31</u>	<u>Withdrawal in</u> <u>this period</u>	<u>Reversion in</u> <u>this period</u>	<u>Writing-off in</u> <u>this period</u>	<u>2012.6.30</u>
Raw materials	1,861,885.09	-213,826.12	0.00	121,171.10	1,526,887.87
Packages	106,644.99	-1,248.65	0.00	55,243.67	50,152.67
Products	230,499.98	110,333.22	0.00	0.00	340,833.20
Inventory					
commodities	6,942,721.66	4,372,122.14	0.00	1,708,078.46	9,606,765.34
Self-made semi-					
finished products	<u>1,024,111.05</u>	<u>-167,981.13</u>	<u>0.00</u>	<u>0.00</u>	<u>856,129.92</u>
Total	<u>10,165,862.77</u>	<u>4,099,399.46</u>	<u>0.00</u>	<u>1,884,493.23</u>	<u>12,380,769.00</u>

The depreciation reserve for inventory will be withdrawn based on the difference between the inventory book values and their net realizable values on June 30, 2012. The net realizable values mean the values after deduction of the costs, sales expenses and relevant taxes from the evaluated selling prices of inventories in the daily activities at the time of completion.

**8. Saleable Financial Assets**

## (1) Classification

<u>Item</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
Saleable equity instruments	9,657,659.86	9,238,787.30
Including: stocks	9,657,659.86	9,238,787.30

**9. Investments to the associated enterprises**

<u>Name of Invested Units</u>	<u>Enterprise type</u>	<u>Registered place</u>	<u>Legal representative</u>	<u>Business nature</u>	<u>Registered capital</u>	<u>Share-holding percentage of this enterprise(%)</u>	<u>Percentage of voting rights of this enterprise in the invested units(%)</u>
Guangdong Blue Treasure Pharmaceutical Co. Ltd.	Limited liability (joint venture)	Qingyuan City	An Ning	Production and sales of material medicines	USD 7.53 million	35.91%	35.91%
Livzon Medical Electronic Equipment (Factory) Co., Ltd	Limited liability	Zhuhai City	Xu Xiaoxian	It has been closed.	RMB 3.62 million Yuan	28%	28%
Tongyikangshimei (Shenzhen) Co., Ltd	Limited liability	Shenzhen	Huang Qianli	Commodity sales	RMB 100 million Yuan	35%	35%
Total							

Continued:

<u>Name of Invested Units</u>	<u>Total assets at the end of period</u>	<u>Total liabilities at the end of period</u>	<u>Total net assets at the end of period</u>	<u>Total operating income in this year</u>	<u>Net profits in this year</u>
Guangdong Blue Treasure Pharmaceutical Co. Ltd.	99,016,593.28	16,334,163.69	82,682,429.59	44,651,991.24	3,284,132.47
Livzon Medical Electronic Equipment (Factory) Co., Ltd	—	—	—	—	—
Tongyikangshimei Chain (Shenzhen) Co., Ltd	14,927,230.42	2,046,146.76	12,881,083.66	6,153,914.59	-2,963,994.52
Total	113,943,823.70	18,380,310.45	95,563,513.25	50,805,905.83	320,137.95

**10. Long-term Equity Investment**

(1) Long-term equity investment and depreciation reserve

Item	2012.6.30			2011.12.31		
	Book Balance	Depreciation Reserve	Book Values	Book Balance	Depreciation Reserve	Book Values
Calculation						
by Cost	102,853,108.8					
Method	4	20,600,000.00	82,253,108.84	102,853,108.84	20,600,000.00	82,253,108.84
Calculation						
by Equity						
Method	37,617,832.96	1,200,000.00	36,417,832.96	37,475,899.07	1,200,000.00	36,275,899.07
Total	<u>140,470,941.8</u>		<u>118,670,941.8</u>			
	<u>0</u>	<u>21,800,000.00</u>	<u>0</u>	<u>140,329,007.91</u>	<u>21,800,000.00</u>	<u>118,529,007.91</u>

## (2) Long-term equity investment calculated by cost method

Name of Invested Units	Initial Amount	2011.12.31	Increase in this period	Decrease in this period	2012.6.30	Shareholding percentage	Cash dividend
Guangdong Development Bank Co., Ltd	177,348.84	177,348.84	0.00	0.00	177,348.84	0.0004%	0.00
Beijing Medical Goods Joint Operation Company	100,000.00	100,000.00	0.00	0.00	100,000.00	0.821%	0.00
Doumen Sanzhou Industry City Co., Ltd	500,000.00	500,000.00	0.00	0.00	500,000.00	1.6%	0.00
China Resources Bank of Zhuhai Co., Ltd*	95,325,760.00	95,325,760.00	0.00	0.00	95,325,760.00	1.5065%	0.00
Ruiheng Pharmaceutical Technology Investment Co., Ltd	6,250,000.00	6,250,000.00	0.00	0.00	6,250,000.00	5.681%	0.00
Shanghai Haixin Pharmaceutical Co., Ltd	<u>500,000.00</u>	<u>500,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>500,000.00</u>	4.55%	<u>0.00</u>
	<u>102,853,108.8</u>						
Total	<u>4</u>	<u>102,853,108.84</u>	<u>0.00</u>	<u>0.00</u>	<u>102,853,108.84</u>		<u>0.00</u>



## (3) Long-term equity investment calculated by the equity method

<u>Name of Invested Units</u>			<u>Investment cost</u>	<u>2011.12.31</u>	<u>Increase in</u> <u>this period</u>	<u>Decrease in</u> <u>this period</u>	<u>2012.6.30</u>	<u>Shareholdi</u> <u>ng</u> <u>percentag</u> <u>e</u>	<u>Cash</u> <u>dividend</u>
Livzon	Medical	Electronic							
Equipment (Factory) Co., Ltd			1,200,000.00	1,200,000.00	0.00	0.00	1,200,000.00	28%	0.00
Guangdong	Blue	Treasure			1,179,331.9				
Pharmaceutical Co. Ltd.			11,227,540.45	30,446,697.36	7	0.00	31,626,029.33	35.91%	0.00
Tongyikangshimei Chain (Shenzhen)									
Co., Ltd			<u>35,000,000.00</u>	<u>5,829,201.71</u>	<u>0.00</u>	<u>1,037,398.08</u>	<u>4,791,803.63</u>	35%	<u>0.00</u>
					<u>1,179,331.9</u>				
Total			<u>47,427,540.45</u>	<u>37,475,899.07</u>	<u>7</u>	<u>1,037,398.08</u>	<u>37,617,832.96</u>		<u>0.00</u>

## (4) Depreciation reserve for long-term equity investment

<u>Investment Projects</u>		<u>2011.12.31</u>	<u>Withdrawal</u> <u>in this</u> <u>period</u>	<u>Transfer in</u> <u>this period</u>	<u>2012.6.30</u>	<u>Withdrawal</u> <u>Cause</u>
Doumen Sanzhou Industry City Co., Ltd		500,000.00	0.00	0.00	500,000.00	The net assets are less than zero.
China Resources Bank of Zhuhai Co., Ltd*		20,000,000.00	0.00	0.00	20,000,000.00	Loss
Livzon	Medical					The net assets are less than zero.
Equipment (Factory) Co., Ltd		1,200,000.00	0.00	0.00	1,200,000.00	
Beijing	Medical					The business license has been cancelled by the local admi
Goods						
Joint						
Operation Company						
		<u>100,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>100,000.00</u>	

nistration of  
industry and  
commerce

Total	<u>21,800,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>21,800,000.0</u>	<u>0</u>
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# 11. Fixed Assets and Accumulated Depreciation

## (1) Particulars

<u>Item</u>	<u>2011.12.31</u>	<u>Increase in this period</u>	<u>Decrease in this period</u>	<u>2012.6.30</u>
Original values of fixed assets:				
Houses and buildings	1,046,340,406.36	56,927,595.37	0.00	1,103,268,001.73
Machine equipments	1,054,042,266.72	31,843,206.13	6,076,876.45	1,079,808,596.40
Transportation equipments	34,222,234.14	1,575,326.83	448,181.25	35,349,379.72
Electronic equipments and others	<u>162,678,868.93</u>	<u>6,328,341.12</u>	<u>858,598.18</u>	<u>168,148,611.87</u>
Total	<u>2,297,283,776.15</u>	<u>96,674,469.45</u>	<u>7,383,655.88</u>	<u>2,386,574,589.72</u>
Accumulated depreciation:				
Houses and buildings	405,522,355.40	20,683,941.13	0.00	426,206,296.53
Machine equipments	581,999,010.91	36,970,717.24	4,188,026.98	614,781,701.17
Transportation equipments	17,209,050.92	1,663,930.29	421,227.84	18,451,753.37
Electronic equipments and others	<u>122,432,705.18</u>	<u>5,787,230.20</u>	<u>704,779.74</u>	<u>127,515,155.64</u>
Total	<u>1,127,163,122.41</u>	<u>65,105,818.86</u>	<u>5,314,034.56</u>	<u>1,186,954,906.71</u>
Net value of fixed assets:	<u>1,170,120,653.74</u>			<u>1,199,619,683.01</u>
Depreciation reserve for fixed assets				

Houses and buildings	37,555,224.19	0.00	426,486.57	37,128,737.62
Machine equipments	40,986,153.40	13,983.23	417,002.02	40,583,134.61
Transportation equipments	95,560.44	0.00	5,012.23	90,548.21
Electronic equipments and others	<u>916,835.49</u>	<u>0.00</u>	<u>26,417.22</u>	<u>890,418.27</u>
Total	<u>79,553,773.52</u>	<u>13,983.23</u>	<u>874,918.04</u>	<u>78,692,838.71</u>
Net values of fixed assets:	<u>1,090,566,880.22</u>			<u>1,120,926,844.3</u> <u>0</u>

(2) The projects under construction in this period that have been transferred to the fixed assets amount to RMB 33,993,631.90 Yuan.

(3) The fixed assets that are temporarily unused are listed as follows:

<u>Item</u>	<u>Original Book Values</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Reserve</u>	<u>Net Amount</u>	<u>Estimated Time to put it into use</u>
Houses and buildings	7,116,041.13	3,335,185.52	0.00	3,780,855.61	2012
Machine equipments	5,610,454.62	4,424,478.41	0.00	1,185,976.21	2012
Office equipments and others	<u>40,112.85</u>	<u>37,397.56</u>	<u>0.00</u>	<u>2,715.29</u>	2012
Total	<u>12,766,608.60</u>	<u>7,797,061.49</u>	<u>0.00</u>	<u>4,969,547.11</u>	

(4) The company has no fixed assets that are proposed to be disposed of.

(5) The company has not leased any fixed assets in the mode of financing lease.

(6) The fixed assets that have been rented out are listed as follows:

<u>Item</u>	<u>Original Book Values</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Reserve</u>	<u>Net Amount</u>
Houses and buildings	4,706,459.65	2,805,017.88	26,479.77	1,874,962.00

Office equipments				
and others	<u>22,800.00</u>	<u>18,908.58</u>	<u>0.00</u>	<u>3,891.42</u>
Total	<u>4,729,259.65</u>	<u>2,823,926.46</u>	<u>26,479.77</u>	<u>1,878,853.42</u>

(7) Particulars about fixed assets whose property certificates have not been handled:

<u>Item</u>	<u>Original Book</u>	<u>Accumulated</u>	<u>Depreciated</u>	<u>Net Amount</u>	<u>Cause</u>
	<u>Values</u>	<u>Depreciation</u>	<u>on</u>		
			<u>Reserve</u>		
					They are the newly built
Houses and		25,153,210.0		286,242,151.	projects and the handling of
buildings	311,395,361.49	6	0.00	43	certificates is still under way.

(8) Please see the article 20 of V in the notes to the financial statement for more details about the mortgage of fixed assets.

## 12. Projects under Construction

(1) Projects under Construction

	<u>2012.6.30</u>			<u>2011.12.31</u>		
<u>Project</u>	<u>Original Book-</u>	<u>Depreciation</u>		<u>Original Book-</u>	<u>Depreciation</u>	
<u>name</u>	<u>keeping</u>	<u>Reserve</u>	<u>Net Value</u>	<u>keeping</u>	<u>Reserve</u>	<u>Net Value</u>
	<u>Amount</u>			<u>Amount</u>		
Newly	434,074,283.7		434,074,283.7			
built plants	8	0.00	8	57,274,311.70	0.00	57,274,311.70
Equipment						
installation	23,608,685.55	0.00	23,608,685.55	18,546,510.54	0.00	18,546,510.54
Technical						
improvement						
ent	3,370,934.20	0.00	3,370,934.20	2,413,856.54	0.00	2,413,856.54
Plant						
improvement						
ent	32,902,654.67	0.00	32,902,654.67	26,320,944.15	0.00	26,320,944.15

Others	<u>85,218,594.74</u>	<u>0.00</u>	<u>85,218,594.74</u>	<u>44,286,005.23</u>	<u>0.00</u>	<u>44,286,005.23</u>
Total	<u>579,175,152.9</u>		<u>579,175,152.9</u>	<u>148,841,628.1</u>		<u>148,841,628.1</u>
	<u>4</u>	<u>0.00</u>	<u>4</u>	<u>6</u>	<u>0.00</u>	<u>6</u>

## (2) Particulars

Project Name	Budget Amount	2011.12.31	Increase in this period	Fixed Assets		2012.6.30	Capital Source	Percentage of Project Investment to Budget
				Transferred in this Period	Other Decrease			
Newly built plants	1,296,529,000.00	57,274,311.70	384,232,734.23	7,432,762.15	0.00	434,074,283.78	Loans and available capitals owned by the company	52.72%
Equipment installation	158,053,865.49	18,546,510.54	28,898,821.82	23,836,646.81	0.00	23,608,685.55	Available capitals owned by the company	96.562%
Technical improvement	132,813,422.83	2,413,856.54	42,331,622.17	441,955.00	0.00	44,303,523.71	Available capitals owned by the company	38.07%
Plant improvement	77,141,976.41	26,320,944.15	8,863,978.46	2,282,267.94	0.00	32,902,654.67	Available capitals owned by the company	52.36%
Others	<u>77,020,214.88</u>	<u>44,286,005.23</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>44,286,005.23</u>	Available capitals owned by the company	70.60%
Total	<u>1,741,558,479.61</u>	<u>148,841,628.16</u>	<u>464,327,156.68</u>	<u>33,993,631.90</u>	<u>0.00</u>	<u>579,175,152.94</u>		

(3) At the end of period, the increase of projects under construction by 289.12% over the beginning of period is mainly because of the increase of investments in newly built plants.

(4) By June 30, 2012, the capitalization amounts of interests for the projects under construction are listed as follows:

Project Name	2011.12.31	Increase in this	Fixed Assets	Other	2012.6.30
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	<u>period</u>	<u>Transferred in this Period</u>	<u>Decrease</u>	
Newly built plants	3,239,673.65	6,340,332.30	0.00	9,580,005.95

The capitalization of projects under construction will apply the interest rates for special loans of banks.

### 13. Project Goods

<u>Goods name</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
Special materials	0.00	0.00
Special equipments	<u>1,785,250.00</u>	<u>2,536,926.00</u>
Total	<u>1,785,250.00</u>	<u>2,536,926.00</u>

At the end of period, the decrease of projects under construction by 29.63% over the beginning of period is mainly because of the transfer of special equipments into the projects under construction.

### 14. Intangible Assets and Accumulated Amortization

<u>Item</u>	<u>2011.12.31</u>	<u>Increase in this period</u>	<u>Decrease in this period</u>	<u>2012.6.30</u>
① Original price				
Use rights of lands	156,246,944.89	37,415,587.11	0.00	193,662,532.00
Special techniques	131,493,340.02	6,000,000.00	0.00	137,493,340.02
Software	13,689,374.24	3,555,633.58	0.00	17,245,007.82
Trademark rights	<u>24,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>24,000.00</u>
Total	<u>301,453,659.15</u>	<u>46,971,220.69</u>	<u>0.00</u>	<u>348,424,879.84</u>
② Accumulated amortization				
Use rights of lands	46,039,021.58	1,505,317.14	0.00	47,544,338.72
Special techniques	74,768,659.44	6,392,570.68	0.00	81,161,230.12
Software	7,874,600.72	1,610,170.54	0.00	9,484,771.26
Trademark rights	<u>24,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>24,000.00</u>
Total	<u>128,706,281.74</u>	<u>9,508,058.36</u>	<u>0.00</u>	<u>138,214,340.10</u>

③ Depreciation reserve for  
intangible assets

Use rights of lands	981,826.94	0.00	0.00	981,826.94
Special techniques	1,379,999.89	0.00	0.00	1,379,999.89
Software	0.00	0.00	0.00	0.00
Trademark rights	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>2,361,826.83</u>	<u>0.00</u>	<u>0.00</u>	<u>2,361,826.83</u>
	<u>2011.12.31</u>	<u>Increase in this</u>	<u>Decrease in this</u>	<u>2012.6.30</u>
<u>Item</u>		<u>period</u>	<u>period</u>	

④ Total of book values of  
intangible assets

Use rights of lands	109,226,096.37	145,136,366.34
Special techniques	55,344,680.69	54,952,110.01
Software	5,814,773.52	7,760,236.56
Trademark rights	<u>0.00</u>	<u>0.00</u>
Total	<u>170,385,550.58</u>	<u>207,848,712.91</u>

Particulars about intangible assets whose property certificates have not been handled:

<u>Item</u>	<u>Original Book</u>	<u>Accumulated</u>	<u>Depreciation</u>	<u>Net Amount</u>	<u>Cause</u>
	<u>Values</u>	<u>Depreciation</u>	<u>Reserve</u>		
Use right of					The handling of
lands	39,792,313.68	4,694,351.69	0.00	35,097,961.99	certificates is still
					under way.

**15. Development payment**

		<u>Decrease in this period</u>		
<u>Item</u>		<u>Accrued to the</u>	<u>Confirmed as</u>	
	<u>Increase in this</u>	<u>current profit and</u>	<u>intangible assets</u>	
	<u>2011.12.31</u>	<u>period</u>	<u>loss</u>	<u>2012.6.30</u>

## Capitalization

payment	1,510,153.51	0.00	0.00	0.00	1,510,153.51
Expense payment	<u>0.00</u>	<u>26,925,382.60</u>	<u>26,925,382.60</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>1,510,153.51</u>	<u>26,925,382.60</u>	<u>26,925,382.60</u>	<u>0.00</u>	<u>1,510,153.51</u>

## 16 Goodwill

Item	<u>2012.6.30</u>			<u>2011.12.31</u>		
	<u>Book balance</u>	<u>Depreciation</u>	<u>Book Values</u>	<u>Book balance</u>	<u>Depreciation</u>	<u>Book Values</u>
		<u>Reserve</u>			<u>Reserve</u>	
Good						
will	121,799,561.00	18,759,063.15	103,040,497.85	121,799,561.00	18,759,063.15	103,040,497.85

The book balances of goodwill are listed as follows:

<u>Name of Invested Units</u>			<u>2011.12.31</u>	<u>Increase in this</u> <u>period</u>	<u>Decrease in</u> <u>this period</u>	<u>2012.6.30</u>	<u>Formation Source</u>
Livzon	Pharmaceutical	Factory					Cost-book value
	under Livzon Group		47,912,269.66	0.00	0.00	47,912,269.66	differentials
Sichuan	Guangda	Pharmaceutical					Cost-book value
	Co., Ltd		13,863,330.24	0.00	0.00	13,863,330.24	differentials
Fuzhou	Fuxing	Pharmaceutical Co.,					Cost-book value
	Ltd under Livzon Group		46,926,155.25	0.00	0.00	46,926,155.25	differentials
Xinbeijiang	Pharmaceutical Co., Ltd						Cost-book value
	under Livzon Group		7,271,307.03	0.00	0.00	7,271,307.03	differentials
Zhuhai	Livzon Meidaxin Technology						Cost-book value
	Development Co., Ltd		287,756.12	0.00	0.00	287,756.12	differentials
Shanghai	Livzon Pharmaceutical Co.,						Cost-book value
	Ltd		2,045,990.12	0.00	0.00	2,045,990.12	differentials



<u>Name of Invested Units</u>	<u>2011.12.31</u>	<u>Increase in this</u> <u>period</u>	<u>Decrease in</u> <u>this period</u>	<u>2012.6.30</u>	<u>Formation Source</u>
Livzon Syntpharm Co., Ltd in Zhuhai					Cost-book value
Bonded Area	3,414,752.58	0.00	0.00	3,414,752.58	differentials
Lida Pharmaceutical Co., Ltd in					Cost-book value
Zhuhai Bonded Area	<u>78,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>78,000.00</u>	differentials
Total	<u>121,799,561.0</u>				
	<u>0</u>	<u>0.00</u>	<u>0.00</u>	<u>121,799,561.00</u>	

The goodwill depreciations are listed as follows:

<u>Name of Invested Units</u>	<u>2011.12.31</u>	<u>Increase in this</u> <u>period</u>	<u>Decrease in</u> <u>this period</u>	<u>2012.6.30</u>
Fuzhou Fuxing Pharmaceutical Co., Ltd				
under Livzon Group	11,200,000.00	0.00	0.00	11,200,000.00
Xinbeijiang Pharmaceutical Co., Ltd				
under Livzon Group	7,271,307.03	0.00	0.00	7,271,307.03
Zhuhai Livzon Meidaxin Technology				
Development Co., Ltd	<u>287,756.12</u>	<u>0.00</u>	<u>0.00</u>	<u>287,756.12</u>
Total	<u>18,759,063.15</u>	<u>0.00</u>	<u>0.00</u>	<u>18,759,063.15</u>

### 17 Long-term Amortization Expense

<u>Project Name</u>	<u>Original</u> <u>Amount</u>	<u>2011.12.31</u>	<u>Increase in</u> <u>this period</u>	<u>Transfer</u> <u>in this</u> <u>period</u>	<u>Amortization</u> <u>in this Period</u>	<u>2012.6.30</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Remaining</u> <u>Amortization</u> <u>Period</u>
Overhaul expense								
of fixed assets	8,814,166.08	4,047,968.11	995,350.00	0.00	679,063.77	4,364,254.34	4,449,911.74	1-56 months
Decoration expense								
of offices	2,452,231.41	1,305,384.35	0.00	0.00	191,250.30	1,114,134.05	1,338,097.36	6-39 months
Decoration expense								
of plants	7,585,250.96	5,222,858.46	813,501.42	0.00	1,154,972.32	4,881,387.56	2,703,863.40	1-47 months
Publicly amortized								32-40
expense of public	2,871,256.54	209,170.63	2,279,468.40	0.00	834,363.64	1,654,275.39	1,216,981.15	months

utilities

Resin	6,223,704.33	1,104,819.82	1,095,143.04	0.00	524,307.31	1,675,655.55	4,548,048.78	1-35 months
Others	<u>4,187,390.22</u>	<u>2,380,224.89</u>	<u>0.00</u>	<u>0.00</u>	<u>854,802.14</u>	<u>1,525,422.75</u>	<u>2,661,967.47</u>	12-47 months
Total	<u>32,133,999.54</u>	<u>14,270,426.26</u>	<u>5,183,462.86</u>	<u>0.00</u>	<u>4,238,759.48</u>	<u>15,215,129.64</u>	<u>16,918,869.90</u>	

**18 Deferred Income Tax Asset**

Type	<u>2012.6.30</u>	<u>2011.12.31</u>
Withdrawal of the deductible temporary difference caused by the asset depreciation reserve	21,885,271.70	20,031,422.32
The deductible temporary difference caused by the long-term equity investment out of the scope of consolidation statement	3,846,389.60	3,754,298.60
The deductible temporary difference caused by the amortization of intangible assets	276,547.80	322,098.26
The deductible temporary difference caused by the withdrawal expense	5,296,933.96	4,304,719.21
The deductible temporary difference caused by the deductible loss	7,847,876.66	7,145,831.32
The deductible temporary difference caused by the deferred gains	<u>420,742.50</u>	<u>435,742.50</u>
Total	<u>39,573,762.22</u>	<u>35,994,112.21</u>

**19 Asset Depreciation Reserve**

Item	<u>2011.12.31</u>	<u>Increase in this period</u>	<u>Decrease in this period</u>		<u>2012.6.30</u>
			<u>Reversion</u>	<u>Writing-off</u>	
Reserves for Bad debts	39,965,021.78	9,032,263.63	0.00	446,191.00	48,551,094.41
Depreciation Reserve					
for inventory	10,165,862.77	4,099,399.46	0.00	1,884,493.23	12,380,769.00

Depreciation reserve for					
long-term equity					
investment	21,800,000.00	0.00	0.00	0.00	21,800,000.00
Depreciation Reserve					
for fixed assets	79,553,773.52	13,983.23	0.00	874,918.04	78,692,838.71
Depreciation Reserve					
for intangible assets	2,361,826.83	0.00	0.00	0.00	2,361,826.83
Depreciation Reserve					
for goodwill	<u>18,759,063.15</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>18,759,063.15</u>
Total	<u>172,605,548.05</u>	<u>13,145,646.32</u>	<u>0.00</u>	<u>3,205,602.27</u>	<u>182,545,592.10</u>

The writing-off of the reserves for bad debts means the writing-off of the bad debts; the writing-off of depreciation reserve for inventory and the depreciation reserve of fixed assets means the rejection, disposal transfer or writing-off.

## 20 Assets whose ownership rights are restricted

<u>Item</u>	<u>2011.12.31</u>	<u>Increase in this</u> <u>period</u>	<u>Decrease in this</u> <u>period</u>	<u>2012.6.30</u>
Assets used for				
pledgement:				
L/C deposits	2,317,760.92	0.00	1,252,286.87	1,065,474.05
Deposits in banks	13,250,000.00	0.00	0.00	13,250,000.00
Assets used for				
mortgage:				
Houses and				
buildings	20,778,351.53	0.00	1,674,180.24	19,104,171.29
Use rights of lands	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>36,346,112.45</u>	<u>0.00</u>	<u>2,926,467.11</u>	<u>33,419,645.34</u>

The reasons for the restriction of asset ownership rights are listed as follows:

(1) The subcompany Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area pledged the certificate of time deposit of RMB 13,250,000.00 Yuan of the company to Pingan Bank for a loan of HKD 14,000,000.00, and the mortgage period is from December 9, 2011 to December 9, 2012.

(2) Livzon Pharmaceutical Factory under Livzon Group mortgaged the houses and buildings located at Guihua North Road, Gongbei, Zhuhai, with original book value of RMB 86,311,578.60 Yuan, accumulated depreciation of RMB

67,207,407.31 Yuan and net value of RMB 19,104,171.29 Yuan to Zhuhai Branch of Bank of Communications for a loan of RMB 500,000.00 Yuan, and the mortgage period is from December 23, 2010 to December 23, 2016.

## 21 Short-time Loan

(1) Types of short-term loans

<u>Type</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
Credit loan	283,072,653.06	183,225,943.01
Guaranty loan	81,521,400.00	56,749,000.00
Pledgement loan	11,412,800.00	11,349,800.00
Total	376,006,853.06	251,324,743.01

(2) By June 30, 2012, there are no due short-term loans that have not been repaid.

(3) Guaranty loan:

The Company provides the guaranty to Livzon Pharmaceutical Factory under Livzon Group for a loan of HKD 55 million from Macau Branch of Wing Lung Bank) and a loan of HKD 15 million from Guangzhou Branch of Societe Generale; The Company provides the guaranty to Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area for a loan of HKD 30 million from China Resources Bank of Zhuhai.

(4) Please see the article 20 of V in the notes to the financial statement for more details about the mortgage.

## 22 Accounts payable

<u>Item</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
<u>Accounts payable</u>	306,820,855.90	207,941,294.31

(1) By June 30, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights. The accounts payable with the age of over 1 year amount to RMB 7,517,687.21 Yuan, accounting for 2.45% of the balance at the end of period.

(2) The main cause of the increase of 47.55% over the beginning of year is the increase of purchase in this period.

(3) Please see the note VII for the details about the payments of associated parties.

## 23. Advance accounts

<u>Item</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
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Advance accounts	31,032,089.79	39,028,703.01
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(1) By June 30, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

(2) The advance accounts with the age of over 1 year amount to RMB 1,242,566.43 Yuan, accounting for 4.00% of the balance at the end of period.

#### 24. Rewards paid to the staffs

<u>Item</u>	<u>2011.12.31</u>	<u>Increase in this</u> <u>period</u>	<u>Payment in this</u> <u>period</u>	<u>2012.6.30</u>
Salary, bonus and allowance	48,815,691.11	128,011,112.83	129,089,699.73	47,737,104.21
Welfare expense for staffs	0.00	5,932,641.67	5,932,641.67	0.00
Social insurance fees	281,745.85	19,205,881.39	19,049,858.15	437,769.09
Including: medical insurance fees	72,860.78	5,543,267.79	5,422,086.47	194,042.10
Endowment Insurance	171,240.33	11,349,492.74	11,338,523.20	182,209.87
Unemployment insurance fees	24,286.93	1,380,441.41	1,373,742.05	30,986.29
Occupational Injury Insurance	4,857.39	529,510.37	514,608.57	19,759.19
Childbirth insurance	8,500.42	403,169.08	400,897.86	10,771.64
Reserves for houses	574,682.32	5,008,120.79	4,991,129.62	591,673.49
Trade union expense and staff education expense	171,725.53	837,249.23	706,142.67	302,832.09
Compensation for the cancellation of work relationship	0.00	476,974.33	476,974.33	0.00
Equity stimulation bonus of subcompanies	2,144,013.86	758,618.48	0.00	2,902,632.34
Others	<u>341,025.15</u>	<u>20,823.08</u>	<u>20,823.08</u>	<u>341,025.15</u>
Total	<u>52,328,883.82</u>	<u>160,251,421.80</u>	<u>160,267,269.25</u>	<u>52,313,036.37</u>

At the end of period, there are no cases about failure to pay the rewards of staffs.

**25. Payable Taxes**

<u>Tax type</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
Value-added tax	28,010,897.60	26,548,565.90
Operating tax	4,135.23	4,559.53
City construction tax	2,707,466.36	2,885,653.83
Enterprise income tax	31,427,943.38	50,742,436.32
Real estate tax	2,428,592.88	108,360.22
Utilization tax of lands	782,943.13	265,000.00
Personal income tax	11,292,546.18	6,182,013.00
Stamp tax	824,573.39	923,517.20
Education surtax	2,077,748.35	2,195,414.50
Embankment protection cost	176,657.98	225,709.21
Others	<u>57,464.85</u>	<u>120,470.63</u>
Total	<u>79,790,969.33</u>	<u>90,201,700.34</u>

**26 Payable dividends**

<u>Investor name</u>	<u>2012.6.30</u>	<u>2011.12.31</u>	<u>Cause for Debts</u>
Dividends for common shares	20,174.46	20,174.46	Not paid
Qingyuan Xinbeijiang Enterprise (Group) Company	1,200,710.00	1,200,710.00	Not paid
Other legal person shares and personal shares in the subcompanies	1,051,300.00	1,051,300.00	Not paid
Internal staff share of subcompanies	<u>259,800.00</u>	<u>259,800.00</u>	Not paid

Total	<u>2,531,984.46</u>	<u>2,531,984.46</u>
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**27 Other accounts payable**

<u>Item</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
Other accounts payable	569,133,645.78	460,447,555.37

(1) At the end of period, the advance withdrawn expenses from the balance amounts to RMB 311,830,539.27 Yuan, accounting for 54.79% of the balance and are listed as follows:

<u>Item</u>	<u>2012.6.30</u>	<u>2011.12.31</u>	<u>Cause for balance at the end of period</u>
Water and electricity expense	3,623,208.68	1,974,340.58	Not paid.
Research expense	993,750.11	1,865,945.99	Not paid.
Business promotion expense	279,076,769.61	213,634,812.50	Not paid.
Leasing expense	576,660.16	185,652.13	Not paid.
Advertisement expense	212,180.29	1,681,539.29	Not paid.
Meeting expense	9,249,639.91	12,864,714.05	Not paid.
Auditing and information disclosure expenses	1,045,526.78	1,503,067.22	Not paid.
Risk fund for medicine research	0.00	0.00	Not paid.
Operating expense of branches	4,516,253.84	5,938,650.50	Not paid.
Drainage expense	244,959.00	148,959.00	Not paid.
Traveling expense	626,411.54	0.00	Not paid.
Transportation expense	3,921,159.65	0.00	Not paid.
Others	<u>7,744,019.70</u>	<u>9,181,281.46</u>	Not paid.
Total	<u>311,830,539.27</u>	<u>248,978,962.72</u>	

(2) Other accounts payable with the age of over 1 year amount to RMB 37,975,114.97 Yuan, accounting for 6.67% of the

balance at the end of period.

(3) By June 30, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

(4) Please see the note VII for more details about the payments of associated parties.

## 28. Non-current Liabilities Due within 1 Year

<u>Borrowing Unit</u>	<u>2012.6.30</u>	<u>2011.12.31</u>	<u>Interest</u>	<u>Loan Period</u>	<u>Condition</u>
			<u>Rate</u>		
Fujian Huaqiao Trust & Investment Company	<u>400,000.00</u>	<u>400,000.00</u>	Interest-free	Not specified	Credit
Total	<u>400,000.00</u>	<u>400,000.00</u>			

## 29. Other current liabilities

<u>Type</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
Short-term financing bonds	0.00	400,000,000.00

## 30. Long-term Loans

### (1) Types of Long-term Loans

<u>Type</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
Credit loans	700,000.00	700,000.00
Mortgage and guaranty loans	<u>500,000.00</u>	<u>500,000.00</u>
Total	<u>1,200,000.00</u>	<u>1,200,000.00</u>

### (2) List of loan units

<u>Loan unit</u>	<u>2012.6.30</u>			<u>Annual</u>	<u>Loan Period</u>	<u>Loan Conditions</u>
	<u>Principal</u>	<u>Payable</u>	<u>Total</u>	<u>Interest</u>		
		<u>Interests</u>		<u>Rate</u>		
Loans from banks:						
Zhuhai Branch of Bank of Communications*	500,000.00	0.00	500,000.00	5.530%	2010.12.23 to 2016.12.23	Mortgage and guaranty



Subtotal	<u>500,000.00</u>	<u>0.00</u>	<u>500,000.00</u>		
Loans from non-bank financial institutions:					
				Interest-	Not specified Credit
Fuzhou Finance Bureau	700,000.00	0.00	700,000.00	free	
Subtotal	<u>700,000.00</u>	<u>0.00</u>	<u>700,000.00</u>		
Total	<u>1,200,000.00</u>	<u>0.00</u>	<u>1,200,000.00</u>		

\*The borrower is the subcompany Livzon Pharmaceutical Factory under Livzon Group; please see the article 20 of note V to the financial statements for more details about the mortgage; this company also provides the guaranty to this loan.

(3) By June 30, 2012, there are no due long-term loans which have not been repaid.

### 31 Deferred Gains

Item	Total Allowance Amount	2011.12.31	Increase in this period	Writing-off in this period	2012.6.30
Development and industrialization of lilaprazole series of Innovation medicines	49,900,000.00	25,733,167.90	0.00	1,374,064.92	24,359,102.98
I-type Humanized Anti-Human TNF monoclonal antibody for the purpose of treatment	10,000,000.00	10,000,000.00	0.00	7,888,077.82	2,111,922.18
Demonstration project of solar energy photoelectric structure application	7,010,000.00	7,010,000.00	0.00	0.00	7,010,000.00
Allowance PVC soft packages of technical reform and bid-invitation project supported by the provincial finance	4,100,000.00	3,304,217.60	0.00	145,774.35	3,158,443.25
Famciclovir Sustained Release Capsules 0302 project	4,100,000.00	2,994,863.03	0.00	0.00	2,994,863.03
Demonstration project of managing the high- concentration organic wastewater	4,000,000.00	1,971,983.00	0.00	197,202.00	1,774,781.00
Shenqifuzheng injection	3,535,000.00	2,435,000.00	0.00	200,000.00	2,235,000.00
Leuporelin Acetate Microspheres and injection preparation	2,300,000.00	1,000,000.00	0.00	400,000.00	600,000.00
Three-pollen for injection	1,800,000.00	685,041.39	0.00	0.00	685,041.39
Development and industrialization of new antidepressant drug Fluvoxoxa	1,500,000.00	1,500,000.00	0.00	0.00	1,500,000.00

<u>Item</u>	<u>Total Allowance</u> <u>Amount</u>	<u>2011.12.31</u>	<u>Increase in</u> <u>this period</u>	<u>Writing-off in</u> <u>this period</u>	<u>2012.6.30</u>
mine					
Little Giant Cultivation Enterprise	1,400,000.00	1,400,000.00	0.00	1,100,000.00	300,000.00
Expense for the cooperating enterprise to make the production, study and research granted by the provincial department in 2010	1,370,000.00	0.00	0.00	0.00	0.00
First batch of scientific research & development expense granted by District Scientific Industrial & Trade Department in 2010	1,250,000.00	1,250,000.00	0.00	0.00	1,250,000.00
Sterilization and kidney-quieting capsule	2,040,000.00	808,855.64	0.00	35,000.00	773,855.64
5- 4-aminosalicylic acid (0001 project)	1,200,000.00	537,938.10	0.00	0.00	537,938.10
Industry research of potassium citrate sustained release pellets	1,120,000.00	450,622.12	0.00	0.00	450,622.12
Enzymatic technology innovation project	1,042,631.00	944,812.90	0.00	0.00	944,812.90
Absorption purified inactivated Japanese encephalitis virus vaccine	1,000,000.00	1,000,000.00	0.00	1,000,000.00	0.00
Enterprise innovation fund granted by the provincial financial department in 2009	700,000.00	700,000.00	0.00	0.00	700,000.00
Bifidoboigen preparations	600,000.00	466,205.15	0.00	0.00	466,205.15
Development of new Xueshuantong preparation RX	600,000.00	31,710.50	208,289.50	240,000.00	0.00
Expense for the production, study and research guideline projects granted by the provincial department in 2011	500,000.00	500,000.00	0.00	100,000.00	400,000.00
Modern Chinese medicine hi-tech innovation industrialization base construction	500,000.00	400,000.00	0.00	58,331.00	341,669.00
Special award fund for Fuzhou municipal-level enterprise technical center	100,000.00	0.00	0.00	0.00	0.00
Energy-saving project fund for "fermentation refinery production system energy optimization improvement project" in 2010	300,000.00	0.00	0.00	0.00	0.00
Electricity-saving of lighting water pump fan and air-conditioner system	350,000.00	280,000.00	0.00	40,831.00	239,169.00

<u>Item</u>	<u>Total Allowance</u> <u>Amount</u>	<u>2011.12.31</u>	<u>Increase in</u> <u>this period</u>	<u>Writing-off in</u> <u>this period</u>	<u>2012.6.30</u>
Research, development and production transfer of Jimishaxing pellets	300,000.00	212,527.55	0.00	0.00	212,527.55
Salvianolic acid B	300,000.00	140,757.40	0.00	0.00	140,757.40
Project expense for Zhuhai municipal-level enterprise technical center	300,000.00	300,000.00	0.00	0.00	300,000.00
Project expense for development of virginiamycin industrialization in China	300,000.00	0.00	0.00	0.00	0.00
Project expense for three rapid testing technologies of illegal additives Melamine in food	200,000.00	188,600.00	0.00	0.00	188,600.00
Process improvement of ValaciclovirHydrochloride	200,000.00	171,806.50	0.00	0.00	171,806.50
Special fund for Zhuhai City strategic new industry in 2011	200,000.00	0.00	0.00	0.00	0.00
Project expense for accurate and rapid testing technology and equipment of important harmful substance in food	150,000.00	141,450.00	0.00	0.00	141,450.00
Industrialization demonstration of immunity testing technical results about prohibited animal growth-promoting agent	150,000.00	0.00	0.00	0.00	0.00
Experiments and research about the anti-Avian influenza of antivirus granules	110,000.00	58,829.14	0.00	0.00	58,829.14
Development and industrialization of Urofollitropin for injection	100,000.00	0.00	0.00	0.00	0.00
Depth development of Mesylate Jimishaxing series	80,000.00	0.00	0.00	0.00	0.00
Development fund for small and medium enterprises in international market in 2010	71,436.00	0.00	0.00	0.00	0.00
Leadership prize for strategic new industry	50,000.00	0.00	0.00	0.00	0.00
Award for advantageous enterprise for intellectual property	50,000.00	0.00	0.00	0.00	0.00
Supporting fund for technical award granted by the nation and Guangdong Province in 2009	40,000.00	0.00	0.00	0.00	0.00

<u>Item</u>	<u>Total Allowance</u> <u>Amount</u>	<u>2011.12.31</u>	<u>Increase in</u> <u>this period</u>	<u>Writing-off in</u> <u>this period</u>	<u>2012.6.30</u>
Allowance for patent application expense in Zhuhai city	37,950.00	0.00	0.00	0.00	0.00
Special fund for "Going out" in Zhuhai City	37,700.00	0.00	0.00	0.00	0.00
Special fund for small and medium enterprises to develop the domestic market granted by the industry and trade bureau in 2011	33,900.00	33,900.00	0.00	0.00	33,900.00
Study and application about super fine crushing technology	20,000.00	0.00	0.00	0.00	0.00
Provincial third prize for ultrasonic wave	20,000.00	0.00	0.00	0.00	0.00
Award for working injury granted by Zhuhai City Social Insurance Fund Management Center	10,000.00	0.00	0.00	0.00	0.00
Allowance for patent application expense in Zhuhai city in 2011	1,000.00	1,000.00	0.00	0.00	1,000.00
Financial allowance for Shenqi quality control technologies	5,000,000.00	0.00	5,000,000.00	1,585,575.89	3,414,424.11
Guangdong Provincial Public Service Platform Construction	1,225,300.00	0.00	1,225,300.00	1,225,300.00	0.00
Others	<u>731,500.00</u>	<u>490,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>490,000.00</u>
Total	<u>112,036,417.00</u>	<u>67,143,287.92</u>	<u>6,433,589.50</u>	<u>15,590,156.98</u>	<u>57,986,720.44</u>

**32. Deferred Income Tax Liabilities**

<u>Type</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
Temporary difference of payable taxes caused by the saleable financial assets	1,075,144.36	1,012,313.47
Temporary difference of payable taxes caused by the calculation of long-term equity investment with the equity method	<u>1,026,780.13</u>	<u>889,191.40</u>
Total	<u>2,101,924.49</u>	<u>1,901,504.87</u>

**33 Share Capital**

Increase or Decrease (+ or —)

Unit: share

<u>Item</u>	<u>2011.12.31</u>	<u>Share- rationing Amount</u>	<u>Gift share amount</u>	<u>Shares transferred from public reserve fund</u>	<u>Others</u>	<u>Subtotal</u>	<u>2012.6.30</u>
<b>I. Shares with trading restriction</b>							
① Sponsor's shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Including:							
State-owned shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares held by domestic legal persons	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares held by foreign legal persons	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
② Raising legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00

<u>Increase or Decrease (+ or —)</u>							Unit: share
<u>Item</u>	<u>2011.12.31</u>	<u>Share- rationing Amount</u>	<u>Gift share amount</u>	<u>Shares transferred from public reserve fund</u>	<u>Others</u>	<u>Subtotal</u>	<u>2012.6.30</u>
③ Internal staff shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
④ Preference shares or others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
⑤ Circulation share with trading restriction	6,059,428.00	0.00	0.00	0.00	0.00	0.00	6,059,428.00
Total of non-circulation shares	6,059,428.00	0.00	0.00	0.00	0.00	0.00	6,059,428.00
<b>II. Shares without trading restriction</b>							
① Domestically-listed							
Renminbi ordinary shares	177,669,070.00	0.00	0.00	0.00	0.00	0.00	177,669,070.00

Including: Management

shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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② Domestically-listed

shares for overseas

investors	111,993,354.00	0.00	0.00	0.00	0.00	0.00	111,993,354.00
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Total of circulation shares	<u>289,662,424.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>289,662,424.00</u>
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III. Total shares	<u>295,721,852.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>295,721,852.00</u>
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**34 Capital Reserve**

<u>Type</u>	<u>2011.12.31</u>	<u>Increase in this</u>	<u>Decrease in this</u>	<u>2012.6.30</u>
		<u>period</u>	<u>period</u>	
Share Premium	320,792,441.78	0.00	0.00	320,792,441.78
Other Capital				
Reserve	<u>27,300,694.63</u>	<u>356,041.67</u>	<u>0.00</u>	<u>27,656,736.30</u>
Total	<u>348,093,136.41</u>	<u>356,041.67</u>	<u>0.00</u>	<u>348,449,178.08</u>

The cause of increase in this period is the change of fair values of saleable financial assets.

**35 Surplus Reserve**

<u>Type</u>	<u>2011.12.31</u>	<u>Increase in this</u>	<u>Decrease in this</u>	<u>2012.6.30</u>
		<u>period</u>	<u>period</u>	
Legal Surplus				
Reserve	311,623,096.79	0.00	0.00	311,623,096.79
Discretionary				
surplus				
reserves	63,796,201.34	0.00	0.00	63,796,201.34
Reserve Fund	82,108,376.71	0.00	0.00	82,108,376.71
Enterprise				
Development				
Fund	<u>21,683,742.35</u>	<u>0.00</u>	<u>0.00</u>	<u>21,683,742.35</u>
Total	<u>479,211,417.19</u>	<u>0.00</u>	<u>0.00</u>	<u>479,211,417.19</u>

**36 Undistributed Profit**

<u>Item</u>	<u>2012.6.30</u>	<u>2011.12.31</u>
Undistributed profit at the beginning of period	1,740,645,868.60	1,446,714,876.09
Plus: profit transfer in the current period	228,705,016.39	359,369,880.94
Other transfers	0.00	0.00
Minus: Withdrawal of Legal Surplus Reserve	0.00	35,936,988.09
Withdrawal of staff awards or welfare funds	0.00	0.00
Withdrawal of reserve fund	0.00	0.00
Withdrawal of enterprise development fund	0.00	0.00
Profits capitalized on return of investment	0.00	0.00
Minus: Payable dividends for preference shares	0.00	0.00
Withdrawal of discretionary surplus reserves	0.00	0.00
Payable dividends for ordinary shares	147,860,926.00	29,501,900.34
Dividends for ordinary shares that are transferred to capitals	<u>0.00</u>	<u>0.00</u>
Undistributed profit at the end of period	<u>1,821,489,958.99</u>	<u>1,740,645,868.60</u>

**37 Equities of the minority of shareholders**

	<u>2011.12.31</u>	<u>Increase or decrease from January to June 2012</u>				<u>2012.6.30</u>
			<u>Shareholding</u>			
	<u>Equities of the</u>		<u>percentage of the</u>	<u>Profit and loss of</u>		<u>Equities of the</u>
	<u>minority of</u>	<u>Net profits of</u>	<u>minority of</u>	<u>the minority of</u>	<u>Other change</u>	<u>minority of</u>
<u>Company name</u>	<u>shareholders</u>	<u>subcompanies</u>	<u>shareholders</u>	<u>shareholders</u>	<u>s</u>	<u>shareholders</u>
Zhuhai Livzon Reagent Co., Ltd	76,961,241.09	26,267,415.69	49%	12,871,033.69	-9,800,000.00	80,032,274.78
Xinbeijiang Pharmaceutical Co., Ltd						
under Livzon Group	13,484,145.17	20,057,069.81	7.86%	1,576,485.69	0.00	15,060,630.86
Limin Pharmaceutical Co., Ltd						
under Livzon Group	24,684,262.85	52,137,374.19	11.91%	6,213,925.01	-9,383,731.21	21,514,456.65

				2011.12.31	Increase or decrease from January to June 2012		2012.6.30		
				Shareholding					
				Equities of the		percentage of the	Profit and loss of		Equities of the
				minority of	Net profits of	minority of	the minority of	Other change	minority of
Company name				shareholders	subcompanies	shareholders	shareholders	s	shareholders
Shanxi	Datong	Livzon	Qiyuan						
Medicine Co., Ltd				168,836.36	-61,738.30	18.52%	-4,630.37	0.00	164,205.99
Longxi	Livzon	Shenyuan	Medicine						
Co., Ltd				334,074.90	-320,089.19	20.72%	-32,008.92	0.00	302,065.98
Zhuhai	Livzon	— Bai A	Meng						
Biological Materials Co., Ltd				1,111,467.95	0.00	18%	0.00	0.00	1,111,467.95
Zhuhai		Livzon	Dankang						
Biotechnology Co., Ltd				41,922,056.58	-2,837,073.97	49%	-1,390,166.25	0.00	40,531,890.33
Livzon	Group	Vaccine	Engineering						
Co., Ltd				8,491,508.80	-5,050,819.97	16.15%	-815,707.43	0.00	7,675,801.37
Wenshan Livzon				<u>1,290,532.05</u>	<u>-800,019.63</u>	<u>49%</u>	<u>-392,009.62</u>	<u>0.00</u>	<u>898,522.43</u>
								=	
Total				<u>168,448,125.75</u>	<u>89,392,118.63</u>		<u>18,026,921.80</u>	<u>19,183,731.21</u>	<u>167,291,316.34</u>

Other changes are about the capitals invested by the minority of shareholders, and the decrease amount is the profit distribution to the minority of shareholders..

### 38 Operating Income and Cost

#### (1) Item list

	<u>January to June 2012</u>			<u>January to June 2011</u>		
<u>Item</u>	<u>Operating Income</u>	<u>Operating Cost</u>	<u>Gross operating Profit</u>	<u>Operating Income</u>	<u>Operating Cost</u>	<u>Gross operating Profit</u>
Main Business	1,875,055,548.88	740,101,590.20	1,134,953,958.68	1,455,789,741.43	666,506,492.27	789,283,249.16
Other Business	<u>9,941,626.56</u>	<u>8,650,846.08</u>	<u>1,290,780.48</u>	<u>15,647,759.20</u>	<u>10,586,915.00</u>	<u>5,060,844.20</u>
Total	<u>1,884,997,175.44</u>	<u>748,752,436.28</u>	<u>1,136,244,739.16</u>	<u>1,471,437,500.63</u>	<u>677,093,407.27</u>	<u>794,344,093.36</u>



(2) The main businesses are listed as follows as per the region:

<u>Item</u>	<u>January to June 2012</u>			<u>January to June 2011</u>		
	<u>Income from Main</u>	<u>Cost of Main Business</u>	<u>Gross profit from</u>	<u>Income from Main</u>	<u>Cost of Main</u>	<u>Gross profit from</u>
	<u>Business</u>		<u>Main Business</u>	<u>Business</u>	<u>Business</u>	<u>Main Business</u>
Guangdong					993,259,928.92	666,740,588.74
Province	2,164,735,567.25	1,188,924,480.34	975,811,086.91	1,660,000,517.66		
Sichuan					53,135,159.25	53,165,362.72
Province	135,242,416.99	54,485,114.08	80,757,302.91	106,300,521.97		
Fujian					162,827,432.63	45,425,378.05
Province	198,701,839.64	161,010,517.63	37,691,322.01	208,252,810.68		
Others	88,373,089.59	52,522,466.42	35,850,623.17	40,827,894.69	21,284,281.37	19,543,613.32
Subtotal	2,587,052,913.47	1,456,942,578.47	1,130,110,335.00	2,015,381,745.00	1,230,506,802.17	784,874,942.83
Internal						
Writing-off in						
the Company	<u>711,997,364.59</u>	<u>716,840,988.27</u>	<u>-4,843,623.68</u>	<u>559,592,003.57</u>	<u>564,000,309.90</u>	<u>-4,408,306.33</u>
Total	<u>1,875,055,548.88</u>	<u>740,101,590.20</u>	<u>1,134,953,958.68</u>	<u>1,455,789,741.43</u>	<u>666,506,492.27</u>	<u>789,283,249.16</u>

(3) Incomes and costs from main businesses are listed as follows as per the business:

<u>Item</u>	<u>January to June 2012</u>		<u>January to June 2011</u>	
	<u>Income from Main</u>	<u>Cost of Main Business</u>	<u>Income from Main</u>	<u>Cost of Main Business</u>
	<u>Business</u>		<u>Business</u>	
Sales of				
Commodities	<u>1,875,055,548.88</u>	<u>740,101,590.20</u>	<u>1,455,789,741.43</u>	<u>666,506,492.27</u>
Total	<u>1,875,055,548.88</u>	<u>740,101,590.20</u>	<u>1,455,789,741.43</u>	<u>666,506,492.27</u>

(4) Sales volume of top 5 clients

<u>Client Name</u>	<u>January to June 2012</u>		<u>January to June 2011</u>	
	<u>Sales Volume</u>	<u>Percentage of Total</u>	<u>Sales Volume</u>	<u>Percentage of Total</u>
		<u>Sales Volume (%)</u>		<u>Sales Volume (%)</u>
Total sales volume of top 5				
clients	163,182,152.06	8.71%	173,320,404.05	11.91%

(5) Incomes and costs from other businesses are listed as follows as per other business:

<u>Item</u>	<u>January to June 2012</u>		<u>January to June 2011</u>	
	<u>Incomes from Other</u>	<u>Costs of Other</u>	<u>Incomes from Other</u>	<u>Costs of Other</u>
	<u>Businesses</u>	<u>Businesses</u>	<u>Businesses</u>	<u>Businesses</u>
Sales of raw materials	3,600,657.54	3,432,149.01	5,829,703.80	3,541,636.56
Processing expense	90,611.17	87,140.18	198,836.09	157,630.19
Royalty expense	1,590,915.64	88,683.35	1,511,695.64	62,435.92
Leasing expense	116,281.71	33,364.06	64,475.56	38,342.89
Inspection expense	4,249,274.50	4,371,258.97	7,527,285.44	6,704,305.13
Power expenses	<u>293,886.00</u>	<u>638,250.51</u>	<u>515,762.67</u>	<u>82,564.31</u>
Others	<u>9,941,626.56</u>	<u>8,650,846.08</u>	<u>15,647,759.20</u>	<u>10,586,915.00</u>

### 39 Business Tax and Surtax

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
City construction tax	14,078,788.16	10,115,122.54
Education surtax	8,864,444.08	7,379,675.39
Embankment protection cost	1,230,758.77	702,751.79
Business Tax	20,900.57	27,116.28
Others	<u>81,144.92</u>	<u>107,357.55</u>
Total	<u>24,276,036.50</u>	<u>18,332,023.55</u>

(1) The main cause of the increase of business tax and surtax by 32.42% over the same period of previous year is the increase of sales incomes.

(2) Please see the note III for the withdrawal standard of taxes

### 40 Financial Expense

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Interest payment	13,292,714.08	7,984,040.10
Minus: Interest income	26,014,646.03	13,919,949.29
Profit and loss in the exchange	-83,894.56	-1,746,589.87

Formality expense charged by banks	<u>1,746,455.22</u>	<u>2,423,359.87</u>
Total	<u>-11,059,371.29</u>	<u>-5,259,139.19</u>

In this period, the main causes of the huge decrease of financial expense over the same period of previous year is the increase of interest incomes.

#### 41. Loss of asset depreciation

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Reserves for Bad Accounts	9,032,263.63	4,546,555.42
Depreciation Reserve for inventory	4,099,399.46	1,392,960.60
Depreciation reserve for long-term equity investment	0.00	0.00
Depreciation Reserve for fixed assets	<u>13,983.23</u>	<u>0.00</u>
Total	<u>13,145,646.32</u>	<u>5,939,516.02</u>

In this period, the main causes of the increase of loss of asset depreciation by 121.33% over the same period of previous year is the increase of loss of bad accounts and depreciation reserve for inventory.

#### 42 Gains from changes of fair values

<u>Sources of profits caused by the changes of fair values</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Tradable financial assets	2,114,503.89	43,870.70
Including: shares	2,090,588.37	76,943.47
Fund	23,915.52	-33,072.77

In this period, the main causes of the huge increase of gains from changes of fair values over the same period of previous year is the increase of market values of stocks held by this company.

#### 43 Investment returns

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
1. Returns in the holding period:	1,173,769.79	-654,572.56
① profits distributed by the associated or joint companies	0.00	0.00
② Tradable financial assets	880,017.00	814,960.40

③ Saleable financial assets	151,818.90	0.00
④ Net increase or decrease of adjusted shareholders' equities of invested company at the end of year	141,933.89	-1,472,733.50
Including: Guangdong Blue Treasure Pharmaceutical Co. Ltd.	1,179,331.97	-562,733.50
Tongyikangshimei Chain (Shenzhen) Co., Ltd	-1,037,398.08	-910,000.00
⑤ Profits from the distributions of other equity investments	0.00	0.00
Including: Zhuhai Branch of Guangdong Development Bank	0.00	0.00
Shanghai Haixin Pharmaceutical Co., Ltd	0.00	0.00
⑥ Others	0.00	3,200.54
2. Returns from transfers:	557,698.78	0.00
Including: Sales of tradable financial assets	<u>557,698.78</u>	<u>0.00</u>
Total	<u>1,731,468.57</u>	<u>-654,572.56</u>

#### 44 Non-operating Income

(1) List about non-operating incomes

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Total profit of non-current asset disposal	90,772.51	480,954.95
Including: Profit of fixed asset disposal	90,772.51	480,954.95
Penalty income	19,650.00	1,100.00
Waste income	129,382.45	99,172.73
Governmental allowance	11,882,340.48	20,110,733.72
Compensation income	0.00	15,300.00
Payments that will not be paid	0.00	1,323,658.41
Others	<u>437,948.35</u>	<u>220,063.22</u>
Total	<u>12,560,093.79</u>	<u>22,250,983.03</u>

In this period, the main causes of the decrease of financial expense by 43.55% over the same period of previous year are the decrease of governmental allowances.

## (2) Governmental allowance

<u>Type</u>	<u>January to June</u> <u>2012</u>	<u>Source unit</u>	<u>Approval document</u>
			Yue Fa Gai Gao [2008] No. 1282
Ilaprazole project of development and reform commission	1,374,064.92	Zhuhai Finance Bureau	Fa Gai Ban Gao Ji [2008] No. 2223 Yue Cai Gong [2010] No. 445
Industrialization project of Leuprorelin Acetate Microspheres for Injection	400,000.00	Shanghai Science & Technology Commission	—
Demonstration project of managing the high-concentration organic wastewater	197,202.00	Zhuhai Environmental Protection Bureau	—
Export credit insurance allowance	61,497.00	Fujian Branch of China Export & Credit Insurance Corporation	—
Sterilization and kidney-quieting capsule	35,000.00	Zhuhai Science and Technology Department	Yue Ke Ji Zi [2007] No. 172
Special expense for intellectual property protection in Qingyuan City	50,000.00	Qingyuan Finance Bureau	Qing Cai Jiao [2010] No. 90 None(Allowance for temporary power-off projects)
Energy consumption allowance	8,976.00	Management Commission of Zhuhai Bonded area	Transfer-in from deferred returns, and it is compliant in the check
Little Giant Cultivation Enterprise	1,100,000.00	Little Giant Cultivation Center	
Guangdong Provincial Public Service Platform Construction	1,017,010.50	Zhuhai Finance Bureau	Cai Qi [2011] No. 88
Guangdong Provincial Patent Prize	100,000.00	Zhuhai Finance Bureau	Yue Cai Jiao [2011] No. 522
Granting expense for hi-tech enterprise from Fuzhou Finance Bureau	100,000.00	Fuzhou Finance Bureau	
Non-PVC bag improvement project	330,512.24	National Development and Reform Commission	Yue Ke Ji Zi [2007] No. 172
Three researches of new medicines of I-type Humanized Anti-Human TNF monoclonal antib	6,088,077.82	Zhuhai Science, Industry, Trade and Information Department	Yue Ke Gui Hua Zi [2011] No. 167

<u>Type</u>	<u>January to June</u>	<u>Source unit</u>	<u>Approval document</u>
	<u>2012</u>		
ody for the purpose of treatment in Guangdong			
Strategic new industry core technology			
breakthrough (2011)			
Absorption purified inactivated Japanese			
encephalitis virus vaccine – Zhuhai Hi-tech			
field technology breakthrough and hi-tech		Zhuhai Science, Industry, Trade	Ke Gong Mao Xin Ji [2011]
industry	1,000,000.00	and Information Department	No. 16
Others	<u>20,000.00</u>	—	—
Total	<u>11,882,340.48</u>		

**45 Non-operating Expense**

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Total of loss for disposal		
of the non-current assets	77,746.47	60,007.09
Including: Loss for		
disposal of fixed assets	77,746.47	60,007.09
Rejection of fixed assets	122,299.06	2,373.50
Penalty payments	0.00	189,603.55
Public welfare donations	0.00	500.00
Others	<u>24,349.86</u>	<u>1,601.80</u>
Total	<u>224,395.39</u>	<u>254,085.94</u>

**46 Income Taxes**

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Current income tax	51,114,053.37	49,866,259.29
Deferred income tax	<u>-3,442,061.28</u>	<u>-2,865,397.85</u>
Total	<u>47,671,992.09</u>	<u>47,000,861.44</u>

**47 Other comprehensive gains**

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
1. Profit (loss) caused by the saleable financial assets	418,872.56	-704,597.08
Minus: Income tax effect of saleable financial assets	62,830.89	-105,689.56
Net amount that was accrued to other comprehensive gains in the previous periods and is transferred to the current profit and loss	0.00	0.00
Subtotal	<u>356,041.67</u>	<u>-598,907.52</u>
2. Shares in the other comprehensive gains of invested units calculated by Equity Method	0.00	0.00
Minus: Income tax effect of the shares in the other comprehensive gains of invested units calculated by Equity Method	0.00	0.00
Net amount that was accrued to other comprehensive gains in the previous periods and is transferred to the current profit and loss	0.00	0.00
Subtotal	<u>0.00</u>	<u>0.00</u>
3. Profit (or loss) caused by cash flow hedging instruments	0.00	0.00
Minus: Income tax effect of cash flow hedging instruments	0.00	0.00
Net amount that was accrued to other comprehensive gains in the previous periods and is transferred to the current profit and loss	0.00	0.00
Adjusted amount that was transferred as the initial confirmation amount of hedged item	0.00	0.00
Subtotal	<u>0.00</u>	<u>0.00</u>
4. Conversion difference of foreign currency financial statements	408,419.30	-2,019,381.17
Minus: Net amount that is transferred to the current profit and loss due to disposal of overseas operation	0.00	0.00
Total	<u>408,419.30</u>	<u>-2,019,381.17</u>
5. Others	0.00	0.00
Minus: Effect of income tax that is accrued to the other comprehensive	0.00	0.00

gains

Net amount that was accrued to other comprehensive gains in the

previous periods and is transferred to the current profit and loss

Subtotal	0.00	0.00
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Total	<u>764,460.97</u>	<u>-2,618,288.69</u>
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**48 Other Cashes Received Related to the Operating Activities**

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Deposit	18,787,523.84	4,084,887.78
Fund transfer	36,872,284.67	4,826,320.36
Governmental allowance	6,793,339.10	26,412,105.20
Interest income	26,014,646.03	13,919,949.29
Penalty income	5,260.00	12,200.85
Deposit	0.00	343,462.65
Loans to staffs	3,622,479.95	2,270,634.01
Special expense	59,151.70	0.00
Allowance income	75,944.04	0.00
Others	<u>1,929,814.17</u>	<u>1,086,218.63</u>
Total	<u>94,160,443.50</u>	<u>52,955,778.77</u>

**49. Other Cashes Paid Related to the Operating Activities**

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Office expense	5,989,122.55	5,524,729.35
Traveling expense	9,665,747.24	6,516,473.90
Communication expense	6,722,786.41	6,268,981.15
Water and electricity expenses	4,497,413.15	1,365,375.65
Transportation expense	18,386,249.74	14,588,504.42
Advertising expense	3,781,934.50	1,971,400.00
Meeting expense	8,254,796.75	9,070,941.54
Lease expense	3,486,116.44	3,637,108.89
Maintenance expense	2,029,292.74	7,286,023.03



Environment Protection		
Cost	48,518.00	200,413.59
Auditing expense and information disclosure expense	1,287,532.44	1,570,938.60
Insurance	373,020.36	1,306,363.12
Meeting expense of Board of Directors	500,640.48	63,703.34
Consultancy expense of consultants	543,764.77	1,609,628.49
Research and development expense	17,828,284.09	22,235,435.24
Lawsuit expense	175,246.00	63,535.25
Bid-invitation expense	242,800.00	399,190.00
Testing and inspection expenses	148,928.22	434,829.60
Formality expenses charged by banks	1,746,455.22	2,423,359.87
Penalty payment	0.00	21,998.94
Reserve fund	0.00	11,356,057.27
Deposit	29,529,694.41	7,488,313.09
Fund transfer	81,341,391.84	8,126,558.24
Business promotion expense	518,509,635.41	251,788,111.64
L/C deposits	0.00	0.00
Transfer royalty of technologies	4,475,000.00	1,726,717.36
Training expense	1,033,982.16	0.00
Plantation and environmental protection expense	308,658.88	0.00
Special expense about quality	1,588,754.93	0.00
Personal transfer	26,996,161.21	0.00
Commission (agency expense)	1,376,671.91	0.00
Deposits	292,246.00	0.00
Insurance expense	987,628.57	0.00
Design expense	597,282.29	0.00
Labor insurance expense	47,514.46	0.00
Refunding of deposits	400,000.00	0.00
Others	<u>6,409,714.92</u>	<u>18,276,371.91</u>
Total	<u>759,602,986.09</u>	<u>385,321,063.48</u>

**50 Other Cashes Received Related to the Financing activities**

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Release of pledged deposits	0.00	6,200,000.00
Deducted personal income tax in the dividend distribution	<u>0.00</u>	<u>0.00</u>
Total	<u>0.00</u>	<u>6,200,000.00</u>

**51 Other Cashes Paid Related to the Financing Activities**

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Formality fees of issuing the bonds	0.00	1,600,000.00
Mortgaged deposits	<u>0.00</u>	<u>0.00</u>
Total	<u>0.00</u>	<u>1,600,000.00</u>

**52 Supplementary Data of Consolidated Cash Flow Statement**

(1) Supplementary data of cash flow statement

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
1. Reconciliation of net profit to cash flow from operating activities:		
Net profits	246,731,938.19	236,240,294.76
Plus: Reserve for asset depreciation	13,145,646.32	5,939,516.02
Fixed asset depreciation, consumption of oil and gas assets and production biology asset depreciation	65,105,818.86	69,364,763.96
Amortization of intangible assets	9,508,058.36	7,751,157.71
Amortization of long-term amortization expense and long-term assets	4,238,759.48	1,581,621.71
Loss in disposal of fixed assets, intangible assets and other long-term assets (the profits will be listed beginning with "-")	-179,462.02	420,947.86
Loss in the rejection of fixed assets (the profits will be listed beginning with "-")	0.00	0.00
Loss in the changes of fair values (the profits will be listed beginning	-2,114,503.89	

with "-")		-43,870.70
Financial expense (the profits will be listed beginning with "-")	12,221,496.07	7,984,040.10
Investment loss (the profits will be listed beginning with "-")	-1,731,468.57	654,572.56
Decrease of deferred income tax assets (the increase will be listed beginning with "-")	-3,579,650.01	2,718,102.61
Increase of deferred income tax liabilities (the decrease will be listed beginning with "-")	137,588.73	171,341.80
Decrease of inventory (the increase will be listed beginning with "-")	-83,216,519.03	20,231,222.72
Decrease of receivable operating items (the increase will be listed beginning with "-")	-138,374,517.32	109,512,960.50
Increase of payable operating items (the decrease will be listed beginning with "-")	213,523,200.77	55,774,514.70
Others	0.00	0.00
Net amount of cash flow from the operating activities	335,416,385.94	292,654,480.77
2.Key investment and financing activities not involving the cash income and payment		
Transfer from liabilities to share capital	0.00	0.00
Convertible company bonds due within one year	0.00	0.00
Financing leasing of fixed assets	0.00	0.00
3.Change of cash and cash equivalents:		
Cash balance at the end of period	885,462,208.68	1,259,220,125.35
Minus: cash balance at the beginning of period	1,432,175,794.78	844,481,857.59
Plus: cash equivalent balance at the end of period	0.00	0.00
Minus: cash equivalent balance at the beginning of period	0.00	0.00
Net increase of cash and cash equivalent	-546,713,586.10	414,738,267.76

**(2) Cash and Cash Equivalents**

<u>Item</u>	<u>2012.6.30</u>	<u>2011.6.30</u>
I. Cash	885,462,208.68	1,259,220,125.35
Including: Cash at stock	185,221.13	184,838.01
Deposits in banks that may be used for		
payment randomly	881,294,548.86	1,255,817,285.59
Other Currency Capitals that may be used	3,982,438.69	3,218,001.75

for payment randomly

II. Cash equivalents	0.00	0.00
Including: Bond investment due within 3 months	0.00	0.00
III. Cash and cash equivalent balances at the end of period	<u>885,462,208.68</u>	<u>1,259,220,125.35</u>

## VI. Notes to the Relevant Items in the Financial Statements of Parent company

### 1. Accounts Receivable

(1) Composition of accounts receivable

Item	2012.6.30				2011.12.31			
	Amount	Percentage	Reserves for Bad debts	Net Value	Amount	Percentage	Reserves for Bad debts	Net Value
Accounts receivable whose individual amount is large and whose individual bad debt reserve is withdrawn	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accounts receivable whose bad debt reserve is withdrawn based on the combination	338,037,044.89	99.57%	17,086,473.26	320,950,571.63	268,917,819.50	99.42%	22	8
Accounts receivable whose individual amount is not large but whose individual bad debt reserve is withdrawn	<u>1,446,875.74</u>	<u>0.43%</u>	<u>1,322,347.87</u>	<u>124,527.87</u>	<u>1,558,849.22</u>	<u>0.58%</u>	<u>2</u>	<u>169,754.80</u>
Total	<u>339,483,920.63</u>	<u>100.00%</u>	<u>18,408,821.13</u>	<u>321,075,099.50</u>	<u>270,476,668.72</u>	<u>100.00%</u>	<u>64</u>	<u>8</u>

(2) Accounts receivable whose bad debt reserves are withdrawn based on the age combination

Age	2012.6.30	2011.12.31
-----	-----------	------------

	<u>Amount</u>	<u>Percentage</u>	<u>Reserves for Bad debts</u>	<u>Net Value</u>	<u>Amount</u>	<u>Percentage</u>	<u>Reserves for Bad debts</u>	<u>Net Value</u>
Within 1 year	333,082,953.31	98.11%	16,654,147.67	316,428,805.64	266,388,981.02	98.49%	13,319,449.05	253,069,531.97
1-2 years	3,989,233.69	1.18%	239,354.02	3,749,879.67	1,569,775.19	0.58%	94,186.51	1,475,588.68
2-3 years	964,857.89	0.28%	192,971.58	771,886.31	959,063.29	0.35%	191,812.66	767,250.63
Over 3 years	<u>1,446,875.74</u>	<u>0.43%</u>	<u>1,322,347.86</u>	<u>124,527.88</u>	<u>1,558,849.22</u>	<u>0.58%</u>	<u>1,389,094.42</u>	<u>169,754.80</u>
Total	<u>339,483,920.63</u>	<u>100.00%</u>	<u>18,408,821.13</u>	<u>321,075,099.50</u>	<u>270,476,668.72</u>	<u>100.00%</u>	<u>14,994,542.64</u>	<u>255,482,126.08</u>

(3) At the end of period, for the accounts receivable whose amounts are large, or whose amounts are not large but whose depreciation tests have been separately made, the bad debt reserve balances have not been fully withdrawn.

(4) By June 30, 2012, the top 5 accounts receivable are listed as follows:

<u>Debtor Name</u>	<u>Relationship with this company</u>	<u>Debt Amount</u>	<u>Nature or Content</u>	<u>Debt Time</u>	<u>Percentage in Total Amount</u>
Chongqing Pharmaceutical Xinte Medical Co., Ltd	Non-associated party	10,157,049.00	Loan	Within 1 year	2.99%
Sichuan Provincial Pharmaceutical Controlling Co.,Ltd	Non-associated party	8,745,378.40	Loan	Within 1 year	2.58%
Yunnan Provincial Pharmaceutical Co., Ltd	Non-associated party	7,358,813.30	Loan	Within 1 year	2.17%
Sichuan Provincial Pharmaceutical co.,Ltd	Non-associated party	7,179,456.80	Loan	Within 1 year	2.11%
Hefei Yifan Pharmaceutical Co., Ltd	Non-associated party	<u>6,627,140.00</u>	Loan	Within 1 year	<u>1.95%</u>
Total		<u>40,067,837.50</u>			<u>11.80%</u>

(5) By June 30, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

## 2 Other accounts receivable

(1) Composition of other accounts receivable

<u>Item</u>	<u>2012.6.30</u>				<u>2011.12.31</u>			
	<u>Amount</u>	<u>Percentage</u>	<u>Reserves for</u>	<u>Net Value</u>	<u>Amount</u>	<u>Percentage</u>	<u>Reserves for</u>	<u>Net Value</u>
		<u>ge</u>	<u>Bad debts</u>			<u>ge</u>	<u>Bad debts</u>	
Accounts receivable whose individual amount is large and whose individual bad debt reserve is withdrawn	283,092,908.94	82.88%	0.00	283,092,908.94	262,215,870.16	94.69%	0.00	262,215,870.16
Accounts receivable whose bad debt reserve is withdrawn based on the combination	58,304,969.47	17.07%	837,473.72	57,467,495.75	14,457,624.32	5.22%	835,815.49	13,621,808.83
Accounts receivable whose individual amount is not large but whose individual bad debt reserve is withdrawn	<u>185,794.96</u>	<u>0.05%</u>	<u>130,952.58</u>	<u>54,842.38</u>	<u>246,514.29</u>	<u>0.09%</u>	<u>193,157.41</u>	<u>53,356.88</u>
Total	<u>341,583,673.37</u>	<u>100.00%</u>	<u>968,426.30</u>	<u>340,615,247.07</u>	<u>276,920,008.77</u>	<u>100.00%</u>	<u>1,028,972.90</u>	<u>275,891,035.87</u>

(2) Other accounts receivable with the large individual amount

<u>Debtor Name</u>	<u>Debt Amount</u>	<u>Withdrawal Percentage</u>	<u>Cause</u>
Hongkong Antao Development Limited	123,757,335.92	0.00	The debtor is the subcompany controlled by the company and there are no risks in receiving the debts.
Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	85,768,144.24	0.00	The debtor is the subcompany controlled by the company and there are no risks in receiving the debts.
Ningxia Fuxing Pharmaceutical Co., Ltd under Livzon Group	39,294,104.54	0.00	The debtor is the subcompany controlled by the company and there are no risks in receiving the debts.

receiving the debts.

Xinbeijiang Fuxing  
Pharmaceutical Co., Ltd under  
Livzon Group

34,273,324.24

0.00

The debtor is the subcompany controlled by  
the company and there are no risks in  
receiving the debts.

Total

283,092,908.94

## (2) Other accounts receivable whose bad debt reserves are withdrawn based on the age combination

<u>2012.6.30</u>					<u>2011.12.31</u>				
<u>Age</u>	<u>Amount</u>	<u>Percentage</u>	<u>Reserves for</u>	<u>Net Value</u>	<u>Amount</u>	<u>Percentage</u>	<u>Reserves for</u>	<u>Net Value</u>	
		<u>ge</u>	<u>Bad debts</u>			<u>ge</u>	<u>Bad debts</u>		
Within 1 year	212,997,857.32	62.36%	193,365.72	212,804,491.60	270,756,117.33	97.77%	413,432.33	270,342,685.00	
1-2 years	127,501,543.30	37.33%	464,412.44	127,037,130.86	5,436,373.37	1.96%	326,182.40	5,110,190.97	
2-3 years	898,477.79	0.26%	179,695.56	718,782.23	481,003.78	0.18%	96,200.76	384,803.02	
Over 3 years	<u>185,794.96</u>	<u>0.05%</u>	<u>130,952.58</u>	<u>54,842.38</u>	<u>246,514.29</u>	<u>0.09%</u>	<u>193,157.41</u>	<u>53,356.88</u>	
Total	<u>341,583,673.37</u>	<u>100.00%</u>	<u>968,426.30</u>	<u>340,615,247.07</u>	<u>276,920,008.77</u>	<u>100.00%</u>	<u>1,028,972.90</u>	<u>275,891,035.87</u>	

(3) At the end of period, for the accounts receivable whose amounts are large, or whose amounts are not large but whose depreciation tests have been separately made, the bad debt reserve balances have not been fully withdrawn.

(4) By June 30, 2012, the top 5 other accounts receivable are listed as follows:

<u>Debtor Name</u>	<u>Relationship</u> <u>with this</u> <u>company</u>	<u>Debt Amount</u>	<u>Nature or</u> <u>Content</u>	<u>Debt Time</u>	<u>Percentage in</u> <u>Total Amount</u>
Hongkong Antao Development Limited	Subcompany	123,757,335.92	Fund transfer	Within 2 years	36.23%
Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	Subcompany	85,768,144.24	Fund transfer	Within 1 year	25.11%
Ningxia Fuxing Pharmaceutical Co., Ltd under Livzon Group	Subcompany	39,294,104.54	Fund transfer	Within 1 year	11.50%

Xinbeijiang Fuxing Pharmaceutical Co., Ltd under Livzon Group	Subcompany			Within 1	10.03%
				year	
		34,273,324.24	Fund transfer		
Livzon (Hongkong) Co., Ltd	Subcompany			Within 1	<u>7.21%</u>
				year	
		<u>24,618,600.86</u>	Fund transfer		
Total		<u>307,711,509.80</u>			<u>90.08%</u>

(5) By June 30, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

### 3. Long-term Equity Investment

(1) Long-term equity investment and depreciation reserve

Item	<u>2012.6.30</u>			<u>2011.12.31</u>		
	<u>Book Balance</u>	<u>Depreciation</u>	<u>Book Values</u>	<u>Book Balance</u>	<u>Depreciation</u>	<u>Book Values</u>
		<u>Reserve</u>			<u>Reserve</u>	
Calculation by						
Cost Method	1,553,147,547.15	39,071,307.03	1,514,076,240.12	1,553,147,547.15	39,071,307.03	1,514,076,240.12
Calculation by						
Equity Method	<u>13,019,810.15</u>	<u>1,200,000.00</u>	<u>11,819,810.15</u>	<u>13,795,134.46</u>	<u>1,200,000.00</u>	<u>12,595,134.46</u>
Total	<u>1,566,167,357.30</u>	<u>40,271,307.03</u>	<u>1,525,896,050.27</u>	<u>1,566,942,681.61</u>	<u>40,271,307.03</u>	<u>1,526,671,374.58</u>

(2) Long-term equity investment calculated by cost method

<u>Name of Invested Units</u>	<u>Initial Amount</u>	<u>2011.12.31</u>	<u>Increase in this</u>	<u>Decrease in this</u>	<u>2012.6.30</u>
			<u>period</u>	<u>period</u>	
Guangdong Development Bank Co.Ltd	177,348.84	177,348.84	0.00	0.00	177,348.84
Beijing Medical Goods Joint Operation Company	100,000.00	100,000.00	0.00	0.00	100,000.00
Doumen Sanzhou Industry City Co., Ltd	500,000.00	500,000.00	0.00	0.00	500,000.00
China Resources Bank of Zhuhai Co., Ltd*	95,325,760.00	95,325,760.00	0.00	0.00	95,325,760.00
Ruiheng Pharmaceutical Technology Investment Co., Ltd	6,250,000.00	6,250,000.00	0.00	0.00	6,250,000.00
Zhuhai Livzon – Bai A Meng Biological Materials Co., Ltd	3,934,721.95	3,934,721.95	0.00	0.00	3,934,721.95
Zhuhai Livzon Meidaxin Technology	800,000.00	800,000.00	0.00	0.00	800,000.00



<u>Name of Invested Units</u>	<u>Initial Amount</u>	<u>2011.12.31</u>	<u>Increase in this</u> <u>period</u>	<u>Decrease in this</u> <u>period</u>	<u>2012.6.30</u>
Development Co., Ltd					
Livzon Pharmaceutical Factory under					
Livzon Group	353,169,752.98	353,169,752.98	0.00	0.00	353,169,752.98
Sichuan Guangda Pharmaceutical Co.,			0.00		
Ltd	170,872,457.35	170,872,457.35		0.00	170,872,457.35
Shanghai Livzon Pharmaceutical Co.,			0.00	0.00	
Ltd	74,229,565.00	74,229,565.00			74,229,565.00
Zhuhai Modern Chinese Medicine Hi-			0.00	0.00	
tech Co., Ltd	4,539,975.00	4,539,975.00			4,539,975.00
Livzon Medicine Institute under Livzon			0.00	0.00	
Group	6,004,000.00	6,004,000.00			6,004,000.00
Livzon (Hongkong) Co., Ltd	64,770,100.00	64,770,100.01	0.00	0.00	64,770,100.01
Hongkong Antao Development Limited	534,050.00	534,050.00	0.00	0.00	534,050.00
Xinbeijiang Pharmaceutical Co., Ltd			0.00	0.00	
under Livzon Group	116,446,982.80	116,446,982.80			116,446,982.80
Zhuhai Livzon Reagent Co., Ltd	2,021,378.68	2,896,800.00	0.00	0.00	2,896,800.00
Livzon Medicine Marketing Co., Ltd			0.00		
under Livzon Group	12,008,000.00	12,008,000.00		0.00	12,008,000.00
			0.00		
Limin Pharmaceutical Co., Ltd under					
Livzon Group	32,768,622.72	32,768,622.72		0.00	32,768,622.72
			0.00	0.00	
Zhuhai Livzon Medicine Trade Co., Ltd	40,020,000.00	40,020,000.00			40,020,000.00
			0.00	0.00	
Fuzhou Fuxing Pharmaceutical Co., Ltd					
under Livzon Group	190,075,938.00	280,769,410.50			280,769,410.50
Zhuhai Livzon Dankang Biotechnology					
Co., Lt	51,000,000.00	51,000,000.00	0.00	0.00	51,000,000.00
Livzon Group Vaccine Engineering Co.,					
Ltd	54,500,000.00	54,500,000.00	0.00	0.00	54,500,000.00
				0.00	
Ningxia Fuxing Pharmaceutical Co., Ltd					
under Livzon Group	90,000,000.00	90,000,000.00	0.00		90,000,000.00
				0.00	
Xinbeijiang Fuxing Pharmaceutical Co.,					
Ltd under Livzon Group	90,000,000.00	90,000,000.00	0.00		90,000,000.00
Wenshan Livzon Panax notoginseng					
Plantation Co., Ltd	<u>1,530,000.00</u>	<u>1,530,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,530,000.00</u>
Total	<u>1,461,578,653.32</u>	<u>1,553,147,547.15</u>	<u>0.00</u>	<u>0.00</u>	<u>1,553,147,547.15</u>

## (3) Long-term equity investment calculated by equity method

<u>Name of Invested Units</u>			<u>Investment</u>	<u>2011.12.31</u>	<u>Increase in</u>	<u>Decrease in</u>	<u>2012.6.30</u>	<u>Cash</u>
			<u>Cost</u>		<u>this period</u>	<u>this period</u>		<u>dividend</u>
Livzon	Medical	Electronic						
Equipment (Factory) Co., Ltd			1,200,000.00	1,200,000.00	0.00	0.00	1,200,000.00	0.00
Guangdong Blue Treasure								
Pharmaceutical Co. Ltd.			2,462,407.50	6,765,932.75	262,073.77	0.00	7,028,006.52	0.00
Tongyikangshimei Chain								
(Shenzhen) Co., Ltd			<u>35,000,000.00</u>	<u>5,829,201.71</u>	<u>0.00</u>	<u>1,037,398.08</u>	<u>4,791,803.63</u>	<u>0.00</u>
Total								
			<u>38,662,407.50</u>	<u>13,795,134.46</u>	<u>262,073.77</u>	<u>1,037,398.08</u>	<u>13,019,810.15</u>	<u>0.00</u>

## (4) Depreciation Reserve for long-term equity investment

<u>Investment Projects</u>			<u>2011.12.31</u>	<u>Withdrawal in</u>	<u>Transfer</u>	<u>2012.6.30</u>	<u>Withdrawal</u>
				<u>this period</u>	<u>in this</u>		<u>Cause</u>
					<u>period</u>		
Doumen Sanzhou Industry City							The net assets
Co., Ltd							are less than
			500,000.00	0.00	0.00	500,000.00	zero.
China Resources Bank of Zhuhai			20,000,000.0				
Co., Ltd			0	0.00	0.00	20,000,000.00	Loss
Livzon	Medical	Electronic					The net assets
Equipment (Factory) Co., Ltd							are less than
			1,200,000.00	0.00	0.00	1,200,000.00	zero.
Fuzhou Fuxing Pharmaceutical							The
Co., Ltd under Livzon Group			11,200,000.00	0.00	0.00	11,200,000.00	depreciations
							have occurred.
Beijing	Medical	Goods					The business
Operation Company		Joint					license has
			100,000.00	0.00	0.00	100,000.00	been

cancelled by  
the local  
administration  
of industry and  
commerce

Xinbeijiang Pharmaceutical Co.,

Ltd under Livzon Group	<u>7,271,307.03</u>	<u>0.00</u>	<u>0.00</u>	<u>7,271,307.03</u>	Operation loss
	<u>40,271,307.0</u>				
Total	<u>3</u>	<u>0.00</u>	<u>0.00</u>	<u>40,271,307.03</u>	

#### 4. Operating Income and Operating Cost

##### (1) Item lists

Item	January to June 2012			January to June 2011		
	Operating Income	Operating Cost	Gross operating Profit	Operating Income	Operating Cost	Gross operating Profit
Main Business	857,818,013.06	409,034,502.19	448,783,510.87	593,932,264.16	361,533,125.82	232,399,138.34
Other						
Business	<u>1,139,790.64</u>	<u>65,431.16</u>	<u>1,074,359.48</u>	<u>1,147,570.64</u>	<u>62,435.92</u>	<u>1,085,134.72</u>
Total	<u>858,957,803.70</u>	<u>409,099,933.35</u>	<u>449,857,870.35</u>	<u>595,079,834.80</u>	<u>361,595,561.74</u>	<u>233,484,273.06</u>

The main cause of the increase of operating incomes over the same period of previous year is the increase of sales volume of products in this period.

##### (3) Incomes and costs from main businesses are listed as follows as per the business:

Item	January to June 2012			January to June 2011		
	Operating Income	Operating Cost	Gross operating Profit	Operating Income	Operating Cost	Gross operating Profit
Sales of						
Commodities						
ies	857,818,013.06	409,034,502.19	448,783,510.87	593,932,264.16	361,533,125.82	232,399,138.34

##### (4) Sales volume of top 5 clients

<u>Client Name</u>	<u>January to June 2012</u>		<u>January to June 2011</u>	
	<u>Sales Volume</u>	<u>Percentage of Total</u>	<u>Sales Volume</u>	<u>Percentage of Total</u>
		<u>Sales Volume (%)</u>		<u>Sales Volume (%)</u>
Total sales volume of top 5 clients	108,717,417.33	12.67%	47,705,742.01	8.03%

## 5 Business Tax and Surtax

<u>Item</u>	<u>Tax rate</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Business tax	5%	0.00	0.00
City construction tax	7%	6,105,518.33	2,396,397.75
Education surtax	5%	2,578,914.64	1,711,712.68
Embankment protection cost	0.07%	<u>599,412.63</u>	<u>105,000.00</u>
Total		<u>9,283,845.60</u>	<u>4,213,110.43</u>

The main cause of the huge increase of business tax and surtax over the same period of previous year is the increase of incomes.

## 6 Investment returns

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
1. Returns in the holding period:	51,492,091.39	98,841,956.11
① profits distributed by the associated or joint companies	0.00	0.00
Including: Changzhou Kangli Pharmaceutical Co., Ltd		
under Livzon Group	0.00	0.00
② Tradable financial assets	0.00	0.00
③ Bonus returns of saleable financial assets	151,818.90	0.00
④ Profits distributed by other equity investments	0.00	0.00
Including: Guangdong Development Bank Co.Ltd	0.00	0.00
⑤ Net increase or decrease of adjusted shareholders' equities of invested company at the end of year	-775,324.31	-1,035,051.89
Including: Guangdong Blue Treasure Pharmaceutical Co. Ltd.	262,073.77	-125,051.89
Tongyikangshimei Chain (Shenzhen) Co., Ltd	-1,037,398.08	-910,000.00

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
⑥ Investment return of subcompanies	52,115,596.80	99,877,008.00
Including: Livzon Pharmaceutical Factory under Livzon Group	0.00	0.00
Sichuan Guangda Pharmaceutical Co., Ltd	0.00	0.00
Livzon Medicine Marketing Co., Ltd under Livzon Group	0.00	0.00
Limin Pharmaceutical Co., Ltd under Livzon Group	41,915,596.80	99,877,008.00
Zhuhai Livzon Advertising Co., Ltd	0.00	0.00
Zhuhai Livzon Medicine Trade Co., Ltd	0.00	0.00
Zhuhai Livzon Reagent Co., Ltd	10,200,000.00	0.00
⑦ Others	0.00	0.00
2. Transfer returns:	0.00	0.00
Including: Sales of tradable financial assets	0.00	0.00
Sales of saleable financial assets	0.00	0.00
Investment returns from equity transfer	0.00	0.00
<b>Total</b>	<b><u>51,492,091.39</u></b>	<b><u>98,841,956.11</u></b>

## 7. Supplementary Data of Cash Flow Statement of Parent Company

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	70,599,090.54	137,687,473.23
Plus: Reserve for asset depreciation	9,612,273.16	2,323,249.41
Fixed asset depreciation, consumption of oil and gas assets and production biology asset depreciation	6,137,147.07	5,555,284.05
Amortization of intangible assets	4,927,098.94	3,287,283.53
Amortization of long-term amortization expense and long-term assets	0.00	0.00
Loss in disposal of fixed assets, intangible assets and other long-term assets (the profits will be listed beginning with "-")	-14,052.50	-119,845.95

	<u>January to June</u>	<u>January to June</u>
<u>Item</u>	<u>2012</u>	<u>2011</u>
Loss in the rejection of fixed assets (the profits will be listed beginning with "-")	0.00	1,623.50
Loss in the changes of fair values (the profits will be listed beginning with "-")	0.00	0.00
Financial expense (the profits will be listed beginning with "-")	9,785,520.15	14,715,052.53
Investment loss (the profits will be listed beginning with "-")	-51,492,091.39	98,841,956.11
Decrease of deferred income tax assets (the increase will be listed beginning with "-")	-1,387,143.91	-342,540.80
Increase of deferred income tax liabilities (the decrease will be listed beginning with "-")	0.00	-105,689.56
Decrease of inventory (the increase will be listed beginning with "-")	8,453,151.97	27,008,380.48
Decrease of receivable operating items (the increase will be listed beginning with "-")	-69,154,890.93	48,205,938.83
Increase of payable operating items (the decrease will be listed beginning with "-")	-77,803,217.12	47,004,293.83
Others	0.00	0.00
Net amount of cash flow from the operating activities	-90,337,114.02	35,949,908.35
2.Key investment and financing activities not involving the cash income and payment		
Transfer from liabilities to share capital	0.00	0.00
Convertible company bonds due within one year	0.00	0.00
Financing leasing of fixed assets	0.00	0.00
3.Change of cash and cash equivalents:		
Cash balance at the end of period	797,819,129.62	1,135,455,774.07
Minus: cash balance at the beginning of period	1,306,877,982.24	662,428,797.62
Plus: cash equivalent balance at the end of period	0.00	0.00
Minus: cash equivalent balance at the beginning of period	0.00	0.00
Net increase of cash and cash equivalent	-509,058,852.62	473,

	<u>January to June</u>	<u>January to June</u>
<u>Item</u>	<u>2012</u>	<u>2011</u>
		026,976.45

## XII. Relationship and Transaction of Associated Parties

### 1. Confirmation Standard of associated parties

The other party which is controlled, jointly controlled or substantially influenced by the company, or controls, jointly controls or substantially influences the company, or is under the same control, joint control or substantial influence of the same parties as the company will be deemed as the associated party of the company.

### 2. Relationship of associated parties

(1) Associated party with the control relationship

<u>Enterprise Name</u>	<u>Register</u> <u>ed Place</u>	<u>Main Business</u>	<u>Organization</u> <u>Code</u>	<u>Relationship</u> <u>with the</u> <u>Company</u>	<u>Economic</u> <u>Nature</u>	<u>Legal</u> <u>Represent</u> <u>ative</u>
Joincare Pharmaceutical Group Industry Co., Ltd	Shenzhen	Production and sales of oral liquids, medicines and health-care food	61887436-7	Parent company	Company Limited (Listed company)	Zhu Baoguo

Please see the note IV for the details of the subcompanies held by the company.

The finally actual controller of this company is the natural person Zhu Baoguo.

(2) Registered capitals and changes of associated parties with the control relationship

<u>Enterprise Name</u>	<u>2011.12.31</u>	<u>Increase in this</u> <u>period</u>	<u>Decrease in this</u> <u>period</u>	<u>2012.6.30</u>
Joincare Pharmaceutical Group Industry Co., Ltd	1,317,448,800	0.00	0.00	1,317,448,800

Please see the note IV for the details of the registered capitals and changes of subcompanies held by the company.

(3) Shares and changes of associated parties with the control relationship

<u>Enterprise Name</u>	<u>2011.12.31</u>	<u>Percentage</u> <u>(%)</u>	<u>Increase in</u> <u>this period</u>	<u>Decrease in</u> <u>this period</u>	<u>2012.6.30</u>	<u>Percentage</u> <u>(%)</u>
Joincare Pharmaceutical Group Industry C	135,470,620	45.7293	239,012.00	0.00	135,470,620	45.8101

o., Ltd and its subcompanies

%

%

In the above equities held by Joincare Pharmaceutical Group Industry Co., Ltd, the formalities for transferring the equities of 6,059,428 legal person shares held in the name of Guangzhou Begol Trading Corporation have not been handled and the transfer formalities of other equities have been handled

(4) Details about associated parties without any control relationship

<u>Enterprise Name</u>	<u>Organization Code</u>	<u>Relationship with the Company</u>
Guangdong Blue Treasure Pharmaceutical Co. Ltd.	61806410-2	Associated company
Tongyikangshimei Chain (Shenzhen) Co., Ltd	76046936-2	Associated company
Shenzhen Haibin Pharmaceutical Co., Ltd	61885517-4	Company controlled by parent company
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	77512952-0	Company controlled by parent company
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	75788087-1	Company controlled by parent company
Health Pharmaceutical (China) Co., Ltd	61749891-0	Company controlled by parent company
Shenzhen Taitai Pharmaceutical Company Limited	74121715-1	Company controlled by parent company

### 3. Transactions between associated parties

(1) The pricing principle of transactions between the company and associated parties: the transactions will be settled at the prices of similar products in the market

(2) Transaction of associated parties

① Sales of Commodities

Name of Associated Parties

January to June 2012

January to June 2011



	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	0.00	0.00%	7,083.49	0.00%
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	3,076.92	0.00%	0.00	0.00%
Guangdong Blue Treasure Pharmaceutical Co. Ltd.	<u>4,836,505.58</u>	<u>0.26%</u>	<u>0.00</u>	<u>0.00%</u>
Total	<u>4,839,582.50</u>	<u>0.26%</u>	<u>7,083.49</u>	<u>0.00%</u>

## ② Provision of labors (water, electricity and power)

	<u>January to June 2012</u>		<u>January to June 2011</u>	
<u>Name of Associated Parties</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>
Guangdong Blue Treasure Pharmaceutical Co. Ltd.	<u>3,033,195.13</u>	<u>71.38%</u>	<u>5,003,733.63</u>	<u>66.47%</u>
Total	<u>3,033,195.13</u>	<u>71.38%</u>	<u>5,003,733.63</u>	<u>66.47%</u>

## ③ Purchase of commodities

	<u>January to June 2012</u>		<u>January to June 2011</u>	
<u>Name of Associated Parties</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>
Guangdong Blue Treasure Pharmaceutical Co. Ltd.	4,028,612.26	0.39%	184,089.42	0.04%
Shenzhen Haibin Pharmaceutical Co., Ltd	18,358.96	0.00%	7,351,495.73	1.49%
Joincare Pharmaceutical Group Industry Co., Ltd	102,564.10	0.01%	53,914.53	0.01%

Jiaozuo	Joincare				
Pharmaceutical Group	Industry				
Co., Ltd		<u>29,478,803.42</u>	<u>2.82%</u>	<u>52,180,106.84</u>	<u>10.61%</u>
Total		<u>33,628,338.74</u>	<u>3.22%</u>	<u>59,769,606.52</u>	<u>12.15%</u>

## ④ Receiving of labors

<u>January to June 2012</u>			<u>January to June 2011</u>		
<u>Name of Associated</u>					
<u>Parties</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	<u>Amount</u>	<u>Percentage in Similar Transaction Amount (%)</u>	
Shenzhen Taitai Pharmaceutical Company Limited	<u>170,000.00</u>	<u>0.01%</u>	<u>0.00</u>	<u>0.00%</u>	
Total	<u>170,000.00</u>	<u>0.01%</u>	<u>00.00</u>	<u>0.00%</u>	

## ⑥ Receivable and payable balances with associated parties

<u>Enterprise Name</u>		<u>2012.6.30</u>		<u>2011.12.31</u>	
		<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Accounts receivable:					
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd		3,600.00	0.00%	0.00	0.00%
Guangdong Blue Treasure Pharmaceutical Co. Ltd.		<u>3,424,286.53</u>	<u>0.45%</u>	<u>0.00</u>	<u>0.00%</u>
Total		<u>3,427,886.53</u>	<u>0.45%</u>	<u>0.00</u>	<u>0.00%</u>
Accounts payable:					
Shenzhen Haibin Pharmaceutical Co., Ltd		<u>131,000.09</u>	<u>0.08%</u>	<u>150,000.00</u>	<u>0.07%</u>
Total		<u>131,000.09</u>	<u>0.08%</u>	<u>150,000.00</u>	<u>0.07%</u>
Other accounts receivable:					
Guangdong Blue Treasure Pharmaceutical Co. Ltd.		<u>3,691,904.74</u>	<u>6.07%</u>	<u>2,865,078.12</u>	<u>5.84%</u>

## Jiaozuo Joincare Pharmaceutical Group

Industry Co., Ltd	<u>41,535.60</u>	<u>0.07%</u>	<u>0.00</u>	<u>0.00%</u>
Total	<u>3,733,440.34</u>	<u>6.14%</u>	<u>2,865,078.12</u>	<u>5.84%</u>

## Accounts payable:

Guangdong Blue Treasure			300,195.00	0.14%
Pharmaceutical Co. Ltd.	1,085,288.84	0.35%		
Jiaozuo Joincare Pharmaceutical Group			<u>22,301,104.02</u>	<u>10.72%</u>
Industry Co., Ltd	<u>32,527,179.03</u>	<u>10.60%</u>		
Total	<u>33,612,467.87</u>	<u>10.95%</u>	<u>22,601,299.02</u>	<u>10.86%</u>

## Other accounts payable:

## Jiaozuo Joincare Pharmaceutical Group

Industry Co., Ltd	<u>71,720.22</u>	<u>0.00%</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>71,720.22</u>	<u>0.00%</u>	<u>0.00</u>	<u>0.00</u>

**VIII. Contingent Events**

By June 30, 2012, the company has no contingent key events for disclosure.

**IX. Commitments**

1. 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 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).

### **X Non-adjusting Events occurring after the Balance Sheet Date**

By the reporting date, the company has no non-adjusting events occurring after the balance sheet date that need to be disclosed.

### **XIII. Other Key Events**

1. Bank loan guaranties that the company provides to the controlling subcompanies during the report period are listed as follows: (RMB 10 thousand Yuan)

Name of Guarantee	Occurrence Date (Signing date of agreement)	Balance at the end of period	Actual guarantee amount	Guarantee Amount	Guaranty type	Period
Zhuhai Livzon Reagent Co., Ltd	2012.3.12	0.00	0.00	2,000.00	Credit guaranty	2012.3.12-2015.3.21
Zhuhai Livzon Reagent Co., Ltd	2012.3.22	0.00	0.00	1,264.98	Credit guaranty	2012.3.22-2015.3.21
Zhuhai Livzon Medicine Trade Co., Ltd	2009.7.20	0.00	0.00	1,000.00	Credit guaranty	2009.7.20-2012.7.20
Limin Pharmaceutical Co., Ltd under Livzon Group	2012.4.17	0.00	0.00	15,000.00	Credit guaranty	2012.4.17-2015.4.16
Zhuhai Livzon Dankang Biotechnology Co., Ltd	2012.6.21	0.00	0.00	6,000.00	Credit guaranty	2012.6.21-2014.6.21
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	2012.6.7	2445.60	2445.66	3,000.00	Credit guaranty	2012.6.7-2015.6.7

Name of Guarantee	Occurrence Date (Signing date of agreement)	Balance at the end of period	Actual guarantee amount	Guarantee Amount	Guaranty type	Period
Livzon Pharmaceutical Factory under Livzon Group	2012.5.17	0.00	0.00	16,000.00	Credit guaranty	2012.5.17-2015.5.16
Livzon Pharmaceutical Factory under Livzon Group	2012.6.7	0.00	0.00	9,000.00	Credit guaranty	2012.6.7-2015.6.7
Livzon Pharmaceutical Factory under Livzon Group	2009.8.21	0.00	0.00	5,000.00	Credit guaranty	2009.8.21-2012.8.21
Livzon Pharmaceutical Factory under Livzon Group	2010.12.23	50	50	32,000.00	Credit guaranty	2010.12.14-2018.12.14
Livzon Pharmaceutical Factory under Livzon Group	2009.11.27	0.00	0.00	5,000.00	Credit guaranty	2009.11.27-2012.11.27
Livzon Pharmaceutical Factory under Livzon Group	2009.9.10	0.00	0.00	6,000.00	Credit guaranty	2009.9.10-2012.9.10
Livzon Pharmaceutical Factory under Livzon Group	2009.10.15	0.00	0.00	12,000.00	Credit guaranty	2010.6.12-2018.6.3
Livzon Pharmaceutical Factory under Livzon Group	2012.6.21	0.00	0.00	10,000.00	Credit guaranty	2012.6.21-2015.6.21
Livzon Pharmaceutical Factory under Livzon Group	2010.5.13	0.00	0.00	8,316.20	Credit guaranty	2010.7.20-2013.7.20
Livzon Pharmaceutical Factory under Livzon Group	2011.9.27	0.00	1244.61	4,095.585	Credit guaranty	2011.9.27-2014.9.27
Livzon Pharmaceutical Factory under Livzon Group	2011.9.27	1222.80	1222.83	0.00	Credit guaranty	2011.9.27-2014.9.27
Livzon Pharmaceutical Factory under Livzon G	2011.8.4	4483.60	4483.71	4,458.85	Credit guaranty	2011.8.4-2014.8.4

Name of Guarantee	Occurrence Date (Signing date of agreement)	Balance at the end of period	Actual guarantee amount	Guarantee Amount	Guaranty type	Period
roup						
Total guaranty amount to its controlling subcompanies in the report period			9,447.00			
Total balance of guaranty amount to its controlling subcompanies in the report period			8,202.00			

## 3. Assets and Liabilities calculated at the fair values

Unit: RMB 1000 Yuan

<u>Item</u>	<u>Amount at the beginning of period</u>	<u>Profit and loss in the changes of fair values in this period</u>	<u>Accumulated changes of fair values that are accrued to the equities</u>	<u>Withdrawn depreciation in this period</u>	<u>Amount at the end of period</u>
Financial assets					
1. Financial assets that are calculated in the fair values and whose changes are accrued to the current profit and loss (not including the derivative financial assets)	44,343.01	941.33	0.00	0.00	45,284.34
2. Derivative financial assets	0.00	0.00	0.00	0.00	0.00
3. Saleable financial assets	9,238.79	0.00	418.87	0.00	9,657.66
Subtotal of financial assets	53,581.80	941.33	418.87	0.00	54,942.00
Real estate for investment	0.00	0.00	0.00	0.00	0.00
Production biology asset	0.00	0.00	0.00	0.00	0.00
Others	0.00	0.00	0.00	0.00	0.00
Total	<u>53,581.80</u>	<u>941.33</u>	<u>418.87</u>	<u>0.00</u>	<u>54,942.00</u>

Financial liabilities	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
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## 4. Foreign currency financial assets and foreign currency financial liabilities

Unit price: RMB 1000 Yuan

<u>Item</u>	<u>Amount at the beginning of period</u>	<u>Profit and loss in the changes of fair values in this period</u>	<u>Accumulated changes of fair values that are accrued to the equities</u>	<u>Withdrawn depreciation in this period</u>	<u>Amount at the end of period</u>
Financial assets					
1. Financial assets that are calculated in the fair values and whose changes are accrued to the current profit and loss (not including the derivative financial assets)	43,819.54	917.42	0.00	0.00	44,736.96
2. Derivative financial assets	0.00	0.00	0.00	0.00	0.00
3. Loans and accounts receivable	61,544.97	0.00	0.00	570.88	70,375.13
4. Saleable financial assets	0.00	0.00	0.00	0.00	0.00
5. Investments that are held to the maturity dates	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Subtotal of financial assets	<u>105,364.51</u>	<u>917.42</u>	<u>0.00</u>	<u>570.88</u>	<u>115,112.09</u>
Financial liabilities	<u>251,449.80</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>329,514.72</u>

**XII. Supplementary Data****1. Non-Recurring Profit and Loss**

In accordance the *No. 1 Explanatory Announcement about Information Disclosure of Companies Making Public Offering of Securities – Non-recurring Profit and Loss(2008)* (Zheng Jian Hui Gong Gao (2008) No. 43) issued on October 31, 2008, the non-recurring profit and loss items of the company are listed as follows:

<u>Item</u>	<u>January to June 2012</u>	<u>January to June 2011</u>
Profit and loss in disposal of non-current assets, including the written-off	301,761.08	420,947.86

part of already withdrawn depreciation reserves

Tax rebate and exemption due to the approval without the appropriate authority or the formal approval documents, or the accidental tax rebate

and exemption	0.00	0.00
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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 continuously granted based on the certain standard quota or certain quantity

11,882,340.48	20,110,733.72
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Capital occupancy expense from the non-financial enterprises that is accrued to the current profit and loss

0.00	0.00
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The investment costs of enterprises to obtain the subcompanies, associated enterprises and joint enterprises are less than the returns from the fair values of identifiable net assets of invested units that should be available at the time of investment

0.00	0.00
------	------

Profit and loss of non-currency assets exchange

0.00	0.00
------	------

Profit and loss of investment or management of entrusted assets

0.00	0.00
------	------

The various withdrawn reserves for assets depreciation due to the force majeure such as the natural calamities

0.00	0.00
------	------

Profit and loss of liabilities restructuring

0.00	0.00
------	------

Enterprise restructuring expenses, such as the payments for staffing and integration expense, etc.

0.00	0.00
------	------

Profit and loss from the amount exceeding the fair values in the transactions in which the transaction prices are obviously unfair.

0.00	0.00
------	------

The current profit and loss from the establishment date to the merger date of subcompanies that are established by the merger of enterprises under the same control

0.00	0.00
------	------

The profit and loss caused by the contingent events that are not related to the normal operation business of the company

0.00	0.00
------	------

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 tradab

3,704,038.57	858,831.10
--------------	------------



le financial assets, tradable financial liabilities and saleable financial assets

Reversion of depreciation reserves for accounts receivable whose depreciation testing have been individually made.

0.00 0.00

Profit and loss from the externally entrusted loans

0.00 0.00

Profit and loss caused by the changes of fair values of invested real estates in the subsequent calculation by utilizing fair value mode

0.00 0.00

Effect of the one-time adjustment of the current profit and loss in accordance with the requirements of laws and regulations concerning the taxes and accounting, etc. on the current profit and loss

0.00 0.00

Custody income due to the entrusted custody

0.00 0.00

Other net non-operating income and payment except the above items

151,596.84 1,465,215.51

Other profit and loss items that comply with the definition for non-operating profit and loss

0.00 0.00

Subtotal

16,039,736.97 22,855,728.19

Minus: effect of income tax

2,638,984.95 3,349,687.44

Effect of the minority of shareholders' equities

2,405,339.64 472,151.12

Total

10,995,412.38 19,033,889.63

## 2. Yield Rate of Net Assets and Profit Per Share

<u>Profit in the report period</u>	<u>Weighted average yield rate of net asset</u>	<u>Profit per share (Yuan/share)</u>	
		<u>Basic profit per share</u>	<u>Profit per share after dilution</u>
Net profit attributable to the ordinary shareholders	7.86%	0.77	0.77
Net profit attributable to the ordinary shareholders after deduction of non-recurring profit and loss	7.48%	0.74	0.74

Calculation Steps:

## 1. Basic profit per share

<u>Item</u>	<u>Calculation Steps</u>	<u>Amount</u>	<u>After deduction of non-recurring profit and loss</u>
Current net profit attributable to the ordinary shareholders	P	228,705,016.3 9	217,709,604.01
Total quantity of shares in the beginning of period	S0	295,721,852.0 0	295,721,852.00
Increase of shares in the current period	Si	0.00	0.00
Length from the next month after share increase to the end of report period (unit: month)	Mi	0.00	0.00
Length of report period (unit: month)	M0	6.00	6.00
The weighted average number of ordinary shares which are issued to the public	$S = S0 + Si \times Mi \div M0$	295,721,852.0 0	295,721,852.00
Basic profit per share	$P \div S$	0.77	0.74

## 2. Diluted profit per share:

<u>Item</u>	<u>Calculation Steps</u>	<u>Amount</u>	<u>After deduction of non-recurring profit and loss</u>
Current net profit attributable to ordinary shareholders	P	228,705,016.3 9	217,709,604.01
Dividends and interests related to the diluted potential ordinary shares	A1	0.00	0.00
Returns or expenses caused by the dilution of the conversion of potential ordinary shares	A2	0.00	0.00
Total quantity of shares in the beginning of period	S0	295,721,852.0 0	295,721,852.00
Increase of shares in the current period	Si	0.00	0.00
Length from the next month after share increase	Mi	0.00	0.00

to the end of report period (unit: month)

Length of report period (unit: month)	M0	6.00	6.00
The weighted average number of ordinary shares which are issued to the public	$S=S_0+S_i \times M_i \div M_0$	295,721,852.0	295,721,852.00
Weighed average number in the conversion from diluted potential ordinary shares to ordinary shares	X	0.00	0.00
Diluted profit per share	$(P+A_1 \pm A_2) \div (S+X)$	0.77	0.74

### XIII. Approval of Financial Statement

This financial statement is passed and issued by the Board of Direction on August 17, 2012.

Zhu Baoguo

Company Name: Livzon Pharmaceutical Group Inc.

Principal of the Company: Zhu Baoguo  
 Principal of the Financial Department: An Ning  
 Principal of the Accounting Department: Si Yanxia

## Section 9 Catalog of Files for Reference

Catalog of Files for Reference	
1	The 2012 semi-annual reports with the signature of Chairman.
2	The financial reports with signatures of legal representative, principal of Financial Department and principal of Accounting Department.
3	All original files and announcement manuscript that have been published in <i>Securities Times</i> , <i>China Securities Journal</i> and <i>Hongkong Wen Hui Daily (English version)</i> during the report period.

Chairman: Zhu Baoguo

Submission date approved by the Board of Directors: August 17, 2012