

# **Livzon Pharmaceutical Group Inc.**

**2012 Annual Report**



**March 2013**

## Section I Importance Notice, Content and Definitions

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.

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 annual report.

**Except the following directors, other directors were personally present in the meeting of Board of Director examining this annual report**

Name of director absent from the meeting	Position of director absent from the meeting	Reason for absence	Name of entrustee
Luo Xiaosong	Independent director	On business trip	Yang Bin

The profit distribution plan examined and passed in this meeting of Board of Directors is as follows: taking the total share capitals on December 31, 2012 as the base, the company will distribute a cash bonus of RMB 5 Yuan (including the taxes) and 0 bonus shares (including the taxes) to every 10 shares of all shareholders. The company will not transfer the capital reserve to the share capital.

This annual report involves the forecasting description such as the future plans, and does not constitute the actual commitments of the company to the investors. The investors should pay attention to the investment risks.

This report is made both in Chinese and English; in case there is any contraction between the Chinese and English versions, the Chinese version shall prevail.

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## Definitions

Items to be defined	Mean	Definitions
China Securities Regulatory Commission	Mean	China Securities Regulatory Commission
Guangdong Regulatory Commission	Mean	Guangdong Regulatory Commission under China Securities Regulatory Commission
Shenzhen Stock Exchange	Mean	Shenzhen Stock Exchange
Company Law	Mean	Company Law of the People's Republic of China
Securities Law	Mean	Securities Law of the People's Republic of China
Listing Rules of Stock	Mean	Listing Rules of Shenzhen Stock Exchange (revised on 2012)
Articles of association	Mean	Articles of association of Livzon Pharmaceutical Group Inc.
Controlling shareholder, Joincare	Mean	Joincare Pharmaceutical Group Industry Co., Ltd
Tiancheng Industry	Mean	Tiancheng Industry Co., Ltd
Nanyue Group	Mean	Macau Nanyue (Group) Co., Ltd
Guangda Group	Mean	China Guangda (Group) Co., Ltd
Guangda Pharmaceutical	Mean	China Guangda Pharmaceutical Co., Ltd
Lishi Company	Mean	Zhuhai Lishi Investment Co., Ltd
Taitai Pharmaceutical	Mean	Shenzhen Taitai Pharmaceutical Co., Ltd
Begol	Mean	Guangzhou Begol Trading Corporation
Topsun Group	Mean	Xi'an Topsun Group Co., Ltd
The company, this company, and Livzon Group	Mean	Livzon Pharmaceutical Group Inc.
Livzon Pharmaceutical Factory	Mean	Livzon Pharmaceutical Factory under Livzon Group
Limin Pharmaceutical Co., Ltd	Mean	Limin Pharmaceutical Co., Ltd under Livzon Group
Syntpharm Co., Ltd	Mean	Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area
Juchao website	Mean	Juchao Information Website ( <a href="http://www.cninfo.com.cn/">http://www.cninfo.com.cn/</a> )
Report period	Mean	January 1, 2012 – December 31, 2012
RBM Yuan, RMB 1000 Yuan, RMB 10000 Yuan and RMB 100 million Yuan	Mean	RBM Yuan, RMB 1000 Yuan, RMB 10000 Yuan and RMB 100 million Yuan

## **Reminder about Important Risks**

**In the “Section IV Report of the Board of Directors” of this report, the company has analyzed the risk factors the company is likely to face in the future development process and developed the countermeasures, so the investors should pay attention to them.**

## Section II Brief Introduction of the Company

### I. Information about the company

Stock abbreviation	Livzon Group, Livzon B	Stock code	000513, 200513
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 (if any)	LIVZON PHARMACEUTICAL GROUP INC.		
English abbreviation (if any)	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	LIVZON_GROUP@livzon.com.cn		

### 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	lirucai2008@livzon.com.cn	wangshuguang2008@livzon.com.cn

### III. Information disclosure and location for filing the report

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

#### IV. Registration change

	Registration date	Registration place	Registration No. of enterprise legal person business license	Tax registration No.	Organization agency code
First registration	January 26, 1985	Zhuhai Administration of Industry and Commerce			
Registration at the end of report period	February 20, 2012	Zhuhai Administration of Industry and Commerce	440400400032571	440401617488309	61748830-9
Changes of main business since the listing of company (if any)	The main business has not materially changed since the listing of company.				
Changes of controlling shares (if any)	<p>1. 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. The total share capitals were 162.88 million shares. As the foreign-owned sponsor, Macau Nanyue (Group) Co., Ltd (hereinafter called as "Nanyue Group") held 15.2 million shares, accounting for 9.33% of total shares, and became the biggest shareholder.</p> <p>2. 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 <i>Equity Transfer Agreement</i> with China Guangda (Group) Co., Ltd (hereinafter called as "Guangda Group") and transferred all their equities to China Guangda (Group) Co., Ltd. After the transfer, China Guangda (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 <i>Equity Transfer Agreement</i> with China Guangda Medicine Co., Ltd (hereinafter called as "Guangda Medicine"), the fully-owned subcompany of Guangda Group and completely transferred 18,893,448 B-shares to Guangda Medicine. After the completion of transfer, Guangda Group became the biggest shareholder.</p> <p>3. In 2002, the company shareholder Zhuhai Lishi Investment Co. Ltd (hereinafter called as "Lishi Company") and Shenzhen Taitai Pharmaceutical</p>				

	<p>Company Limited (hereinafter called as “Taitai Pharmaceutical”) signed the equity transfer agreement, and transferred its 22.3792 million shares to Taitai Pharmaceutical. China Guangtai Pharmaceutical Co., Ltd (its former company was Guangda Medicine) and Tiancheng Industry Co., Ltd(hereinafter called as “Tiancheng Industry”), the fully-owned subcompany of Taitai Pharmaceutical signed the purchase agreement of foreign-owned shares of Livzon Pharmaceutical Group Inc., and transferred its 15,478,295 B-shares to Tiancheng Industry. In the same years, Taitai Pharmaceutical, Tiancheng Industry and Shenzhen Haibin Pharmaceutical Co., Ltd, the subcompany of Taitai Pharmaceutical increased some shares of company through the trading system of Shenzhen Stock Exchange. By the end of 2002, Taitai Pharmaceutical and its subcompanies held 71,327,374 company shares through the agreement transfer from the secondary market, accounting for 23.31% of total shares, became the biggest shareholder and held the actual controlling right of company.</p> <p>4. In 2003, through the approval of Shenzhen Administration of Industry and Commerce, Taitai Pharmaceutical Co., Ltd was changed to Joicare Pharmaceutical Group Industry Co., Ltd (hereinafter called as “Joicare”)</p> <p>5. In 2004, Joicare, Begol and Zhuhai Lishi Investment Co., Ltd signed the <i>Agreement on Equity Transfer, Custody and Mortgage</i>. Joicare 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 Joicare. By the end of 2004, Joicare and its controlling subcompanies held and controlled 79,381,849 shares, accounting for 25.94% of total shares, and was still the controlling shareholder having the actual control right of company.</p> <p>6. From the end of 2004 to the end of this report period, Joicare and its controlling subcompanies increased its quantity of shares through the trading system of Shenzhen Stock Exchange for many times (for more details, please see relevant contents in the previous annual reports issued by the company). By the end of this report period, Joicare directly or indirectly held and controlled a total of 140,122,590 shares, accounting for 47.38% of total shares, and is still the controlling shareholder of company.</p>
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## V. Other relevant materials

Accountant firm engaged by the company

Name of Accountant firm	Crowe Horwath Certified Public Accountants Limited (special ordinary partnership)
Office address of Accountant firm	No. 215, Xingye Road, Zhuhai City, Guangdong Province
Name of signing accountants	Li Encheng, Ma Guiqin

Recommendation agency engaged by the company to perform the continuous supervision responsibilities

Applicable  Inapplicable

Financial consultants engaged by the company to perform the continuous supervision responsibilities

Applicable  Inapplicable

## Section III Financial Highlights

### I. Financial Highlights

Whether there are retrospective adjustments or descriptions of accounting data in previous years due to the changes of accounting policies and correction of accounting errors.

Yes  No.

	2012	2011	Increase or decrease compared with previous year (%)	2010
Total profit(RMB Yuan)	3,943,525,305.20	3,162,915,294.50	24.6801%	2,726,718,895.61
Net profit attributable to the shareholders of listed companies (RMB Yuan)	441,671,519.69	359,369,880.94	22.9017%	418,180,831.06
Net profit attributable to the shareholders of listed companies after deduction of non-recurring profit and loss(RMB Yuan)	396,190,254.51	341,610,163.85	15.9773%	392,186,223.26
Net cash flows from operating activities (RMB Yuan)	593,964,664.30	708,201,336.58	-16.1305%	633,296,307.91
Basic profit per share (RMB Yuan per share)	1.49	1.22	22.1311%	1.41
Diluted profit per share (RMB Yuan per share)	1.49	1.22	22.1311%	1.41
Weighted average yield rate of net assets (%)	15.17%	13.41%	Up 1.76 percentage points	17.94%
	End of 2012	End of 2011	Increase or decrease compared with the end of previous year (%)	End of 2010
Total assets (RMB Yuan)	5,633,753,961.14	4,602,908,981.74	22.3955%	3,661,991,627.95
Net asset per share attributable to the shareholders of listed companies (owners' equities attributable to the shareholders of listed companies) (RMB Yuan)	3,008,015,808.63	2,843,169,706.20	5.798%	2,517,438,110.24

## II. 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 in 2012.

## III. Non-recurring profit and loss items and amounts

Unit: RMB Yuan

Item	Amount in 2012	Amount in 2011	Amount in 2010	Remarks
Profit and loss in disposal of non-current assets (including the writing-off parts whose asset appreciation reserves are withdrawn)	-69,242.34	462,004.84	5,743,384.61	
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)	42,064,456.38	32,046,594.98	13,208,647.02	For the details of all governmental allowances received by the company, please see relevant contents of notes to auditing report
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	18,086,042.35	-9,851,944.38	11,938,153.86	Gains in the fair value changes of tradable financial assets as well as the investment returns in disposal of tradable financial assets,
Reversion of depreciation reserves for accounts receivable whose depreciation testing have been individually made.	636,406.43	-	-	
Other net non-operating income and payment except the above items	-435,271.79	897,876.93	-1,699,616.39	
Minus: effect of income tax	8,151,476.68	5,156,062.49	2,600,085.44	
Minus: Effect of the minority of shareholders' equities (after the taxation)	6,649,649.17	638,752.79	595,875.86	

Total	45,481,265.18	17,759,717.09	25,994,607.80	--
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For the non-recurring profit and loss items that are defined in accordance the *No. 1 Explanatory Announcement about Information Disclosure of Companies Making Public Offering of Securities – Non-recurring Profit and Loss* as well as the non-recurring profit and loss items that are defined as the recurring profit and loss items in accordance the *No. 1 Explanatory Announcement about Information Disclosure of Companies Making Public Offering of Securities – Non-recurring Profit and Loss*, please explain the reasons

Applicable  Inapplicable

## Section IV Report of Board of Directors

### I. Overview

During the report period, influenced by the macro-economic slowdown, the industry policy control such as "controlling the medical expenses " as well as the high cost, the overall economic growth of the domestic pharmaceutical industry declined, leading to the drop of overall profitability of the pharmaceutical industry enterprises. Facing such industry environment, the company, under the leadership of the Board of Directors, further improved the management level, deepened the reform of marketing, strengthened the cost control to effectively ensure the growth of the company's operating performances; continued to promote the production management, paid more attention to product quality, effectively reduce the effect of "the poisonous capsule" event, and established a good market image; effectively guaranteed the realization of the company's long-term strategic development goals by optimizing the management of scientific research and increasing the research investments. During the report period, the company's overall business has maintained a good tendency of development.

### II. Analysis of Main Business

#### 1. Overview

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), Qianlean Suppository, New Liaolilong (Divitamins Notonginseng and Cinarizine), Factive film-coated tablets (Gemifloxacin), Yili'an(IIaprazole), 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.

Progress of development strategy and operation plans in this period that are disclosed by the company in the previous annual reports

During the report period, the company has made the operating profit of RMB 3.944 billion Yuan, up 24.69% from RMB 3.163 billion Yuan in the previous year and up 15.54% from the operation income target of RMB 3.5 billion Yuan disclosed in the previous reports; the company has made the net profit of RMB 475 million Yuan, up 22.42% from the net profit of RMB 388 million Yuan in the previous year; the company has made the net profit attributable to the owners of parent company of RMB 442 million Yuan, up 13.12% from RMB 359 million Yuan in the previous year and close to the net profit target of RMB 440 million Yuan disclosed in the previous reports. If the effect of non-recurring profit and loss factors are deducted, the net profit attributable to the company shareholders after the deduction of non-recurring profit and loss in 2012 is RMB 396 million Yuan, up 15.79% from RMB 342 million Yuan in the previous year.

Reasons why the actual operation performance is 20% less than or higher than the profit forecast in this year that were publicly disclosed

Applicable  Inapplicable

## 2. Incomes

During the report period, the company continuously deepens the marketing reform, further perfects the marketing management, strengthens the assessment of all levels of salesmen, and pushes the fast increase of preparation medicine products of company. The company realized the sales income of RMB 1.3832493 billion Yuan of Chinese medicine preparations, up 48.44%; the sales income of RMB 458.1281 million Yuan of auxiliary reproductive medicine products, up 38.82%. For more details about sales income of products, please see the “composition of main business” in the article III of this section.

Remarks

Whether the sales income of company is larger than the labor income

Yes  No

Product structure of company

Reasons for the changes of over 30% about relevant data

Applicable  Inapplicable

Key available orders of company

Applicable  Inapplicable

Key changes and adjustments of products or services during the report period

Applicable  Inapplicable

Main clients of company

Total sales volume of top 5 clients (RMB Yuan)	293,689,503.43
Percentage of total sales volume of top 5 clients in total annual sales volume (%)	7.45%

Information about top 5 clients

Applicable  Inapplicable

No.	Client name	Sales amount (RMB Yuan)	Percentage in the annual sales amount (%)
1	BIOCON LIMITED	105,405,332.93	2.67%
2	Jiangsu Weiduo Co., Ltd	50,808,194.44	1.29%
3	Drug Branch of Huadong Pharmaceutical Co., Ltd.	46,619,867.72	1.18%
4	Chongqing Pharmaceutical Xinte Medicine Co., Ltd	45,627,284.84	1.16%
5	Yunnan Pharmaceutical Co., Ltd	45,228,823.50	1.15%
Total	—	293,689,503.43	7.45%

## 3. Cost

Profession classification

Unit: RMB Yuan

Profession classification	Item	2012		2011		Increase or decrease (%)
		Amount	Percentage in operation cost (%)	Amount	Percentage in operation cost (%)	
Pharmaceutical industry	Purchase of materials	1,092,411,913.20	69.59%	872,374,533.99	62.40%	7.19%
	Labor expense	122,079,025.62	7.78%	106,146,152.45	7.59%	0.18%
	Depreciation	78,263,668.03	4.99%	77,865,790.46	5.57%	-0.58%
	Water and electricity consumption	174,783,979.95	11.13%	148,104,864.79	10.59%	0.54%
	Material consumption	25,206,252.97	1.61%	25,353,942.00	1.81%	-0.21%
	Inspection expense	21,805,264.30	1.39%	16,661,494.95	1.19%	0.20%
	Others	185,081,408.43	11.79%	132,856,205.71	9.50%	2.29%
	Changes of inventory balance	-129,943,397.05	-8.28%	18,574,208.87	1.33%	-9.61%

Product classification

Unit: RMB Yuan

Production classification	Item	2012		2011		Increase or decrease (%)
		Amount	Percentage in operation cost (%)	Amount	Percentage in operation cost (%)	
Preparation medicines	Purchase of materials	439,783,592.58	64.46%	337,527,155.89	57.49%	6.97%
	Labor expense	59,442,647.63	8.71%	52,231,404.69	8.90%	-0.18%
	Depreciation	26,363,533.08	3.86%	28,253,077.07	4.81%	-0.95%
	Water and electricity consumption	39,715,526.04	5.82%	34,834,892.27	5.93%	-0.11%
	Material consumption	11,334,610.22	1.66%	7,874,501.43	1.34%	0.32%
	Inspection	14,788,629.73	2.17%	10,992,976.81	1.87%	0.30%

	expense					
	Others	141,907,754.02	20.80%	96,292,650.86	16.40%	4.40%
	Changes of inventory balance	-51,056,216.33	-7.48%	19,127,689.13	3.26%	-10.74%
Material medicines	Purchase of materials	500,377,554.83	68.65%	408,004,244.51	59.89%	8.76%
	Labor expense	59,477,356.94	8.16%	50,101,705.67	7.35%	0.81%
	Depreciation	51,133,673.21	7.02%	48,834,391.74	7.17%	-0.15%
	Water and electricity consumption	134,050,212.71	18.39%	112,197,728.73	16.47%	1.92%
	Material consumption	13,846,476.50	1.90%	17,473,817.30	2.57%	-0.67%
	Inspection expense	6,738,712.14	0.92%	4,877,527.35	0.72%	0.21%
	Others	38,370,801.69	5.26%	33,774,523.26	4.96%	0.31%
	Changes of inventory balance	-75,114,541.68	-10.31%	5,972,606.08	0.88%	-11.18%
Reagent	Purchase of materials	152,250,765.79	96.04%	126,843,133.59	97.90%	-1.86%
	Labor expense	3,159,021.05	1.99%	3,813,042.09	2.94%	-0.95%
	Depreciation	766,461.74	0.48%	778,321.65	0.60%	-0.12%
	Water and electricity consumption	1,018,241.20	0.64%	1,072,243.79	0.83%	-0.19%
	Material consumption	25,166.25	0.02%	5,623.27	0.00%	0.01%
	Inspection expense	277,922.43	0.18%	790,990.79	0.61%	-0.44%
	Others	4,802,852.72	3.03%	2,789,031.59	2.15%	0.88%
	Changes of inventory balance	-3,772,639.04	-2.38%	-6,526,086.35	-5.04%	2.66%

Remarks: the above costs do not exclude other operation costs, and the total operating costs is the base for calculation.

Main suppliers of company

Total purchase amount of top 5 suppliers (RMB Yuan)	336,243,062.08
Percentage of total purchase amount of top 5 suppliers in total purchase amount (%)	16.75%

Information about top 5 suppliers

Applicable  Inapplicable

No.	Supplier name	Purchase amount (RMB Yuan)	Percentage in the annual purchase amount (%)
1	Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	79,468,360.65	3.96%
2	AMRP HANDLES AG	78,437,389.43	3.91%
3	Huadian (Qingyuan) Industry Co., Ltd	65,957,745.99	3.29%
4	Fujian Kanghe Food Co., Ltd	57,685,519.00	2.87%
5	PKU International Healthcare Group Chongqing Daxin Pharmaceutical Co., Ltd	54,694,047.01	2.72%
Total	—	349,642,801.43	16.75%

#### 4. Expense

1. During the report period, three expenses of company amount to RMB 1.7755634 billion Yuan, up RMB 527.7656 billion Yuan with the increase rate of 42.30%, and is shown in the following table:

Unit: RMB Yuan

Item	Amount in this year	Amount in previous year	Increase or decrease	Reasons for changes
Sales expense	1,441,654,242.80	970,891,282.10	48.49%	The reason for the increase of sales expense is that the increase of sales incomes of preparation products has caused the increase of sales expense.
Management expense	351,031,228.58	297,630,062.15	17.94%	The reason for the increase of management expense is the increase of development expense and employees' payroll.
Financial expense	-17,122,110.76	-20,723,598.52	17.38%	The reasons for the increase of financial expense are the increase of exchange loss and decrease of deposit interests in banks.

2. During the report period, the total income tax expense is RMB 85.0896 million Yuan, up RMB 9.7368 million Yuan with the increase rate of 12.92%, and the reasons are that the company operation is very good and the increase of operating profit has caused the increase of taxable incomes.

## 5. Development expense

During the report period, the investments that are directly or indirectly used for development amount to RMB 201.3717 million Yuan, accounting for 6.33% of net asset that was audited by the company at the end of report period and 5.11% of operating income of company in the report period.

During the report period, the key research and development projects of company made the great progress, including the Dankang project: the company has completed the preclinical experiments of AT132 project, and submitted to the SFDA the reports about clinical experiments, and have been accepted, but not yet achieved the clinical approval. For the other projects such as the products of the Iz002 project, the company has completed the process development and pilot production, basically established the development and validation of the quality analytical method; for the products of Iz003 project, the company is preliminarily carrying out the purification process research. The vaccine project: for JE vaccine Products, the company has internally determined the production process and quality control standards, and developed the standards for registration, perfected and standardized the process operation; the company has submitted the production registration and new drug certificate to the relevant drug regulatory authorities, and they have been accepted. Other key research & development projects: the re-registration approval documents of raw materials and preparation of ilaprazole were issued separately in September and November; the Phase IV clinical study about raw materials and preparations of ilaprazole was completed in August; the clinical study about raw materials and tablets of Blonanserin was also completed during report period; the company completed the pre-clinical pharmacology and toxicology research about acarbose tablets and the sodium ilaprazole for injection complete.

The implementation of the research & development projects laid a solid foundation for the realization of future strategic industrial transformation and growth targets of operation performances of the Company continued to achieve.

## 6. Cash flow

Unit: RMB Yuan

Item	2012	2011	Increase or decrease (%)
Subtotal of cash inflow from operating activities	4,026,632,573.45	3,351,300,312.06	20.15%
Subtotal of cash outflow from operating activities	3,432,667,909.15	2,643,098,975.48	29.87%
Net cash flow from operating activities	593,964,664.30	708,201,336.58	-16.13%
Subtotal of cash inflow from investment activities	18,344,935.55	1,885,950.14	872.72%
Subtotal of cash outflow from investment activities	913,835,037.35	424,154,631.27	115.45%
Net cash flow from investment activities	-895,490,101.80	-422,268,681.13	-112.07%
Subtotal of cash inflow from financing activities	915,507,886.64	676,729,704.00	35.28%
Subtotal of cash outflow from	868,302,811.09	372,639,223.47	133.01%

financing activities			
Net cash flow from financing activities	47,205,075.55	304,090,480.53	-84.48%
Net increase of cash and cash equivalents	-253,539,494.26	587,693,937.19	-143.14%

Reasons for the changes of over 30% about relevant data

Applicable  Inapplicable

<p>1. The item of "Subtotal of cash inflow from investment activities" increases by 872.72%, and the reason is that the company received the equity transfer expense of Shanghai Livzon during the report period.</p> <p>2. The item of "Subtotal of cash outflow from investment activities" increases by 115.45%, and the reason is the increase of expenses for Livzon Group (Ningxia) Pharmaceutical Industry Park and relocation of new Livzon Pharmaceutical Factory during the report period.</p> <p>3. The item of "Net cash flow from investment activities" decreases by 112.07%, and the reason is that the cash outflow from investment activities increased during the report period.</p> <p>4. The item of "Subtotal of cash inflow from financing activities" increases by 35.28%, and the reason is that the loans from banks increased during the report period.</p> <p>5. The item of "Subtotal of cash outflow from financing activities" increases by 133.01%, and the reason is that the company repaid the short-term financing bonds of RMB 400 million Yuan during the report period.</p> <p>6. The item of "Net cash flow from financing activities" decreases by 84.48%, and the reason is that the cash outflow from financing activities increased greatly during the report period (the same reason as above).</p> <p>7. The item of "Net increase of cash and cash equivalents" decreases by 143.14%, and the reason is that the increase of investment amounts in projects and sales scale pushed the increase of all expense and taxes paid in cash during the report period.</p>
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Reasons for key difference between cash flow from operating activities during report period and net profit in this year

Applicable  Inapplicable

### III. Composition of main business

Unit: RMB 10 thousand Yuan

		Operating Income	Operating Cost	Gross profit margin	Increase or decrease of Operating income over same period of previous year (%)	Increase or decrease of Operating Cost over same period of previous year (%)	Increase or decrease of Gross profit margin over same period of previous year (%)
Profession							
Western medicine	Digestive tract	30,065.47	3,997.44	86.70%	15.16%	5.49%	1.22%
	Cardiac and cerebral blood	14,277.86	3,319.74	76.75%	19.86%	5.09%	3.27%

dici ne pre par atio n	vessel						
	Antimicrobial drugs	27,385.86	8,771.86	67.97%	-8.74%	-18.86%	3.99%
	Gonadotropic hormone	45,812.81	15,895.30	65.30%	38.82%	41.01%	-0.54%
	Blood and hemopoietic system drugs	2,474.14	2,410.39	2.58%	-7.58%	15.02%	-19.14%
	Others	16,185.27	3,844.99	76.24%	49.27%	43.90%	0.89%
Raw material drugs	83,463.83	71,188.59	14.71%	7.38%	7.46%	-0.07%	
Chinese traditional drug preparation	138,324.93	29,675.40	78.55%	48.44%	20.59%	4.96%	
Diagnostic reagents and equipment	34,116.13	15,844.15	53.56%	24.16%	22.34%	0.69%	
Imported drugs	243.39	42.51	82.53%	-64.81%	-68.28%	1.91%	
Product (individual products whose operating income or operating profit accounts for over 10% of total operating income or operating profit of company)							
Shenqifuzheng injection	101,404.44	14,686.47	85.52%	62.07%	36.50%	2.71%	
Region							
Northeast China	317,570,194.49			16.61%			
North China	586,939,359.41			29.02%			
Central China	415,826,796.38			38.05%			
East China	863,754,504.28			17.81%			
South China	641,191,595.61			21.96%			
Southwest China	502,072,958.26			34.22%			

Northwest China	249,257,014.54			37.43%	
Export	346,884,402.03			18.18%	

In case of the adjustment of statistics range of main business during the report, the main business data of company after the adjustment of statistics range in one recent year at the end of report period

Applicable  Inapplicable

## IV. Analysis about asset and liabilities

### 1. Key changes of asset items

Unit: RMB Yuan

	End of 2012		End of 2011		Increase or decrease of percentage (%)	Remarks about key changes
	Amount	Percentage in total assets (%)	Amount	Percentage in total assets (%)		
Currency capital	1,221,332,802.40	21.6788%	1,447,743,555.70	31.4528%	-9.774%	No key changes
Accounts receivable	774,021,470.88	13.739%	562,146,013.18	12.2128%	1.5262%	No key changes
Inventory	546,497,999.53	9.7004%	424,422,841.35	9.2208%	0.4797%	No key changes
Real estate for investment	0	0%	0	0%	0%	
Long-term equity investment	120,961,203.38	2.1471%	118,529,007.91	2.5751%	-0.428%	No key changes
Fixed assets	1,127,285,485.37	20.0095%	1,090,566,880.22	23.693%	-3.6835%	No key changes
Engineering under construction	1,028,769,050.48	18.2608%	148,841,628.16	3.2336%	15.0272%	No key changes

### 2. Key changes of liability items

Unit: RMB Yuan

	2012		2011		Increase or decrease of percentage	Remarks about key changes
	Amount	Percentage	Amount	Percentage in		

		in total assets (%)		total assets (%)	(%)	
Short-term loans	536,169,502.91	9.5171%	251,324,743.01	5.4601%	4.057%	No key changes
Long-term loans	700,000.00	0.0124%	1,200,000.00	0.0261%	-0.0136%	No key changes

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

Unit: RMB 1000 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	Purchase amount in this period	Sales amount 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	44,343.01	16,381.68					59,319.62
Including: Derivative financial assets							
2. Saleable financial assets	9,238.79		1,374.07				10,612.86
Subtotal of financial assets	53,581.80	16,381.68	1,374.07				69,932.48
Financial liabilities							
Real estate for investment							
Production biology asset							
Others							
Total							

Whether the calculation nature of main assets has materially changed during the report period

 Yes  No

## V. Analysis about core competitiveness

The company's core competitiveness is mainly reflected by: 1. the diversified product structure with the leading market share in key products. The company products cover the anti-infective, gastrointestinal, urinary system, reproductive system, mental and nervous system and other fields, and the diversified product structure is helpful to avoid the risk of a single product; at the same time, the "Shenqifuzheng injection", "antivirus granules" and "Bismuth Potassium Citrate Capsules" series of products take the lead in market share; 2. Strong product development capabilities and excellent innovation performance. The company has always attached great importance to the development of new products and new technology, and the annual research expense accounts for about 5% of the sales revenue. In recent years, the company released the two I-type new medicines including the ilaprazole and gemifloxacin to the market. The RESEARCH & DEVELOPMENT technology center of was granted as the state-level enterprise technical center in 2009. 3. The company's financial status is sound. The good earnings and the discounting ability provide a guaranty to the cash flow level of the company, so the company boasts the abundant currency capitals, the small debt size, and low financial leverage ratio.

## VI. Analysis about investments

### 1. Investments in external equities

#### (1) External investment

External investment		
Investment amount in 2012 (RMB Yuan)	Investment amount in 2011 (RMB Yuan)	Change rate
0	75,325,760.00	
Particulars about invested companies		
Company name	Main business	Percentage of equities of listed company in invested company (%)
China Resources Bank of Zhuhai Co., Ltd	Absorb the deposits from the public; issue short-term, medium-term and long-term loans; handle the settlement; handle the bills discounting; issue financial bonds; represent to issue, pay and underwrite the government bonds; interbank lending; provide the letters of credit service and guarantees; represent to receive and pay and handle the insurance business, and provide the safe deposit box services. Foreign currency deposits; foreign exchange loans; foreign exchange remittances; Currency Exchange; international settlement; foreign	1.5065%

	exchange settlement; foreign exchange guarantee; credit investigation, consultation and witness services and other business approved by the People's Bank of China.	
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## (2) Holding of equities of financial enterprises

Company name	Company type	Initial investment cost(RMB Yuan)	Holding quantity of shares at the beginning of period (Share)	Holding percentage of shares at the beginning of period (%)	Holding quantity of shares at the end of period (Share)	Holding percentage of shares at the end of period (%)	Book value at the end of period (RMB Yuan)	Profit and loss during the report period (RMB Yuan)	Accounting calculation subject	Share source
China Resources Bank of Zhuhai Co., Ltd	Commercial bank	95,325,760.00	84,936,000	1.5065%	84,936,000	1.5065%	75,325,760.00	0.00	Long-term equity investment	Share participation
Guangdong Development Bank Co.Ltd	Commercial bank	177,348.84	68,854	0.0004%	68,854	0.0004%	177,348.84	0.00	Long-term equity investment	Share participation
Total		95,503,108.84	85,004,854	--	85,004,854	--	75,503,108.84	0.00	--	--

## (3) Securities investment

Securities Type	Securities Code	Securities abbreviation	Initial investment amount (RMB Yuan)	Holding quantity at the beginning of period (Share)	Holding quantity at the end of period (Share)	Book value at the end of period (RMB Yuan)	Profit and loss during the report period (RMB Yuan)	Accounting calculation subject	Share source
Stock	00135	Kunlun Energy	6,516,232.42	1,500,000	1,500,000	19,679,329.50	6,493,986.19	Tradable financial assets	Purchase from the market
Stock	00152	Shenzhen International	9,352,764.81	17,000,000	17,000,000	11,165,404.50	4,589,239.22	Tradable financial assets	Purchase from the

									market
Stock	02007	Phoenix Island	19,331,346.92	2,450,000	2,570,317	8,461,614.65	2,680,006.70	Tradable financial assets	Purchase from the market
Stock	00883	China National Offshore Oil Corporation	2,656,956.79	560,000	560,000	7,619,395.28	1,628,338.07	Tradable financial assets	Purchase from the market
Stock	01880	Baili International	2,173,381.92	428,000	428,000	5,837,276.72	1,206,057.41	Tradable financial assets	Purchase from the market
Stock	00438	Rainbow group	5,796,253.50	5,016,000	5,016,000	1,748,906.15	-20,334.36	Tradable financial assets	Purchase from the market
Stock	00390	China Railway Engineering Group Co.	1,486,476.61	314,000	314,000	1,153,369.26	548,095.97	Tradable financial assets	Purchase from the market
Stock	01186	China Railway Construction Corporation	999,054.59	114,000	114,000	814,369.09	428,862.13	Tradable financial assets	Purchase from the market
Stock	00368	Sinotrans Shipping	1,745,265.98	260,500	260,500	397,105.68	6,285.57	Tradable financial assets	Purchase from the market
Stock	206001	Penghua Fund	150,000.00	619,573	619,573	539,524.13	16,046.94	Tradable financial assets	Purchase from the market
Other securities investment at the end of this period			678,274.26	2,000	2,000	1,903,321.99	0.00	--	--
sold Securities investment during the report period			--	--	--	--	357,639.60	--	--
Total			50,886,007.80	28,264,073	28,384,390	59,319,616.95	17,934,223.45	--	--

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.

① Shareholding particulars of other listed companies:

Unit: RMB Yuan

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%	7,499,853.66	151,818.90	698,366.94	Saleable financial assets	Share participation
000963	Huadong Medicine Co., Ltd	39,851.86	0.0211%	3,113,006.00		675,705.42	Saleable financial assets	Share participation
Total		2,490,030.86		10,612,859.66	151,818.90	1,374,072.36		

② Purchasing or selling particulars of other listed companies:

Securities name	Holding quantity at the beginning of period (Share)	Purchasing quantity of shares during the report period (share)	Selling quantity of shares during the report period (share)	Holding quantity at the end of period (Share)	Capital quantity(RMB Yuan)	Investment returns(RMB Yuan)
Alibaba	78,000	0	78,000	0	0	-8,756.08
Little sheep	212,000	0	212,000	0	0	564,966.20
Total	-		-	-		556,210.12

## 2. Entrusted wealth management, derivative investments and entrusted loans

### (1) Entrusted wealth management

Applicable  Inapplicable

During the report period, the company has not entrusted the wealth management.

### (2) Derivative investment

Holding particulars of derivative investments at the end of report period

Applicable  Inapplicable

Remarks: during the report period, the company did not invest in any derivative products.

### (3) Entrusted loans

Applicable  Inapplicable

Remarks: during the report period, the company did not entrust the loans.

### 3. Use of raised funds

Applicable  Inapplicable

Remarks: during the report period, the company did not raise any funds via the securities market.

### 4. Analysis about main subcompanies and companies whose equity is participated by the company

Particulars about main subcompanies and companies whose equity is participated by the company

Company name	Company type	Industry	Main products or services	Registered capitals	Total assets (RMB Yuan)	Net assets (RMB Yuan)	Operating income (RMB Yuan)	Operating profit (RMB Yuan)	Net profit (RMB Yuan)
Livzon Pharmaceutical Factory under Livzon Group	Subcompany	Pharmaceutical	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.	442,109,309.13	1,444,563,969.07	986,843,617.51	910,244,609.22	148,002,472.44	131,610,952.72
Sichuan Guangda Pharmaceutical Co., Ltd	Subcompany	Pharmaceutical	Be mainly engaged in the development, production and sales of traditional Chinese medicines, and the main products include the antivirus granules and Kouyanning infusion, etc.	149,000,000.00	474,066,394.02	405,013,334.70	272,432,591.07	75,307,692.66	63,801,264.88
Limin Pharmaceutical Co.,	Subcompany	Pharmaceutical	Be mainly engaged in the production and	61,561,014.73	437,614,781.08	231,969,331.67	366,904,068.24	120,770,480.43	103,510,815.47

Ltd under Livzon Group			operation of Chinese traditional medicine preparations, medical raw materials and so on. The main products are Shenqifuzheng injection solution, Xueshuantong and so on.						
Shanghai Livzon Pharmaceutical Co., Ltd	Subcompany	Pharmaceutical	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	87,328,900.00	153,048,230.64	110,783,714.61	194,566,418.34	12,976,707.50	12,069,192.61
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	Subcompany	Pharmaceutical	Be mainly engaged in the production and operation of Bismuth Potassium Citrate Granules series, Live Bifidobacterium Preparation and Cefoperazone Sodium and Sulbactam Sodium for	128,280,000.00	391,278,962.79	192,533,889.40	275,240,211.93	-2,689,454.34	-3,213,984.09

			Injection.						
Xinbeijiang Pharmaceutical Limited Liability Company under Livzon Group	Subcompany	Pharmaceutical	Be mainly engaged in the production of raw material medicines and intermediate products as well as the export business of relevant technologies. The main products are Pravachol, Mevastatin, and Salinomycin, etc.	134,925,200.00	356,336,133.41	203,120,292.05	283,793,448.41	36,555,221.74	31,566,282.27
Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group	Subcompany	Pharmaceutical	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.	USD4170000	450,373,778.60	398,802,170.62	364,193,226.41	29,664,364.60	26,553,254.83
Zhuhai Livzon Medicine Trade Co., Ltd	Subcompany	Pharmaceutical	Be mainly engaged in the sales (including the import and export businesses) of traditional	60,000,000.00	357,940,503.30	71,174,053.25	563,016,242.80	2,930,114.92	2,185,031.84

			Chinese medicine and western medicine preparations, medical intermediates and so on.						
Zhuhai Livzon Reagents Co., Ltd	Subcompany	Pharmaceutical	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.	46,450,837.00	294,966,022.98	172,310,151.23	341,280,853.76	70,208,460.00	60,249,310.69

Particulars about main subcompanies and companies whose equity is participated by the company

Particulars about acquisition and disposal of subcompanies during the report period

Applicable  Inapplicable

## 5. Key projects invested with non-raised capitals

Unit: RMB 10 thousand Yuan

Project name	Total investment amount	Investment amount in this year	Actually accumulative investment amount by the end of period	Project progress	Project returns
Livzon Group (Ningxia) Pharmaceutical Industry Park	72,400	52,710.35	60,072.91	The main engineering has been basically completed, and the main equipment has arrived at the site and been installed.	The project is in the construction period, and there are no returns.
Relocation project of new	88,723	25,977	63,519	1. The bid-invitation work of purification and electrical installation project of phase I of plant	The project has not been

Livzon Pharmaceutica I Factory				have been completed. 2. The first stage of phase II of non-hormone lyophilized line and the small-capacity lines were granted the new version of GMP certificate in May 2012, and has been officially put into operation; the supporting facilities for four dormitories and living area have been put into use. 3. The internal civil works acceptance of second stage of Phase II P07, P09, and elevated warehouse has been completed, and 70% of the workload of purification and mechanical installation works has been completed. 4. The basement foundation construction of executive RESEARCH & DEVELOPMENT building has been completed. 5. The 60% of the workload of the main frame animal room and extraction Center has been completed.	completed, and is not separately calculated.
Total	161,123	78,687.35	123,591.91	--	--
Remarks about key projects invested with non-raised capitals					

## VII. Principals about special purpose of company control

Applicable  Inapplicable

## VIII. Outlook about future development of company

### 1. Outlook about development tendency of domestic pharmaceutical industry in 2013

While considering multiple influencing factors such as the macroeconomic growth speed, nation's financial investment, industry policy regulation and rigid market demand in next year, the company forecast that the 2013 pharmaceutical economic operation will be mainly reflected in several characteristics: firstly, the pharmaceutical economy maintained the steady and relatively high growth; secondly, the first terminal will stop the decline and maintain the steadiness; the second and third terminals will keep the steady growth; thirdly, the drug prices level will overallly decline, but the decline rate will decrease; fourthly, the export downturn will likely continue; Fifthly, because of the cost increase, the profit growth rate of enterprise will remain to be improved.

In short, the economic growth of pharmaceutical industry in 2013 is likely to reach the bottom and bounce to the steadiness this year, but the increase rate may be reduced over the previous years.

(The above excerpt is taken from SFDA Southern Medicine Economic Institute Economic forecast of Chinese Medicine in 2013)

### 2. Main influencing factors and counter-measures in 2013

Livzon Group, as a pharmaceutical industrial enterprise, forecast that in 2013, while facing the adverse effects of the main

factors such as the high operating costs, as well as the changes due to the implementation of health-care reform and industry regulation policies. Therefore, the countermeasures of company are: to continue to strengthen cost control, and full utilize the advantage of the company in abundant storage of products, reasonably adjust the sales structure of the company's products, and by further increasing the depth research on medical reform and industry policies, timely adjust the company's business strategy. Make all efforts to minimize the impact of the unfavorable factors.

### 3. Future strategic outlook of the company

The company's future development goal is to become a pharmaceutical enterprise group with the leading independent innovation capability, as well as international competitiveness in terms of production, technology, management, etc. in the next five years, the Company will adhere to the principle of taking the quality as fundamental, sales as an engine, scientific research as the core, and the management as the drive, maintain the product quality advantage, and expand the sales volume through marketing reforms, push the sustainable growth of profits, accelerate the research and development of monoclonal antibodies, vaccines, and other biological fields, and actively introduce the new products, improve corporate governance level through the management upgrading, and ensure the realization of company's long-term development strategic targets.

The company's 2013 annual operating targets: to achieve the operating income of RMB 45 billion Yuan and net profit from of main business of RMB 480 million Yuan.

To achieve the annual operating targets and long-term strategic planning targets, the company's 2013 annual work plan is arranged as follows:

#### (1) Consolidate, promote and expand the results of the marketing reform

In 2013, the company must continue to regard the marketing work as the engine, mainly including the following work: to strengthen the team construction, increase the division of sales force, strengthen the contact between the large contact area with provincial-level area, increase the construction of local office, hospital manager team, carry out the work focusing on three core points of personnel, target and assessment, increase the hospital coverage and enhance the hospital yields, and increase the market share; strengthen the marketing efforts in new products, exclusive and patent products; be well prepared in the bid-invitation, price, health insurance, agricultural insurance and basic medicine work; strengthen the marketing strategy research of main production in the market and promote in the academic areas, improve product reputation, and lay the foundation for further sales.

#### (2) Strictly control the product quality, strengthen the cost control, and guarantee the product supply

In 2013, the company will adhere to improve product quality as the core work, actively promote the complete production model, and continuously improve the operational efficiency of the procurement, production and logistics, reduce the production costs. The main work will include the following aspects: to further establish and improve the quality risk management systems; through the integration of personnel, products, technology resources in the internal departments of the Group and secondary companies, increase the investment in process improvement and technological transformation, continue to reduce the production costs and improve product quality; strengthen the planning, control and rapid response ability of the procurement center, production companies and logistics center, etc and ensure a stable supply of products.

#### (3) Accelerate the pace of research and development, and integrate the research and development platform

In 2013, the company will increase the research and development investments in monoclonal antibodies, vaccines and other bio-pharmaceutical products, promote the smooth implementation of the company's research & development projects through the integration of research and development platforms. The main work will include the following aspects: monoclonal antibody project: try to get the clinical approval document of AT132 project as soon as possible and implement the Phase I of clinical studies; complete the pilot process research of LZM002 project and complete the clinical application; speed up the process research and development of LZM003 project, and establish the quality analysis system; Vaccine project: obtain the production approval about JE vaccine as soon as possible and achieve the scale production; in addition,

apart from ensuring the smooth implementation of existing research projects, the company actively looks for research projects of new products through a wide variety of networks, focuses on looking for cooperation projects in the field of high-end biological products, and increases the product reserves for in the future development of group.

4. Perform effectively the management integration of internal performance improvement reform and business field

In 2013, the company should further strengthen the improvement work of internal performance, adopt a variety of measures to increase the internal management level of group, and reduce operational costs. At the same time, further optimize the resource allocation, integrate the business areas, implement the centralized management, strengthen the performance appraisal, clearly define the rights and duties, and improve the initiative and enthusiasm of employees. Through the management upgrading, further protect the realization of the company's business targets.

**IX. Remarks of Board of Directors about “non-standard auditing report” of accountant firms during this report period**

Applicable  Inapplicable

**X. Remarks about changes of accounting policies, accounting estimation and calculation methods compared with the financial report for previous year**

Applicable  Inapplicable

**XI. Remarks about retrospective description of key accounting errors during the report period**

Applicable  Inapplicable

**XII. Remarks about changes of statement consolidation scope compared with financial statement for previous year**

1. 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, and it is excluded in the absorption scope.

2. On July 11, 2012, Livzon (Hongkong) Co., Ltd and Anto Development Co., Ltd established Livzon (Macau) Co., Ltd in Macau.

3. On March 26, 2012, in accordance with the Shang Jing Wai Tou Zi Zheng Shu No. 4400201200159 approval certificate issued by the Ministry of Commerce of the People's Republic of China, Zhuhai Livzon Reagent Co., Ltd contributed USD 12,550.00 to establish Macau Jiaanxin Limited in Macau. The details are as follows:

Name	Net asset at the end of period (RMB Yuan)	Net profit in this profit (RMB Yuan)
Macau Jiaanxin Limited	788,342.53	419,610.27

**XIII. Profit distribution and bonus distribution of company**

The preparation, implementation and adjustment of profit distribution policy, especially cash bonus policies during the report period

During the report period, in the 2012 first temporary shareholders' Meeting, the company amended the profit distribution policy specified by the Articles of Association of the Company and developed a separate 2012 -2014 planning for the next

three years. The amended profit distribution policy specified the cash bonus conditions and bonus ratio as follows:

1. The company may implement the cash bonus if it meets the following conditions:

(1) The distributable profits of company in the current year (i.e., profits after taxation including the company making up for the losses and the withdrawal of reserve) are the positive; (2) The auditing institutions issue the standard unqualified auditing report about the annual financial report of the company;

2. The company shall, in the condition that the cash flow meets the normal operations and long-term development, actively take the cash bonus, and shall ensure that the allocation of cash accumulated in the last three years is no less than 30% of the average annual distributable profits achieved in the last three years. The specific annual cash bonus proportion is proposed by the Board of Directors of the Company in accordance with the relevant regulations and operation status of company, and decided by the shareholders' meetings.

The company has strictly enforced the company's profit allocation policies, and taken the cash bonus distribution policies in the last three years. The implementation of cash bonus is in line with the requirements of provisions of the Articles of Association of the Company and resolutions passed in the shareholders' meetings. In terms of the amendments of the company profit distribution policies, with the examination and approval of shareholders' meeting, the decision-making procedure is legal, and the independent directors issued the independent opinions about the amendment of profit distribution system, and fulfilled the corresponding responsibilities and play a due role. Through the amendment of profit distribution system, the company has clearly specified the cash bonus distribution conditions as well as bonus distribution standard and proportion. The profit distribution policy that the company amended specifies that, while convening the shareholders' meeting examining the profit distribution of adjusting the profit distribution policy, the Board of Directors, Independent Directors and the shareholders' meeting certain conditions may collect their voting rights in the shareholders' meeting of the Company or provides the internet voting platform so as to provide the opportunity to fully express their views and requests of medium and small shareholders, and effectively maintain their legitimate rights and interests.

Preparation and implementation of profit distribution plan for 2011 during the report period:

1. on April 13, 2012, the 2012 shareholders' meeting examined and passed the 2011 Annual Profit Distribution Plan: taking the total share capital of 295,721,852 shares at the end of report period as the base, the company will distribute a cash bonus of RMB 5 Yuan (including the taxes) to every 10 shares of all ordinary shareholders; the company did not transfer the capital reserve to share capital.

2. On June 1, 2012, the company issued the 2011 annual profit and bonus distribution announcement, distributed the dividends to A-share holders and B-share holders separately on June 8 and 12, 2012 and completed the implementation of 2011 profit distribution plan.

During the report period, the profit distribution plan and its implementation complied with relevant regulations of articles of association.

Profit distribution plans or plans about capital transferring to share capitals in the past 3 years (including the report period)

1. Profit distribution plan for 2010: taking the total share capital of 295,721,852 shares at the end of 2010 as the base, the company distributed a cash bonus of RMB 1 Yuan (including the taxes) to every 10 shares of all ordinary shareholders; the company did not transfer the capital reserve to share capital.

2. Profit distribution plan for 2011: taking the total share capital of 295,721,852 shares at the end of 2011 as the base, the company distributed a cash bonus of RMB 5 Yuan (including the taxes) to every 10 shares of all ordinary shareholders; the company did not transfer the capital reserve to share capital.

3. Profit distribution plan for 2012: taking the total share capitals on December 31, 2012 as the base, the company will distribute a cash bonus of RMB 5 Yuan (including the taxes) and 0 bonus shares (including the taxes) to every 10 shares of all shareholders. The company will not transfer the capital reserve to the share capital.

Tables about cash bonus in the past 3 years

Unit: RMB Yuan

Year	Cash bonus amount (including the tax)	Net profit in the consolidated annual statement of bonus that are attributable to shareholders of listed company	Percentage in the net profit attributable to shareholders of listed company in the consolidated statements (%)
2012	147,860,926.00	441,671,519.69	33.48%
2011	147,860,926.00	359,369,880.94	41.1445%
2010	29,572,185.20	418,180,831.06	7.0716%

During the report period, the profitability and undistributed profit are positive but the cash bonus distribution plan is not issued

Applicable  Inapplicable

#### **XIV. Social responsibilities**

During the report period, the company strictly implemented the Environmental Protection Law of the People's Republic of China, the Clean Production Law of People's Republic of China and other related laws and regulations, strictly implemented the "three simultaneous" system of construction project environmental protection, continued to increase the funding for environmental protection, and make greater efforts to effectively strengthen the work of environmental protection. Actively promote the clean production, improve the comprehensive utilization efficiency of resources, reduce and avoid the generation of pollutants, protect the health of employees, make efforts to achieve the coordinative and sustainable development in terms of economic benefits, environmental benefits and social benefits.

During the report period, the Company and its relevant subcompanies, in accordance with the regulatory requirements of the Interim Management Measures about Contingency Plans in Case of the Occurrence of Environmental Emergencies, respectively developed the environmental emergency plan system such as the integrated environmental emergency plans, special environmental emergency plans and site disposal plans. The prepared contingency plans include: the Emergency Plan In Case Of Sudden Environmental Pollutions, Emergency Plans In Case Of Environmental Pollution With Dangerous Chemicals, Contingency Plans In Case Of Sudden Environmental Emergencies With Hazardous Wastes, The Emergency Disposal Plan In Case Of Excessive Drainage Of Wastewater Treatment System. The company set up an emergency leadership team and working team to implement the appropriate emergency response measures, and promptly organize staff training and the exercise of organizational emergency plan regularly. The emergency plan has been submitted to the local environmental protection authorities for filing.

During the report period, the Company's wholly-owned subcompanies such Livzon Pharmaceutical Factory, Limin Pharmaceutical Factory, Livzon Syntpharm Co., Ltd and other enterprises have implemented and passed the clean production auditing and certification of ISO14001 environmental management system. The relevant production environmental protection facilities are in the stable operation, and the online networking with monitoring system of environmental authorities is operating normally; the COD, SS, ammonia, sulfur dioxide, nitrogen oxides and other pollutants have achieved the stable and acceptable discharge standard. There were no significant environmental pollution events, and the company was not involved in environmental disputes, nor received any administrative penalties from the environmental Protection authorities.

XV. Activities that the Company receives the investigation, communication and interview, etc

Reception date	Reception place	Reception mode	Object type	Objects	Discussion topics and provided materials
March 30, 2012	Headquarters	Local investigation	Agency	Shanghai Fuxi Asset Management Co., Ltd	Operation status of the Company, and no documents are provided.
March 30, 2012	Headquarters	Local investigation	Agency	Shanghai Chaos Asset Management Co., Ltd	Operation status of the Company, and no documents are provided.
April 23, 2012	Headquarters	Local investigation	Agency	Shanghai Securities Co., Ltd	Operation status of the Company, and no documents are provided.
May 9, 2012	Headquarters	Local investigation	Agency	Bosera Funds Management Co., Ltd	Operation status of the Company, and no documents are provided.
May 9, 2012	Headquarters	Local investigation	Agency	Harvest Fund Management Co.Ltd	Operation status of the Company, and no documents are provided.
May 9, 2012	Headquarters	Local investigation	Agency	Shenzhen Golden Investment Management Co., Ltd	Operation status of the Company, and no documents are provided.
May 9, 2012	Headquarters	Local investigation	Agency	Huachuang Securities Co., Ltd	Operation status of the Company, and no documents are provided.
May 9, 2012	Headquarters	Local investigation	Agency	Shenzhen Dingnuo Investment Management Co., Ltd	Operation status of the Company, and no documents are provided.
May 9, 2012	Headquarters	Local investigation	Agency	Greatwall Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
May 17, 2012	Headquarters	Local investigation	Agency	First State Cinda Fund Management Co. Ltd	Operation status of the Company, and no documents are provided.
May 17, 2012	Headquarters	Local investigation	Agency	Guolian Securities Co., Ltd	Operation status of the Company, and no documents are provided.
May 18, 2012	Headquarters	Local investigation	Agency	Industrial Securities Co., Ltd	Operation status of the Company, and no documents are provided.
May 18, 2012	Headquarters	Local investigation	Agency	China Yinhe Securities Co., Ltd	Operation status of the Company, and no documents are provided.
May 18, 2012	Headquarters	Local investigation	Agency	Guangfa Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
May 18, 2012	Headquarters	Local investigation	Agency	Baoying Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.

		on			
May 18, 2012	Headquarters	Local investigation	Agency	China International Capital Corporation Limited	Operation status of the Company, and no documents are provided.
May 23, 2012	Headquarters	Local investigation	Agency	Fortune Trust Co., Ltd	Operation status of the Company, and no documents are provided.
May 23, 2012	Headquarters	Local investigation	Agency	Ping An Uob Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
May 23, 2012	Headquarters	Local investigation	Agency	Rongtong Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
May 23, 2012	Headquarters	Local investigation	Agency	China International Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
May 23, 2012	Headquarters	Local investigation	Agency	Industrial Securities Co., Ltd	Operation status of the Company, and no documents are provided.
August 27, 2012	Headquarters	Local investigation	Agency	Great Wall Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
August 27, 2012	Headquarters	Local investigation	Agency	Invesco Great Wall Fund Management Company Limited	Operation status of the Company, and no documents are provided.
January 28, 2013	Headquarters	Local investigation	Agency	Shanghai Great Wisdom Co., Ltd	Operation status of the Company, and no documents are provided.
September 21, 2012	Headquarters	Local investigation	Agency	Industrial Securities Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	China Jiayin Investment Securities Company Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	China Merchants Fund Management Co.,Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	China International Capital Corporation Limited	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Shenzhen Zhongzheng Investment Consulting Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Industrial Securities Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Northeast Securities Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Yingda Taihe Life Insurance Co., Ltd	Operation status of the Company, and no documents are provided.

		on			
November 2, 2012	Headquarters	Local investigation	Agency	Fullgoal Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Baoying Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	APS (Shanghai) Investment & Consulting Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Golden Eagle Asset Management Co.,Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	SWS MU Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Guosen Securities Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Greenwoods Asset Management Limited	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Sealand Securities Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	UBS Securities Company Limited	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Qilu Securities Co.,Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	China Merchants securities Co., LTD.	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	GF SECURITIES CO.,LTD	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Zhongtīan Securities CO.,LTD	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Shanghai Great Wisdom Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	First Capital Securities Co.,Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Greatwall Securities Co.,Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Orient Securities Co Ltd	Operation status of the Company, and no documents are provided.

		on			
November 2, 2012	Headquarters	Local investigation	Agency	Industrial Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Penghua fund management co., LTD	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Harvest Fund Management Co.Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Greatwall Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Huaan Fund Management Co., Ltd.	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Ping An Asset Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Shanghai Gunshi Investment Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Shenzhen Yingtai Investment Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Shanghai sunsource investment development Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	UBS Securities Company Limited	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Huashang Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	DaCheng Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Huaxia Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Changsheng Fund Management Co.,Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Rising Securities Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Huachuang Securities Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Founder Fubon Fund Management Co.,Ltd	Operation status of the Company, and no documents are provided.

		on			
November 2, 2012	Headquarters	Local investigation	Agency	Everbright Pramerica Fund Management Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Goldstate Securities Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Invesco Great Wall Fund Management Company Limited	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Shanghai Elegant Investment Co., Ltd	Operation status of the Company, and no documents are provided.
November 2, 2012	Headquarters	Local investigation	Agency	Future Assets Yicai Investment Consultancy (Shanghai) Co., Ltd	Operation status of the Company, and no documents are provided.
December 27, 2012	Headquarters	Local investigation	Agency	Lombard Odier (Asia) Co., Ltd	Operation status of the Company, and no documents are provided.

## Section V Major Events

### I. Important lawsuits and arbitrations

Applicable  Inapplicable

**There were no important lawsuits and arbitrations about the Company in this year.**

### II. Suspecting from media

Applicable  Inapplicable

In this year, there is no suspecting from media.

### III. Non-operating use of capitals by the controlling shareholders of listed company and their associated parties

Applicable  Inapplicable

### IV. Bankruptcy and restructuring

Applicable  Inapplicable

### V. Asset transaction

#### 1. Purchase of assets

Transaction object or actual controlling party	Assets that are purchased or bought	Transaction price (RMB 10000 Yuan)	Progress	Net profit contributed to listed company from the purchase date to end of report period (RMB 10000 Yuan) (applicable to the merger of enterprises that are not under the same control)	Net profit contributed to listed company from the beginning of this period to end of report period (RMB 10000 Yuan) (applicable to the merger of enterprises that are under the same	Percentage of net profit contributed to listed company by these assets in total profit (%)	Whether the transaction object are associated parties	Association relationship with transaction objects (applicable to the association transactions)	Disclosure date	Disclosure index

					control)					
The minority of shareholders of Limin Pharmaceutical Co., Ltd under Livzon Group	11.9086% of the equity of Limin Pharmaceutical Co., Ltd under Livzon Group	15,153.26	Completed	516.24		0.92%	No			

#### Overview about asset purchase

During the report period, with the approval by the president office meeting, the company contributed RMB 151.5326 million Yuan to purchase 11.9086% of the equity held by the minority of shareholders of Limin Pharmaceutical Co., Ltd under Livzon Group. After the completion of this purchase, the company strengthened the resources integration of traditional Chinese medicine preparation fields and this is beneficial to the operation management of Limin Pharmaceutical Co., Ltd and will push the fast growth of Limin Pharmaceutical Co., Ltd. This purchase complies with the overall benefits of company.

## 2. Sales of assets

Applicable  Inapplicable

During the report period, the company did not sell any assets.

## 3. Enterprise merger

## VI. Implementation and effect of equity stimulation

During the report period, the company did not implement the equity stimulation.

## VII. Key associated transaction

### 1. Associated transaction related to routine operation

Associated party	Association relationship	Association transaction type	Association transaction content	Pricing principle of associated transaction	Amount of associated transactions (RMB 10000 Yuan)	Percentage in similar transactions (%)	Settlement type of associated transactions	Disclosure date	Disclosure index
Zuhai	Subcomp	Sales of	Sales of	Negotiation	28.44	0.01%	Bank	March	Announc

Joincare Pharmaceutical Group Industry Co., Ltd	any of controlling shareholder	commodities	raw materials	about prices based on market price			settlement	24, 2012	ement name: announcement about 2012 routine associated transactions of Livzon Pharmaceutical Group Inc.; announcement No: 2012-08; publishing website: Juchao website
Guangdong Blue Treasure Pharmaceutical Co. Ltd	Associated company	Sales of commodities	Sales of Mevastatin	Negotiation about prices based on market price	2,591.45	0.66%	Bank settlement		
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	Subcompany of controlling shareholder	Sales of commodities	Sales of monoclonal antibodies	Negotiation about prices based on market price	0.31	0.00%	Bank settlement		
Guangdong Blue Treasure Pharmaceutical Co. Ltd	Associated company	Provision of labors	Water, electricity and power	Negotiation about prices based on market price	549.24	91.15%	Bank settlement		
Guangdong Blue Treasure Pharmaceutical Co. Ltd	Associated company	Purchase of commodities	Purchase of raw materials (Pravachol Sodium and Mycophenolic acid)	Negotiation about prices based on market price	569.60	0.28%	Bank settlement		
Shenzhen Haibin Pharmaceutical Co., Ltd	Subcompany of controlling shareholder	Purchase of commodities	Purchase of raw materials (Valaciclovir Hydrochloride Tablets)	Negotiation about prices based on market price	484.51	0.24%	Bank settlement		
Shenzhen Taitai Gene Engineering	Subcompany of controlling	Purchase of commo	Testing agent box of	Negotiation about prices	15.94	0.01%	Bank settlement		

Co., Ltd	shareholder	dities	Helicobacter pylori	based on market price					
Joincare Pharmaceutical Group Industry Co., Ltd	Controlling shareholder	Purchase of commodities	Purchase of Panax quinquefolius	Negotiation about prices based on market price	16.10	0.01%	Bank settlement		
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	Subcompany of controlling shareholder	Purchase of commodities	Purchase of raw materials (7-ACA, D7-ACA)	Negotiation about prices based on market price	7,946.84	3.96%	Bank settlement		
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	Subcompany of controlling shareholder	Leasing of assets	Plant renting	Negotiation about prices based on market price	25.13	7.84%	Bank settlement		
Health Pharmaceutical (China) Co., Ltd	Subcompany of controlling shareholder	Leasing of assets	Office renting	Negotiation about prices based on market price	9.99	3.12%	Bank settlement		
Joincare Pharmaceutical Group Industry Co., Ltd	Subcompany of controlling shareholder	Renting of assets	Office renting	Negotiation about prices based on market price	65.89	100%	Bank settlement		
Total				--	12,303.44	97.65%	--	--	--
Details about refunding of large-amount commodities				None.					
Necessity and continuity of association transactions and the reasons for selecting the transactions with associated parties (not other transaction parties in the market)				The above routine associated transactions occur to meet the operation and production demands of company and will continue in the future based on the operation demands of company.					
Effect of associated transactions on the				The above routine associated transactions occur in the principle of "voluntariness, fairness and mutual benefiting", and they will not affect					

independence of listed companies	the independence of the company.
Dependence of the company on associated parties as well as relevant resolution measures (if any)	The main business of company will not depend on the associated parties due to the above transactions.
If the total amount of routine associated transactions is estimated as per the types, actual performance during the report period (if any)	On March 24, 2012, in accordance with the proposal of 2012 annual routine associated transactions in the 6 <sup>th</sup> meeting of the 7 <sup>th</sup> Board of Directors, the company forecast the total amount of 2012 routine associated transactions to reach RMB 110.4476 million Yuan. By the end of this report period, the total amount of actual routine associated transactions is RMB 123.0344 million Yuan, exceeding the forecast amount by RMB 12.5868 million Yuan, accounting for 0.40% of net assets audited at the end of report period.
Reason for big difference between transaction price and market reference price	The above transaction prices are negotiated based on the reference market price and there are no big differences.

## 2. Associated transactions about purchase or sales of assets

Applicable  Inapplicable

## 3. Key associated transactions through the joint external investments

Applicable  Inapplicable

## 4. Transfer of associated claims and debts

Whether there are transfers of non-operating associated claims and debts

Yes  No

Associated party	Association relationship	Type of claims and debts	Reason for formation	Whether there is the use of non-operating capitals	Balance at the beginning of period (RMB 10000 Yuan)	Amount in this period (RMB 10000 Yuan)	Balance at the end of period (RMB 10000 Yuan)
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	Other accounts receivable	Receivable claims from associated parties	Leasing of assets	No	0.86	1.78	2.64
Guangdong Blue Treasure Pharmaceutical Co. Ltd	Other accounts receivable		Provision of labors	No	286.51	-192.22	94.29
Jiaozuo Joincare	Other		Purchase	No	0.01	0.72	0.73

Pharmaceutical Group Industry Co., Ltd	accounts payable		of commodities					
Joincare Pharmaceutical Group Industry Co., Ltd	Other accounts payable		Renting of assets	No		87.86		87.86
Guangdong Blue Treasure Pharmaceutical Co. Ltd	Accounts receivable		Sales of commodities	No		872.48		872.48
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	Accounts receivable		Sales of commodities	No	0.07	1.92		1.99
Guangdong Blue Treasure Pharmaceutical Co. Ltd	Accounts payable		Purchase of commodities	No	30.02	-29.99		0.03
Shenzhen Haibin Pharmaceutical Co., Ltd	Accounts payable		Purchase of commodities	No	-15	421.59		406.59
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	Accounts payable		Purchase of commodities	No	2,230.11	298.88		2,529

## 5. Other key associated transactions

During the report period, the company did not have other key associated transactions.

## VIII. Key contracts and their implementation

### 1. Custody, contracting and leasing

#### (1) Custody

Remarks about custody

During the report period, the company did not have any custody projects.

Projects whose profit and loss reach over 10% of total profit during the report period

Applicable  Inapplicable

## (2) Contracting

Remarks about contracting

During the report period, the company did not have any contracting projects.

Projects whose profit and loss reach over 10% of total profit during the report period

Applicable  Inapplicable

## (3) Leasing

Projects whose profit and loss reach over 10% of total profit during the report period

Applicable  Inapplicable

## 2. Guaranty

Unit: RMB 10 thousand Yuan

External guaranty of company (not including the guaranty to subcompanies)								
Name of Guarantee	Disclosure date of relevant announcement about guaranty limit	Guaranty limit	Occurrence Date (Signing date of agreement)	Actual guarantee amount	Guaranty type	Period	Whether the guaranty is completely performed.	Whether the company provides the guaranty to associate parties (yes/no)
Total external guaranty limit approved during the report period(A1)				0	Total actual guaranty amount during the report period (A2)			0
Total external guaranty limit approved by the end of report period (A3)				0	Actual guaranty balance at the end of report period (A4)			0
Guaranty of the company to the subcompanies								
Name of Guarantee	Disclosure date of relevant announcement about guaranty limit	Guaranty limit	Occurrence Date (Signing date of agreement)	Actual guarantee amount	Guaranty type	Period	Whether the guaranty is completely performed.	Whether the company provides the guaranty to associate parties

								(yes/no)
Zhuhai Livzon Reagent Co., Ltd	March 24, 2012	2,000	March 12, 2012	0	Joint and several liability guaranty	2012.3.12-2015.3.21	No	No
Zhuhai Livzon Reagent Co., Ltd	March 24, 2012	1,264.98	March 22, 2012	0	Joint and several liability guaranty	2012.3.22-2015.3.21	No	No
Zhuhai Livzon Medicine Trade Co., Ltd	March 24, 2012	10,000	July 2, 2012	0	Joint and several liability guaranty	2012.7.2-2015.7.2	No	No
Limin Pharmaceutical Co., Ltd under Livzon Group	March 24, 2012	15,000	April 17, 2012	0	Joint and several liability guaranty	2012.4.17-2015.4.16	No	No
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	March 24, 2012	3,000	June 7, 2012	2,445.66	Joint and several liability guaranty	2012.6.7-2015.6.7	No	No
Livzon Pharmaceutical Factory under Livzon Group	March 24, 2012	16,000	May 17, 2012	0	Joint and several liability guaranty	2012.5.17-2015.5.16	No	No
Livzon Pharmaceutical Factory under Livzon Group	March 24, 2012	32,000	December 23, 2010	50	Joint and several liability guaranty	2010.12.14-2018.12.14	No	No
Livzon Pharmaceutical Factory under Livzon Group	March 24, 2012	12,000	October 15, 2009	0	Joint and several liability guaranty	2010.6.12-2018.6.3	No	No
Livzon Pharmaceutical Factory under Livzon Group	March 24, 2012	10,000	June 15, 2012	0	Joint and several liability guaranty	2012.6.15-2015.6.15	No	No
Livzon Pharmaceutical Factory under Livzon Group	March 24, 2012	8,316.2	May 13, 2010	0	Joint and several liability guaranty	2010.7.20-2013.7.20	No	No

Livzon Pharmaceutical Factory under Livzon Group	March 24, 2012	4,115.8	July 31, 2012	1,222.83	Joint and several liability guaranty	2012.7-31-2015.7.31	No	No
Livzon Pharmaceutical Factory under Livzon Group	March 24, 2012	9,000	June 7, 2012	1,216.28	Joint and several liability guaranty	2012.6.7-2015.6.7	No	No
Livzon Pharmaceutical Factory under Livzon Group	March 24, 2012	4,458.85	August 4, 2011	4,483.71	Joint and several liability guaranty	2011.8.4-2014.8.4	No	No
Total guaranty amount to its subcompanies approved in the report period (B1)			191,408	Total actual guaranty amount to its subcompanies approved in the report period (B2)				9,418.48
Total guaranty limit to its subcompanies approved in the report period (B3)			191,408	Total actual guaranty balance to its subcompanies at the end of report period (B4)				1,216.28
Total guaranty amount of company (i.e., the total of first two items)								
Total guaranty limit approved during the report period (A1+B1)			191,408	Total actual guaranty amount during the report period (A2+B2)				9,418.48
Total guaranty limit approved at the end of report period (A3+B3)			191,408	Total actual guaranty balance at the end of the report period (A4+B4)				1,216.28
Including:								
Guaranty amount provided to the shareholders, actual controllers and their associated parties (C)								0
Directly or indirectly provides the guaranty to any guarantees whose assets/liabilities ratio exceeds 70% (D)								0
Total guaranty amount that exceeds 50% of the net asset of the Company (E)								0
The total of above three guaranty amounts (C+D+E)								0

**Remarks about compound guaranty**

The company holds 51% of the equity of Zhuhai Livzon Reagent Co., Ltd (hereinafter called as "Reagent Company"), and the other shareholder of reagent company – Zhuhai Zhenghe Co., Ltd (holding 49% of the equity of reagent company) has issued the commitment letter, and commit to provide the company with the anti-guaranty of 49% of certificate limit of above reagent company, and the guaranty period will expire on the expiry date of such limit.

**(1) Illegal external guaranty**

Applicable  Inapplicable

**3. Other key contracts**

Applicable  Inapplicable

**IX. Performance of commitments**

**1. Commitments of the company or shareholders holding over 5% of shares during the report period or lasting to the report period**

Commitments	Principal	Commitment content	Commitment date	Commitment period	Performance
Commitments about share reform					
Commitments in the purchase report or equity change reports					
Commitments at the time of asset restructuring					
Commitments at the time of first public issuing or refinancing					
Other commitments to medium and small shareholders of company					
	Joicare Pharmaceutical Group Industry Co., Ltd	<p>The controlling shareholder Joicare made the following commitments while handling the restriction release of shares with trading restriction:</p> <p>1. When Joicare transfers its tradable shares of Livzon Group whose trading restriction has been released, it will strictly comply with the relevant regulations of the <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.</p> <p>(2) Joicare plans to reduce its tradable shares of Livzon Group whose trading restriction has been released through the competing price trading system in the</p>	2008	Long-term	Perform based on actual situation

		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 trading days before the first reduction.			
--	--	---	--	--	--

**2. Remarks of the company about assets or projects reaching the original profitability forecast and their reasons if there are the profitability forecast about company assets or projects and the report period is still within the profitability forecast period.**

Applicable  Inapplicable

**X. Engagement or Disengagement of accountants firms**

Accountants firms that are engaged

Name of domestic accountants firm	Crowe Horwath Certified Public Accountants Limited (special ordinary partnership)
Rewards of domestic accountants firm (RMB 10000 Yuan)	The reward for auditing the annual financial statements is RMB 0.9 million Yuan, and the reward for auditing the annual internal control is RMB 0.36 million Yuan.
Continuous years of auditing services provided by domestic accountants firm	1 year

Whether the accountants firm is removed in the current period

Yes  No

Whether the new accountants firm is engaged in the auditing period

Yes  No

Whether the change of accountants firm complies with the approval procedure

Yes  No

Remarks about the change of accountants firm

During the report period, the 2012 auditing unit that was engaged by the company - Reanda Certified Public Accountants Co., Ltd (hereinafter called as "Reanda") merged with Crowe Horwath Certified Public Accountants Limited (special ordinary partnership) (hereinafter called as "Crowe Horwath"). The partners and public accountants of original Zhuhai Branch of Reanda are transferred to Crowe Horwath, and they will use the brand Crowe Horwath. Considering maintaining the steadiness and continuity of annual auditing work and protecting the interests of shareholders, examined and passed by the 2012 second temporary shareholders' meeting of company, the company determined to engage Crowe Horwath as the auditing unit for 2012 annual financial statements and internal control.

Remarks about engaging the accountants firms, financial accountants or recommenders in charge of auditing the internal control

Applicable  Inapplicable

During the report period, to meet the auditing need of internal control, the company engaged Crowe Horwath Certified

Public Accountants Limited (special ordinary partnership) to audit the internal control in 2012

## **XI. Remarks of Board of Supervisors and Independent directors (if applicable) about the “non-standard auditing report” of accountants firm**

Applicable  Inapplicable

## **XII. Penalty and correction**

Applicable  Inapplicable

The directors, supervisors, senior executives and shareholders holding 5% of total shares are suspected to illegally buy or sell the stocks of company and the company has disclosed about confiscation of illegal incomes.

Applicable  Inapplicable

## **XIII. Suspension and stopping of listing after the disclosure of annual report**

Applicable  Inapplicable

## **XIV. Remarks about other key events**

Applicable  Inapplicable

### **1. Event about the company issuing the short-term financing bonds**

On July 30, 2010, the 2010 second temporary shareholders' meeting examined and approved the *Proposal of the Company on Applying for the Issuing of the Short-Term Financing Bonds* and agreed that, the company would apply to the National Association of Financial Market Institutional Investors for the short-term financing bonds with the total registered amount of no more than RMB 800 million Yuan; the validity period of registration is two years, and the bonds will be issued for three times. The agricultural bank of China Limited will act as the principal underwriter.

On January 28, in accordance with Zhong Shi Xie Zhu [2011] No. CP15 Notice about Registration Acceptance issued by the National Association of Financial Market Institutional Investors, the association agreed that, the Company registered RMB 800 million Yuan of the Short-Term Financing Bonds with the National Association of Financial Market Institutional Investors; the validity period of registration is two years from the issuing date of the notice about registered amount. The agricultural bank of China Limited will act as the principal underwriter; the company may issue the short-term financing bonds in installments within the validity period. On July 6, 2012, the company issued the first installment of short-term financing bonds, and the issuing amount was RMB 400 million Yuan.

### **2. Event about the company issuing the medium-term financing notes**

On December 14, 2012, the 2011 second temporary shareholders' meeting examined and approved the *Proposal of the Company on Applying for the Issuing of the Medium-Term Financing Notes* and agreed that, the company would apply to the National Association of Financial Market Institutional Investors for the medium-term financing Notes with the total registered amount of no more than RMB 800 million Yuan (RMB 800 million Yuan). The Bank of Communications Limited will act as the principal underwriter in charge of establishing the underwriting team to perform the underwriting.

By the end of report period, the medium-term notes have not been issued.

## XV. Key events of subcompanies

Applicable  Inapplicable

### VIV Issuing of company bonds

On April 13, 2012, the 2011 shareholders' meeting examined and approved the *Proposal of the Company Meeting the Conditions for the Issuing of Company Bonds*, *Proposal on the Company Issuing the Company Bonds* and *Proposal on Requesting the Shareholders' meeting to Authorize the Board of Directors to be Fully Responsible for Handling the Issuing of Company Bonds* and agreed the proposal that the company would issue the company bonds with the amount of no more than RMB 1 billion Yuan (RMB 1 billion Yuan) and relevant authorization matters (for more details, please see the announcement about resolutions passed in the 2011 annual shareholders' meeting). By the end of report period, the company has not submitted the application to China Security Regulatory Commission and such company bonds have not been issued.

**By the end of report period, the medium-term notes have not been issued.**

## Section VI. Change of Share Capital and Particulars of Shareholders

### I. Particulars of Share Capital Changes

	Beginning balance		Increase (+) or decrease (-)					Closing balance	
	Quantity	Percentage	Newly issued shares	Bonus shares	Shares transferred from public reserve fund	Others	Subtotal	Quantity	Percentage
I. Shares with trading restriction	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									
II. Shares without trading restriction	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									
III. Total of shares	295,721,852	100%						295,721,852	100%

Reasons for share changes

Applicable  Inapplicable

Approval of share changes

Applicable  Inapplicable

Effect of share changes on the basic profit per share, diluted profit per share and net asset per share attributable to the ordinary shareholders of company in the recent one year or period

Applicable  Inapplicable

## II. Securities issuing and listing

### 1. Issuing of securities in recent three years at the end of report period

Applicable  Inapplicable

Remarks about the issuing of securities in recent three years

The company did not issue any securities in recent three years.

### 2. Total share quantity, changes of shareholder structure and changes of corporate asset and liability structures of the company

Applicable  Inapplicable

Remarks: during the report period, there are no changes about total share quantity, shareholder structure and corporate asset and liability structures of the company caused by the bonus shares, transfer and issuing increase, etc.

### 3. Current shares for internal staffs

Applicable  Inapplicable

During the report period, the company did not have the current shares for internal staffs.

## III. Shareholders and actual controllers

### 1. Shareholder quantity and shareholding particulars

Unit: share

Total quantity of shareholders at the end of 2012	20,291 (including 7,081 B-share holders)		Total quantity of shareholders at the end of 5 transaction days prior to the disclosure date of this annual report						
Shares held by top ten shareholders									
Shareholder name	Shareholder nature	Shareholding percentage (%)	Total shareholding quantity at the end of report period (share)	Increase or decrease during the report period	Total quantity of shares with trading restriction	Total quantity of shares without trading restriction	Shares for the mortgage or freezing (share)		
							Share status	Quantity	
Joincare Pharmaceutical Group Industry Co., Ltd	Domestic non-state-owned legal person	26.21%	77,510,167			77,510,167			
Tiancheng Industry Co., Ltd	Foreign legal person	17.13%	50,660,052	4,651,970		50,660,052			
GAOLING FUND,L.P.	Foreign legal person	3.64%	10,767,777	509,665		10,767,777			
First Shanghai Securities Co., Ltd	Foreign legal person	3.63%	10,731,104	415,557		10,731,104			
Agricultural Bank of China – Penghua power growth mixed securities investment funds		3.11%	9,199,982	2,355,034		9,199,982			
Guangzhou Begol Trading Corporation	State-owned legal person	2.05%	6,059,428	0	6,059,428		Pledged and frozen	6,059,428	
Industrial and Commercial Bank of China- Harvest Strategic Growth Mixed Securities Investment Fund		2.03%	6,000,998	6,000,998		6,000,998			
Shenzhen Haibin Pharmaceutical Co., Ltd	Domestic non-state-owned legal person	1.99%	5,892,943	0		5,892,943			

Agricultural Bank of China- Greatwall Anxin Return Mixed Securities Investment Fund		1.93%	5,700,000	-550,020		5,700,000		
Bank of China – Harvest Study Fine Stock-type Securities Investment Fund		1.79%	5,283,607	5,283,607		5,283,607		
Remarks about the strategic investors or general legal person becoming the top ten shareholders due to the allocation or sales of new shares (if any)	During the report period, no strategic investors or general legal person became the top ten shareholders due to the allocation or sales of new shares.							
<b>Shareholding particulars of top ten shareholders without trading restriction</b>								
Shareholder name	Quantity of shares without trading restriction at the end of year (note 4)	Share type						
		Share type	Quantity					
Joincare Pharmaceutical Group Industry Co., Ltd	77,510,167	RMB common share	77,510,167					
Tiancheng Industry Co., Ltd	50,660,052	Domestically-listed shares for overseas investors	50,660,052					
GAOLING FUND,L.P.	10,767,777	Domestically-listed shares for overseas investors	10,767,777					
First Shanghai Securities Co., Ltd	10,731,104	Domestically-listed shares for overseas investors	10,731,104					
Agricultural Bank of China – Penghua power growth mixed securities investment funds	9,199,982	RMB common share	9,199,982					
Industrial and Commercial Bank of China- Harvest Strategic Growth Mixed Securities Investment Fund	6,000,998	RMB common share	6,000,998					
Shenzhen Haibin Pharmaceutical Co., Ltd	5,892,943	RMB common share	5,892,943					
Agricultural Bank of China- Greatwall Anxin Return Mixed Securities Investment Fund	5,700,000	RMB common share	5,700,000					
Bank of China – Harvest Study Fine Stock-type Securities Investment Fund	5,283,607	RMB common share	5,283,607					
Industrial and Commercial Bank	5,157,238	RMB common	5,157,238					

of China- E-fund Value Growth Mix Securities Investment Fund		share	
Description of relationship or concerted action between top ten tradable shareholders without trading restriction as well as between top ten tradable shareholders without trading restriction and top ten shareholders:	<p>①On 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;②Tiancheng Industry Co., Ltd and Shenzhen Haibin Pharmaceutical Co., Ltd are the subcompanies directly or indirectly held 100% by Joincare;③Industrial and Commercial Bank of China- Harvest Strategic Growth Mixed Securities Investment Fund and Bank of China – Harvest Study Fine Stock-type Securities Investment Fund belong to Great Wall Fund Management Co., Ltd. ④The Company does not know whether there are other relations between the top ten shareholders, or between top ten tradable shareholders without trading restriction, or top ten tradable shareholders without trading restriction and top ten shareholders or whether they belong to the persons acting in concert stated in the <i>Management Measures about Takeover of Listed Companies</i>.</p>		

## 2. Controlling shareholder of company

Legal person

Name of controlling shareholder	Legal representative /unit principal	Establishment date	Organization code	Registered capitals (RMB Yuan)	Main business
Joincare Pharmaceutical Group Industry Co., Ltd	Zhu Baoguo	December 18, 1992	61887436-7	1,545,835,892	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 <i>Sanitation License</i> will expire on January 13, 2012; the <i>Pharmaceutical Trade License</i> will expire on November 29, 2014); general cargo transportation (The <i>Road Transportation License</i> will expire on August 20, 2013).
Operating results, financial status, cash flow and future development strategy, etc	Joincare Pharmaceutical Group Industry Co., Ltd (securities abbreviation: Joincare, securities code: 600380, hereinafter called as "Joincare") is a listed company in Shanghai Stock Exchange. For more information about operating results, financial status, cash flow and future development strategy of Joincare, please see the full text of 2012 annual report of Joincare in the website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ).				
Remarks about the controlling shareholder controlling or participating the shares of other domestically or overseas listed companies during the report period	As above				

Change of controlling shareholder during the report period

Applicable  Inapplicable

### 3. Particulars of actual controller

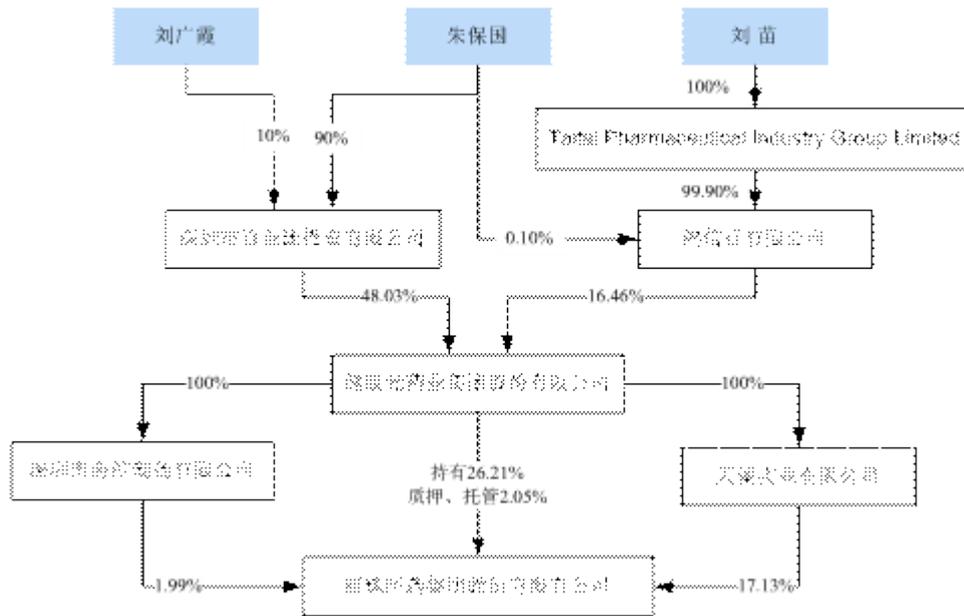
Natural person

Name of actual controller	Nationality	Whether he has the right of abode in other countries and areas
Zhu Baoguo	China	No
Occupation and position in recent 5 years	Founder of Joincare Pharmaceutical Group Industry Co., Ltd and current Chairman of this company. Since June 2002, he has acted as the Chairman of the 4 <sup>th</sup> , 5 <sup>th</sup> , 6 <sup>th</sup> and 7 <sup>th</sup> Board of Directors, and since April 2006, he has also acted as the president of this company.	
Domestic and overseas listed company controlled by actual controller in the past 10 years	Joincare Pharmaceutical Group Industry Co., Ltd	

Change of actual controller during the report period

Applicable  Inapplicable

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.

The actual controller controls the company through the trust or other asset management modes

Applicable  Inapplicable

#### 4. Other legal person shareholders holding over 10%

Applicable  Inapplicable

### IV. The shareholders and persons acting in concert put forward or implemented the plans for increasing the shares during the report period

Shareholder name name/name of persons acting in concert	Quantity of increased the share in the plans	Percentage of increased the share quantity in the plans (%)	Quantity of actually increased shares	Percentage of actually increased shares (%)	Initial disclosure date about share increase plan	Disclosure date about the ending of share increase plan
Tiancheng Industry Co., Ltd	-	-	4,651,970	1.5731%	February 28, 2012	January 11, 2013

Remarks about other event

The plan of Tiancheng Industry Co., Ltd for increasing the share is: within the consecutive 12 months from the first increasing date (January 9, 2012), the percentage of accumulated increase will not exceed 2% of total shares issued by the company.

## Section VII Particulars of Directors, Supervisors, Senior Executives and Staffs

### I. Shareholding changes of Directors, Supervisors, and Senior Executives

Name	Position	Status	Gender	Age	Beginning date of office term	Ending date of office term	Shareholding quantity at the beginning of period (share)	Quantity of increased shares in this period (share)	Quantity of decreased shares in this period (share)	Shareholding quantity at the end of period (share)
Zhu Baoguo	Chairman and president	Current	Male	50	June 2011	June 2014	0	0	0	0
Liu Guangxia	Director	Current	Female	43	June 2011	June 2014	0	0	0	0
An Ning	Director; Vice president	Current	Male	40	June 2011	June 2014	0	0	0	0
Tao Desheng	Director; Vice president	Current	Male	48	June 2011	June 2014	0	0	0	0
Qiu Qingfeng	Director	Current	Male	41	June 2011	June 2014	0	0	0	0
Zhong Shan	Director	Current	Male	41	June 2011	June 2014	0	0	0	0
Luo Xiaosong	Independent director	Current	Male	37	June 2011	June 2014	0	0	0	0
Wang Junyan	Independent director	Current	Male	43	June 2011	April 2013	0	0	0	0
Yang Bin	Independent director	Current	Male	40	June 2011	June 2014	0	0	0	0
Cao	Supervisor	Current	Male	53	June 2011	June 2014	0	0	0	0

Pingwei	general	ent								
Wang Maolin	Supervisor	Current	Male	46	June 2011	June 2014	0	0	0	0
Pang Datong	Supervisor	Current	Male	67	June 2011	June 2014	0	0	0	0
Yang Daihong	Vice president	Current	Male	46	June 2011	June 2014	0	0	0	0
Lu Wenqi	Vice president	Current	Male	45	June 2011	June 2014	0	0	0	0
Xu Guoxiang	Vice president	Current	Male	50	June 2011	June 2014	0	0	0	0
Li Rucai	Secretary of BOD	Current	Male	42	June 2011	June 2014	0	0	0	0
Total	--	--	--	--	--	--	0	0	0	0

## II. Positions

Main working experiences of current directors, supervisors and senior executives of the company in the recent 5 years

1. Mr. Zhu Baoguo is now the chairman and president of the Company. He was also the founder and chairman of Joicare pharmaceutical Group Industry Co., Ltd. Since 2002, he has been elected as the Chairman of the 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> Board of Directors of the Company. Since April 2006, he has been elected as the President of the Company.
2. Ms Liu Guangxia is now the vice chairman of the Company. He was also the founder and chairman of Joicare pharmaceutical Group Industry Co., Ltd. Since April 2007, she was elected as the director of the 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> Board of Directors of the company; since June 2008, she has acted as the Vice Chairman of the 6<sup>th</sup> Board of Directors of the company. In June 2011, she has been elected as the Vice Chairman of the 7<sup>th</sup> Board of Directors of the Company.
3. Mr. An Ning is now the director and executive vice president of the Company. Since 2003, he has been elected as the director of the 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> Board of Directors of the Company; since July 2006, he has acted as the executive vice president of the company. In June 2011, he has been elected as the Director of the 7<sup>th</sup> Board of Directors of the Company.
4. Mr. Tao Desheng is the director and vice president of the Company. Since June 2005, he has been the vice president of the Company; since July 2009, he has been elected as the director of the 6<sup>th</sup> Board of Directors of the Company. In June 2011, he has been elected as the Director of the 7<sup>th</sup> Board of Directors of the Company.
5. Mr. Luo Xiaosong is now the independent director of the company. He has acted as the department manager of Shenzhen Greatwall Certified Public Accountants Co., Ltd in 2005. Since June 2008, he has acted as the Independent Director of the 6<sup>th</sup> Board of Directors of the Company. In June 2011, he has been elected as the Independent Director of the 7<sup>th</sup> Board of Directors of the Company.
6. Mr. Wang Junyan is the independent director of the Company. Since January 2007, he has acted the Chairman of China Shenghai Investment Management Co., Ltd. From August 2008, he has acted as the director and general manager

of CITIC Securities International Investment Management (HK) Limited. He was elected as the independent director of 5<sup>th</sup> and 6<sup>th</sup> Board of Directors of the Company in April 2007 and June 2008 respectively. In June 2011, he has been elected as the Independent Director of the 7<sup>th</sup> Board of Directors of the Company.

7. Mr. Yang Bin is now the independent director of the company. Since July 2009, he has acted as the Independent Director of the 6<sup>th</sup> Board of Directors of the Company. In June 2011, he has been elected as the Independent Director of the 7<sup>th</sup> Board of Directors of the Company.

8. Mr. Qiu Qingfeng is the director of the Company. He is now acting as the director, general manager and secretary of BOD, etc. He was elected as the director in the 5<sup>th</sup> and 6<sup>th</sup> Board of Directors in April 2007 and June 2008 respectively. In June 2011, he has been elected as the Director of the 7<sup>th</sup> Board of Directors of the Company.

9. Mr. Zhong Shan is the director of the company. He is now the vice general manager of Joincare Pharmaceutical Group Industry Co., Ltd. He was elected as the director in the 5<sup>th</sup> and 6<sup>th</sup> Board of Supervisors in April 2007 and June 2008 respectively. In June 2011, he has been elected as the Director of the 7<sup>th</sup> Board of Directors of the Company.

10. Mr. Cao Pingwei is the supervisor general of the Company. He is now acting as the director, vice general manager and principal of Financial Department in Joincare pharmaceutical Group Industry Co., Ltd. He was elected as the supervisor general of the 5<sup>th</sup> and 6<sup>th</sup> Board of Supervisors in April 2007 and June 2008 respectively. In June 2011, he has been elected as the supervisor general of the 7<sup>th</sup> Board of Supervisor s of the Company.

11. Mr. Pang Datong is the supervisor of the company. Since November 2005, he was appointed as the President of Shenzhen General Chamber of Commerce, Director of China Commerce Management Institute and vice president of Guangdong General Chamber of Commerce, etc. From April 2007 to June 2008, he acted as the supervisor of the 5<sup>th</sup> Board of Supervisors; in June 2008, he has acted as the supervisor of the 6<sup>th</sup> Board of Supervisors. In June 2011, he has acted as the supervisor of the 7<sup>th</sup> Board of Supervisors.

12. Mr. Wang Maolin is now the staff representative supervisor of the company. From 2001 to now, he has been the chief supervisor of legal supervision head office in Livzon Pharmaceutical Group Inc. In January 2010, he was elected as the staff representative supervisor of the 6<sup>th</sup> Board of Supervisors of the Company. In June 2011, he was elected as the staff representative supervisor of the 7<sup>th</sup> Board of Supervisors of the Company.

13. Mr. Xu Guoxiang is now the vice president of the company. In March 2007, he ever acted as the supervisor general of marketing department of Livzon Pharmaceutical Group Inc. and the general manager of Branch Company in Henan Province. Since December 2007, he has been the vice president of the company.

14. Mr. Lu Wenqi is now the vice president of the Company. Since October 2006, he has been the vice president of the Company.

15. Mr. Yang Daihong is now the vice president of the Company. From 1999 to 2009, he has ever been the vice director and director of Livzon Pharmaceutical factory. Since May 2006, he has acted as the vice president of the Company.

16. Mr. Li Rucai is now the secretary of BOD in the company. From June 2005 to August 2007, he was appointed as the supervisor general in the finance department of Xinbeijiang Pharmaceutical Limited Liability Company. Since September 2007, he has acted as the secretary of BOD in the company.

Positions in the shareholder units

Applicable  Inapplicable

Name	Shareholder' unit	Position	Beginning of office term	Ending of office term	Whether he/she gets rewards or allowances

Zhu Baoguo	Joincare Pharmaceutical Group Industry Co., Ltd	Chairman	August 2012	August 2015	Yes
Zhu Guangxia	Joincare Pharmaceutical Group Industry Co., Ltd	Vice Chairman	August 2012	August 2012	Yes
Cao Pingwei	Joincare Pharmaceutical Group Industry Co., Ltd	Director, vice general manager and principal of financial department	August 2012	August 2012	Yes
Qiu Qingfeng	Joincare Pharmaceutical Group Industry Co., Ltd	General manager and secretary of BOD	August 2012	August 2012	Yes
Zhong Shan	Joincare Pharmaceutical Group Industry Co., Ltd	Supervisor General of financial department and vice general manager	August 2012	August 2012	Yes
Remarks about taking the positions in the shareholder units	The above office periods are the office terms of directors and senior executives of the 5 <sup>th</sup> Board of Directors of Joincare.				

## Positions in other units

√ Applicable □ Inapplicable

Name	Names of other units	Positions in other units	Beginning date of office term	Ending date of office term	Whether they are given the rewards by the other units
Luo Xiaosong	Shenzhen Greatwall Certified Public Accountants Co., Ltd	Department manager	August 2007	-	Yes
Wan Junyan	China Shenghai Alpha Investment Management Limited China Shenghai Investment Management Co., Ltd	Director	May 2001	-	Yes
Wan Junyan	China Alpha Investment Management Limited China Shenghai Investment Management Co., Ltd	Chairman	January 2007	September 2012	Yes
Wan Junyan	China Aerospace International Holdings Limited	Independent and non-executive director	March 2007	-	Yes
Wan Junyan	China New Economy Fund Limited	Executive director	February 2010	-	No
Wan Junyan	CITIC Securities International Investment Management (HK)Limited	Director, general	August 2008	-	Yes

		manager and principal for asset management			
Wan Junyan	CSI RMB Fund Ltd	Director	April 2011	-	No
Wan Junyan	Dragon Origin Limited	Director	April 2011	-	No
Wan Junyan	Wumart Store, Inc.	Independent and non-executive director	June 2011	-	Yes
Yang Bin	Shenzhen CAU Technology Co., Ltd	Secretary of BOD	January 2011	-	Yes
Yang Bin	Shenzhen Centre Testing International Corporation	Independent Director	January 2011	-	Yes

### III. Rewards of directors, supervisors and senior executives

The decision-making process, determination basis and actual payment of the rewards of directors, supervisors and senior executives

1. the decision-making process of the rewards of directors, supervisors and senior executives: the rewards of company directors and supervisors is examined and approved by the company shareholders' meeting; for the rewards of senior executives, the compensation and assessment committee under the Board of Directors of the Company will, in accordance with the compensation management system and combining the results of operations, develop the appropriate reward standard, and then submit it to the Board of Directors of the Company for the examination and approval.
2. The determination basis of the rewards of directors, supervisors and senior executives: with reference to the income levels of the industry and region and considering the Company's operating results and duty contribution, the Company will determine the annual compensation of directors, supervisors and senior executives. At the same time, implement the performance assessment and individual performance assessment system, and, based on the results of the assessment determine the distribution of company performance bonuses and year-end double-pay.
3. The rewards of directors, supervisors and senior executives of the company during the report period

Name	Position	Gender	Age (year)	Office status	Total rewards given by the Company during the report period (RMB 10 thousand Yuan)	Total rewards given by the shareholder units during the report period (RMB 10 thousand Yuan)	Actual rewards during the report period (RMB 10 thousand Yuan)
Zhu Baoguo	Chairman and president	Male	50	Current	9.00	65.79	74.79
Liu Guangxia	Director	Female	43	Current	7.20	26.71	33.91
An Ning	Director and executive vice president	Male	40	Current	121.72		121.72
Tao	Director and	Male	48	Current	100.25		100.25

Desheng	Vice president						
Qiu Qingfeng	Director	Male	41	Current	7.20	25.43	32.63
Zhong Shan	Director	Male	41	Current	7.20	38.83	46.03
Luo Xiaosong	Independent Director	Male	37	Current	9.60		9.60
Wang Junyan	Independent Director	Male	43	Current	9.60		9.60
Yang Bin	Independent Director	Male	40	Current	9.60		9.60
Cao Pingwei	Supervisor General	Male	53	Current	4.20	28.30	32.50
Wang Maolin	Supervisor	Male	46	Current	31.84		31.84
Pang Datong	Supervisor	Male	67	Current	3.60		3.60
Yang Daihong	Vice President	Male	46	Current	83.05		83.05
Lu Wenqi	Vice President	Male	45	Current	83.05		83.05
Xu Guoxiang	Vice President	Male	50	Current	108.78		108.78
Li Rucai	Secretary of BOD	Male	42	Current	28.63		28.63
Total	--	--	--	--	624.52	185.06	809.58

Note: the rewards of directors, supervisors and senior executives in the above table are the incomes before taxation.

#### 4. Equity stimulation granted to the directors, supervisors and senior executives during the report period

Applicable  Inapplicable

### IV. Resignation and disengagement of the directors, supervisors and senior executives

Applicable  Inapplicable

During the report period, there are no resignations and disengagements of the directors, supervisors and senior executives

### V. Changes of core technical team or key technical personnel during the report period (non-directors, supervisors and senior executives)

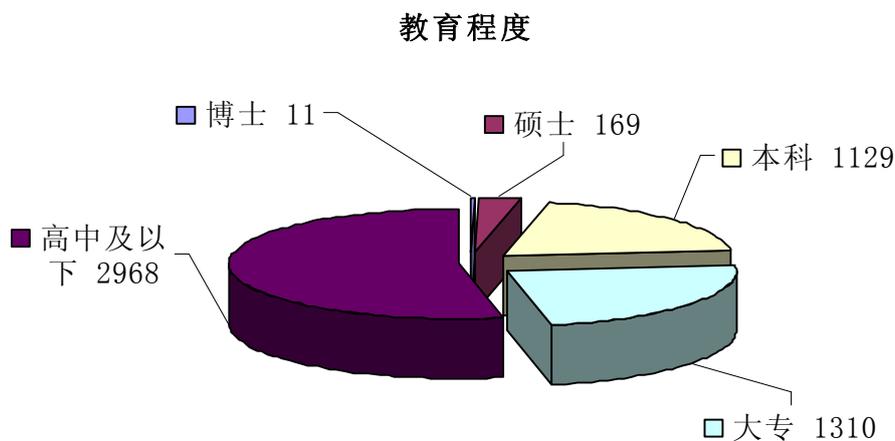
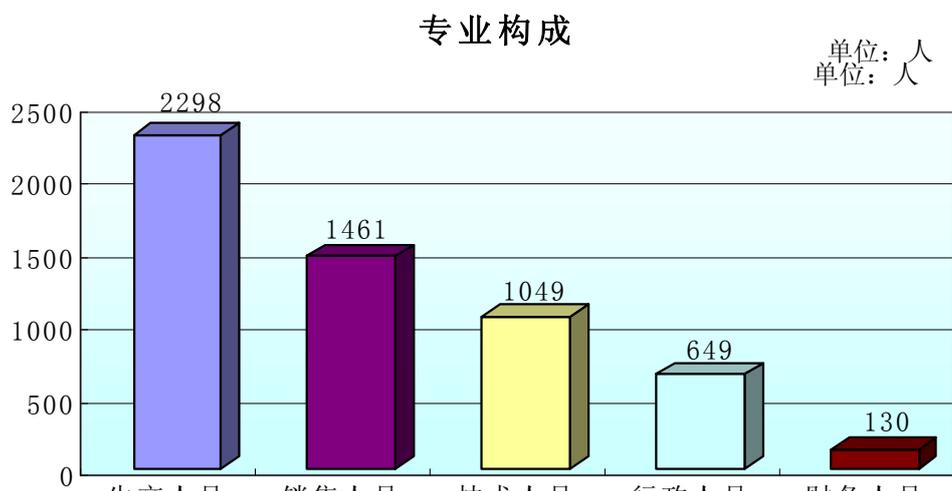
Applicable  Inapplicable

During the report period, there are no changes of core technical team or key technical personnel

## VI. Company employees

By the end of report period, there were 5,587 staffs in the Livzon Group and its fully-owned and controlling subcompanies. The Company will support 543 retired people who take the retirement allowance from the group or its subcompanies.

1 The profession structure and education level of staffs are listed as follows:



### 2, Staff compensation policies

The Company's compensation policies are in line with the relevant state laws and regulations. The staff compensation levels consider the external market competitiveness and internal fairness, and are determined on the basis of the position values, working performance and personal abilities. After collecting the wide opinions, the staff compensation system will be announced to all staff. In order to reflect the incentive of compensation, the staff salaries are divided into two parts, fixed income and floating income; the floating income is subject to the company performance and individual working performance in order to fully mobilize the enthusiasm and initiative of the staff and push the sustainable development goals.

### 3. Staff training programs

The company has a complete training system, and develop and implement a comprehensive training plan in the report period, including entrance training of new employees, entrance training of college students, professional knowledge and professional technical training, management training, etc. through the training, the employees will improve the knowledge, skills, working methods, and then play a greater potential to promote the progress of companies and individuals, and

realize the win-win results of companies and individuals.

## Section VIII. Company Governance

### 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* 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, board of supervisors of company have performed the management decision-making and implemented the supervision strictly in accordance with the provisions of the normative operational rules and internal systems, and three meetings of company will operate effectively. The various special committees under the Board of directors are able to fulfill the corresponding responsibilities, and strengthen the decision-making ability of the Board of Directors of the Company in terms of management in various fields. The operation management has established a highly efficient and compliant decision-making mechanism, give full play to the operation and management functions, and effectively guarantee the realization of the company's business targets.

During the report period, according to the relevant provisions of the Notice of the Relevant Matters on Further Implementing the Cash Distribution of Listed Company (Zheng Jian Fa [2012] No. 37) issued by China Securities Regulatory Commission, the company revised the profit distribution policy in the Articles of Association of the Company, specified the cash bonus distribution conditions and proportion of companies, and perfected the decision-making mechanism about the distribution system of company profits. In accordance with the requirements of the Notice about Effectively Implementing the Internal Control of Listed Companies in the Main Board (Guangdong Zheng Jian [2012] No. 27) issued by Guangdong Branch of China Securities Regulatory Commission, the company further carried out the construction of internal control system, perfected the implementation and organization structure of the internal control projects, and expanded the scope of internal control based on the original scope, and to further strengthened the risk control ability.

Whether there are any differences between Corporate Governance and requirements of Company Law and relevant provisions of China Securities Regulatory Commission

Yes  No

There are no differences between Corporate Governance and requirements of Company Law and relevant provisions of China Securities Regulatory Commission

Implementation of special corporate governance activities as well as preparation and implementation of insiders registration management system

In 2011, examined and approved by the 5<sup>th</sup> meeting of the 7<sup>th</sup> Board of the directors, the company developed and implemented the Registration Management System of Insiders. During the report period, the company strictly enforced the Registration Management System of Insiders, and also, in accordance with the regulations of this system, seriously and completely recorded the list of all insiders related to insider information in the process of reporting, transfer, preparation, auditing, and disclosure of relevant inside information prior to the public disclosure, and relevant materials have been promptly submitted for filing.

During the report period, the Company and relevant personnel did not receive any regulatory measures and administrative penalties from the regulatory authorities due to the registration management system of insiders or alleged insider trading.

## II. Particulars about convening of annual shareholders' meetings and temporary shareholders' meetings during the report period

### 1. Annual shareholders' meeting during the report period

Name of meeting	Convening date	Name of proposals	Resolutions	Disclosure date	Disclosure index
2011 annual shareholders' meeting	April 13, 2012	The 2011 Work Report of the Board of Directors, 2011 Work Report of the Board of Supervisors, 2011 Annual Report on Final Financial Accounts, 2011 Annual Plan on Profit Distribution, Proposal on Engaging the Accountants Firm in 2012, Proposal on Facility Financing and providing the Financing Guaranty to controlled subcompanies, Proposal on the Company Complying with the Conditions for Issuing the Corporate Bonds, Proposal on Requesting the Shareholders' meeting to Authorize the Board of Directors to be Fully Responsible for Handling the Issuing of Company Bonds. and 2011 Annual Report of Livzon Pharmaceutical Group Inc.	All proposals were examined and approved in this meeting, and were effectively implemented.	April 14, 2012	Announcement name: Announcement about resolutions passed in the 2011 annual shareholders' meeting of Livzon Pharmaceutical Group Inc.; announcement No.: 2012-12. The website publishing the announcement: Juchao Website( <a href="http://www.cninfo.com.cn/">http://www.cninfo.com.cn/</a> )

### 2 Temporary shareholders' meeting during the report period

Name of meeting	Convening date	Name of proposals	Resolutions	Disclosure date	Disclosure index
2012 first temporary shareholders' meeting	July 6, 2012	Proposal on Examining the Reward Plan To Shareholders In The Future Three Years (2012-2014) and Proposal on amending the articles of association.	All proposals were examined and approved in this meeting, and were effectively implemented	July 7, 2012	Announcement name: Announcement about resolutions passed in the 2012 first temporary shareholders' meeting of Livzon Pharmaceutical Group Inc.; announcement No.: 2012-19. The website publishing

					the announcement: Juchao Website( <a href="http://www.cninfo.com.cn/">http://www.cninfo.com.cn/</a> )
2012 second temporary shareholders' meeting	December 14, 2012	<i>Proposal of the Company on Applying for the Issuing of the Medium-Term Financing Notes; Proposal on engaging Crowe Horwath Certified Public Accountants Limited (special ordinary partnership) as the auditing unit for 2012 annual financial statements and internal control</i>	All proposals were examined and approved in this meeting, and were effectively implemented.	December 15, 2012	Announcement name: Announcement about resolutions passed in the 2012 second temporary shareholders' meeting of Livzon Pharmaceutical Group Inc.; announcement No.: 2012-31. The website publishing the announcement: Juchao Website( <a href="http://www.cninfo.com.cn/">http://www.cninfo.com.cn/</a> )

### III. Duty performance of independent directors during the report period

#### 1. Attendance of independent directors to the BOD meetings and shareholders' meetings during the report period

Attendance of independent directors to the BOD meetings during the report period						
Name of independent director	Specified attendances of BOD	Attendances in person	Attendances in the mode of communications	Entrusted attendance (time)	Absence (time)	whether the independent directors failed to attend the meetings for twice successively
Wan Junyan	7	1	6	0	0	No
Luo Xiaosong	7	1	6	0	0	No
Yang Bin	7	1	6	0	0	No

Remarks About failure to attend the meetings of Board of Directors for twice successively

Applicable  Inapplicable

## 2. Objections of independent directors about relevant matters

Whether the independent directors have the objections about relevant matters

Yes  No

## 3. Other remarks about performance of independent directors

During the report period, the company's independent directors issued the following independent opinions::

1. The independent directors company expressed the independent opinions about forecasting matters of 2012 annual routine associated transactions as follows:

The Company forecast that the routine associated transactions in the year 2012 were in line with the Company Law, Securities Law, the Listing Rules of Shenzhen Stock Exchange (revised in 2008) and other laws and regulations, there is no damage to the company, other non-associated shareholders and the general interests of medium and small shareholders.

2. The special explanations and independent opinions about the use of capitals by the controlling shareholder and other associated parties in 2011 and external guaranty matters are as follows:

In 2011, the use of capitals by the company's controlling shareholder and other associated parties did not violate the Notice of Standardizing the External Guaranty of Listed Company (Zheng Jian Fa [2005] No. 120) .

In Year 2011, the decision-making process for the company providing the guaranty to the subcompanies are in line with the relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange; The guarantee for subcompanies are in line with the overall interests of company, and there is no damage to the interests of medium and small shareholders.

3 The independent opinion on the self-assessment of company about 2011 annual internal control is as follows:

The self-assessment report about 2011 annual internal control issued by company are in line with the actual situation of the company's internal control.

4. The independent opinion on the company providing the facility to its subcompanies are as follows:

The guarantee of the company, will not affect the continuous operation ability of the company; the decision-making process of guarantee performance are in line with relevant laws, regulations and the relevant provisions of the Company, there is no damage to the interests of other medium and small shareholders, effectively guarantee the legitimate rights and interests of the shareholders of the company, so we the agreed with this guaranty.

5. Independent Opinions on the amendments to the company's profit distribution policy and 2012 -2014 planning about shareholder returns for the next three years are as follows:

The decision-making process of the amendments to the company's profit distribution policy and 2012 -2014 planning about shareholder returns for the next three years are in line with the provisions of relevant laws, regulations and the Articles of Association of the Company, so we agree with the Board of Directors about the amendments to the company's profit distribution policy and 2012 -2014 planning about shareholder returns for the next three years.

6. The special explanation and independent opinions of independent directors about capital use and external guaranty of controlling shareholders and other associated parties in half year of 2012 are as follows:

The capital use and external guaranty of controlling shareholders and other associated parties in half year of 2012, in all material respects, did not violate the relevant provisions of the Notice about the Matters to Standardize the Fund Transfer Between The Listed Company And Associated Parties And Listed Companies Providing The External Guaranty issued by China Securities Regulatory Commission, there is no damage to the interests of the medium and small shareholders of the Company.

The company's guaranties are in full compliance with the relevant laws and regulations, it will not affect the continuous operation ability of the company, and there is no damage to the interests of the medium and small shareholders, and the guaranty meets the operation needs.

7. The independent opinion on engaging the auditing unit for annual Internal Control in 2012 is as follows:

Agree to engage Reanda CPA to perform the auditing about internal control of the company in 2012.

8. The independent opinion on engaging Crowe Horwath accountants firm (special ordinary partner) as the auditing unit for annual financial statements and internal control of the company is as follows:

The decision of company to engage the new auditing unit for annual financial statements and internal control of the company is reasonable and the examination procedures are in line with the provisions of relevant laws, regulations and Articles of Association of the Company. It will not damage the overall interests of the Company and the Company's shareholders, especially the legitimate rights and interests of medium and small shareholders. The independent directors agree with the company about engaging Crowe Horwath accountants firm as the auditing unit for annual financial statements and internal control of company in 2012.

Whether the suggestions of independent directors are adopted

Applicable  Inapplicable

#### **IV. Duty performance of special committees under the Board of Directors during the report period**

1. Convening and the implementation of Audit Committee under Board of Directors

(1) The second meeting of the 7<sup>th</sup> Board of Directors of the Company was convened in the Floor 9, Conference Room, Office Building of company on February 16, 2012, and examined and adopted the 2011 annual financial auditing report of Livzon Group (preliminary draft)

The members attending this meeting agreed that, the financial statements contained in the 2011 annual financial auditing report of Livzon Group (preliminary draft) prepared by the Accountants firms truly reflected the 2011 annual financial conditions and production and operation status of the company, and agreed to prepare the final financial auditing report of company for 2011 based on this report.

(2) The third meeting of the 7<sup>th</sup> Board of Directors of the Company was convened in the Floor 9, Conference Room, Office Building of company on March 2, 2012, and examined the following proposals:

① The Proposal for Examining the Company's 2011 Annual Financial Auditing Report

The members attending this meeting agreed that, the financial statements contained in the 2011 annual financial auditing report of Livzon Group prepared by Reanda Certified Public Accountants Co., Ltd truly reflected the 2011 annual financial conditions and production and operation status of the company, and agreed to submit it to the Board of Directors for examination.

② The summary report about 2011 annual audit work of Reanda Certified Public Accountants Co., Ltd

③ The Proposal on Engaging Reanda Certified Public Accountants Co., Ltd Accountants Firm As The Auditing Unit in 2012

The committee suggested continuing to engage Reanda Certified Public Accountants Co., Ltd Accountants Firm As The Auditing Unit in 2012

(3) The fourth meeting of the Auditing Committee of the 7<sup>th</sup> Board of Directors of the Company was convened by the mode of communications on November 16, 2012, and passed the proposal on engaging Crowe Horwath accountants firm as the auditing unit for annual financial statements and internal control of company in 2012

Considering that the 2012 auditing unit that was engaged by the company - Reanda Certified Public Accountants Co., Ltd (hereinafter called as "Reanda") merged with Crowe Horwath Certified Public Accountants Limited (special ordinary partnership) (hereinafter called as "Crowe Horwath"). The partners and public accountants and other personnel of original Zhuhai Branch of Reanda are transferred to Crowe Horwath. Considering maintaining the steadiness and continuity of annual auditing work and protecting the interests of shareholders, the auditing committee of company determined to engage Crowe Horwath as the auditing unit for 2012 annual financial statements and internal control.

(4) The fifth meeting of the Auditing Committee of 7<sup>th</sup> Board of Directors of the Company was convened in the Floor 7, Conference Room, Office Building of company on December 14, 2012, and examined the 2012 Annual Financial Auditing Plan of Livzon Group:

The members attending the meeting thought that the 2012 Annual Financial Auditing Plan of Livzon Group provided by the accountants firm was reasonable and sufficient, and agreed to perform the 2012 annual financial auditing work in accordance with this plan and communicate with relevant auditors at any time during the auditing proces to ensure the smooth implementation of auditing work.

2, The Strategy Committee, the Compensation and assessment Committee and Nomination Committee of the 6<sup>th</sup> Board of Directors did not convene any meetings in 2012.

## V. Work of Board of Supervisors

Whether the Board of Supervisors found that there are risks in the supervision activities during the report period

Yes  No

The Board of Supervisors had no objections about supervision matters during the report period

## VI. The Company's independence from controlling shareholders in business, personnel, assets, organization and finance

The Company is completely independent from the controlling shareholders in business, personnel, assets, organization and finance, etc.

(I) Business: the Company has the independent and complete capacity to deal with its businesses, owns its own production, purchase and marketing systems, which are completely independent from those of controlling shareholders;

(II) Personnel: the Company is completely independent from the controlling shareholders in labor, human resources and salary management;

(III) Asset: the Company has the clear relationship with the controlling shareholders in property rights, and owns the complete and independent property rights about assets;

(IV) Organization: the Company has established the independent and complete organization system and is strictly separated from the controlling shareholders in organizations.

(V) Finance: the Company has the independent Financial Management Department, and

establishes the independent accounting system which is strictly separated from the controlling shareholders.

## **VII. Horizontal Competition**

There are great differences between the company and controlling shareholder in terms of product structure, potential clients and sales channels, etc, so there are no actual horizontal competition between the company and controlling shareholder.

## **VIII. Assessment and Stimulation Systems of Senior Executives**

During the report period, the company implemented the stimulation system of fixed annual salary plus the performance reward of company, and implemented the personal performance assessment and company performance assessment, and distributed the double-salary amount of personal fixed annual salary at the end of year (fixed salary for one month × coefficient of personal performance reward); the company performance reward (fixed salary for two months × coefficient of company performance reward).

## Section IX. Internal Control

### I. Establishment of internal control

During the report period, according to the relevant provisions of the Notice about Effectively Implementing the Internal Control of Listed Companies in the Main Board (Guangdong Zheng Jian [2012] No. 27) issued by Guangdong Branch of China Securities Regulatory Commission as well as the Basic Regulations About Internal Control (Cai Kuai [2008] No. 7) and Supporting Guidelines About Internal Control Of Enterprises (Cai Kuai [2010] No.11) jointly issued by five ministries including the Ministry of Finance, China Securities Regulatory Commission, etc, the company developed and implemented the implementation plan of internal control regulations of Livzon Pharmaceutical Group Inc. (hereinafter called as "internal control program"). To push the construction work of internal control system, the company has set up the working leadership team about internal control with the chairman as the first person responsible for internal control work, working team responsible for implementing the management functions of the internal control and business team responsible for implementing the internal control. At the same time, the special persons of internal control are arranged in the functional departments of company headquarters and subsidiaries included in the internal control system to undertake the construction and implementation of the internal control system of the department or enterprise. During the report period, the company, in accordance with the internal control plan, has completed all the internal control risk identification and assessment, control activity labels, and the internal control effectiveness testing included in the construction scope of internal control system.

### II. Representation of Board of Director about internal control responsibilities

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.

The Board of Directors of the Company is responsible for establishing and perfecting and effectively implementing the internal control; The Board of Supervisors is responsible for supervising the establishment and perfection of internal control by Board of Directors; the management is responsible for organizing and leading the routine operation of internal control.

The Internal control target of the company: reasonably ensure that the company management is legal, and the asset is safe, and the financial reports and related information is true and complete, improve operational efficiency and effectiveness, and promote the development strategy of company.

Due to the inherent limitations of internal control, the company can only provide reasonable assurance to achieve the above targets.

### III. Basis for establishing the internal control of financial report

This assessment report, in accordance with the requirements of Basic Regulations About Internal Control and Supporting Guidelines About Internal Control of Enterprises jointly issued by five ministries including the Ministry of Finance, China Securities Regulatory Commission, etc, by combining the internal control systems and assessment methods and on the basis of the routine supervision and special supervision of internal control, evaluates the effectiveness of the design and operation of the Company's internal control as of December 31, 2012.

#### IV. Self-assessment report of Internal control

Remarks about key defects about internal control found during the report period in the self-assessment report of internal control	
In accordance with the requirements of Basic Regulations About Internal Control and Supporting Guidelines About Internal Control of Enterprises, the company has developed a strict correction plan, and has implemented the appropriate corrective measures, including the adjustment of job functions, revision and improvement of relevant field system and process system, etc. At the same time, the company clearly defined the persons responsible for correction and correction period. The Internal control business group has included the follow-up inspections of correction results of internal control deficiencies in the 2013 annual working plan in order to improve the effectiveness of internal control and execution.	
Disclosure date of full text of self-assessment report of internal control	March 9, 2013
Disclosure index of full text of self-assessment report of internal control	Website publishing the 2012 self-assessment report of internal control: Juchao Website ( <a href="http://www.cninfo.com.cn/">http://www.cninfo.com.cn/</a> )

#### V. Auditing report of internal control

Applicable  Inapplicable

Auditing opinions in the auditing report of internal control
Crowe Horwath Certified Public Accountants Limited (special ordinary partner) issued the audit report of control internal control (Guo Hao Shen Zi [2013] No. 38A0006) about the company's 2012 annual internal control, and expressed the following auditing opinion: Livzon Group has maintained the effective internal control of financial report by December 31, 2012 in accordance with the Basic Regulation About Internal Control of Enterprises and the relevant provisions in all material respects.

Whether the accountants firm issued the auditing report of internal control with non-standard opinions

Yes  No

Remarks about the accountants firm issuing the auditing report of internal control with non-standard opinions

Applicable  Inapplicable

Whether the auditing report of internal control issued by the accountants firm is consistent with the opinions in self-assessment report of Board of Directors

Yes  No

#### VI. Establishment and implementation of fault accountability system about key errors in the annual report

During the report, the company has not made any key errors about annual report.

## Section X Financial Report

### I. Auditing report

Type of auditing opinions	Qualified auditing opinions
Signing date of auditing report	March 7, 2013
Name of auditing unit	Crowe Horwath Certified Public Accountants Limited (special ordinary partnership)
No of auditing report	Guo Hao Shen Zi [2013] No. 838A0005

### Auditing Report

Guo Hao Shen Zi [2013] No. 838A0005

To all shareholders of Livzon Pharmaceutical Group Inc.,

We were entrusted to audit the accompanying financial statements of Livzon Pharmaceutical Group Inc. (hereinafter called as Livzon Group), including the consolidated balance sheet and parent company's balance sheet as of December 31, 2012, the 2012 consolidated profit statement and parent company's profit statement, the consolidated cash flow statement and parent company's cash flow statement, the consolidated change statement of shareholders' equities and parent company's change statement of shareholders' equities, and the explanatory notes to the financial reports.

#### I. Responsibilities of the Management about Financial Statement

The Company's management is responsible for the preparation and fair listing of these financial statements, including: (1) to prepare these financial statements in accordance with the *Accounting Standard for Enterprises*, which will fairly reflect the company's status; (2) to design, implement and maintain the necessary internal control that are free from material misstatement, whether due to fraud or error.

#### II. Responsibilities of the Certified Accountants

Our responsibility is to express an opinion on these financial statements. We conducted our auditing in

accordance with the *Auditing Standards for CPAs of China*. The *Auditing Standards for CPAs of China* requires that the certified public accountants will abide by the norms of occupational ethics and plan and perform the auditing to obtain reasonable assurance about whether the financial statements are free from material misstatement

The audit involves the performance of auditing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The auditing procedures are selected subject to the judgment of certified public accountants, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In assessing the risks, the auditors consider the internal control related to the company's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. The audit also assesses the appropriateness of used accounting policies and the reasonableness of accounting estimation made by the management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **III. Auditing Opinion**

In our opinion, the financial statements represent fairly, in all material respects, the consolidated financial position and parent company's financial position as of December 31, 2012, and their financial performance and cash flows for the year then ended in accordance with the *Accounting Standard for Enterprises*.

Crowe Horwath Certified Public  
Accountants Limited (special ordinary  
partnership)

Beijing, China

Certified Public Accountant:

Certified Public Accountant:

March 7, 2013

## 二、财务报表

**Consolidated Balance Sheet**

Prepared by on Pharmaceutical Group Inc.

December 31, 2012

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
<b>Current assets:</b>				<b>Current liabilities:</b>			
Currency capital	V. 1	1,221,332,802.40	1,447,743,555.70	Short-term loans	V. 21	536,169,502.91	251,324,743.01
Settlement reserve				Borrowing from the Central Bank			
Lendings to Banks and Other Financial Institutions				Customer bank deposits and due to banks and other placements			
Tradable financial assets	V. 2	59,319,616.94	44,343,013.65	Tradable financial liability			
Notes receivable	V. 3	112,482,782.18	171,033,783.72	Notes payable	V. 22	283,581,118.89	
Accounts receivable	V. 4	774,021,470.88	562,146,013.18	Accounts payable	V. 23	311,814,060.41	207,941,294.31
Advance payment	V. 5	207,180,789.68	213,817,751.28	Advance accounts	V. 24	37,950,040.42	39,028,703.01
Premium receivables				Expense for selling or repurchasing the financial			
Receivables from reinsurers				Payable handling fees and commissions			
Reinsurance contract reserves receivable				Payroll payable	V. 25	74,462,512.02	52,328,883.82
Interests receivable				Tax payable	V. 26	96,658,310.36	90,201,700.34
Dividend receivable				Interests payable	V. 27	10,454,004.86	16,841,492.68
Other receivables	V. 6	53,040,257.13	44,488,052.86	Dividend payable	V. 28	2,531,984.46	2,531,984.46
Purchase of resold financial assets				Other accounts payable	V. 29	622,164,203.12	460,447,555.37
Inventory	V. 7	546,497,999.53	424,422,841.35	Payable reinsurance accounts			
Non-current assets due within one year				Insurance contract reserve			
Other current assets				Expenses for purchasing the securities			
				Expenses for underwriting the securities			
				Non-current liabilities due within one year	V. 30	400,000.00	400,000.00
<b>Total of current assets</b>		<b>2,973,875,718.74</b>	<b>2,907,995,011.74</b>	Other current liabilities	V. 31	400,000,000.00	400,000,000.00
<b>Non-current assets:</b>				<b>Total of current liabilities</b>		<b>2,376,185,737.45</b>	<b>1,521,046,357.00</b>
Issuing of entrusted loans and				<b>Non-current liabilities</b>			
Saleable financial assets	V. 8	10,612,859.66	9,238,787.30	Long-term loan	V. 32	700,000.00	1,200,000.00
Investments held to the expiration				Bonds payable			
Long-term accounts receivable				Long-term accounts payable			
Long-term equity investments	V. 10	120,961,203.38	118,529,007.91	Special accounts payable			
Real estate for investment				Deferred profit	V. 33	74,172,485.90	67,143,287.92
Fixed assets	V. 11	1,127,285,485.37	1,090,566,880.22	Anticipation liability			
Engineering under construction	V. 12	1,028,769,050.48	148,841,628.16	Liabilities with the deferred income taxes	V. 34	2,576,489.15	1,901,504.87
Engineering goods	V. 13	1,623,576.06	2,536,926.00	Other non-current liabilities			
Liquidation of fixed assets				<b>Subtotal of non-current liabilities</b>		<b>77,448,975.05</b>	<b>70,244,792.79</b>
Production biology assets				<b>Total of liabilities</b>		<b>2,453,634,712.50</b>	<b>1,591,291,149.79</b>
Oil and gas assets				<b>Shareholders' equities:</b>			
Intangible assets	V. 14	205,129,693.66	170,385,550.58	Share capital	V. 35	295,721,852.00	295,721,852.00
Development expenses	V. 15	1,510,153.51	1,510,153.51	Capital reserve	V. 36	219,110,205.68	348,093,136.41
Goodwill	V. 16	103,040,497.85	103,040,497.85	Minus: treasury share			
Long-term deferred and prepaid	V. 17	17,785,870.45	14,270,426.26	Special reserve			
Assets with deferred income	V. 18	43,159,851.98	35,994,112.21	Surplus reserve	V. 37	490,319,036.90	479,211,417.19
Other non-current assets				General risk reserve			
				Undistributed profit	V. 38	2,023,348,842.58	1,740,645,868.60
				Conversion difference of foreign currency financial statements		-20,484,128.53	-20,502,568.00
				Subtotal of equities attributable to the		3,008,015,808.63	2,843,169,706.20
				Equities of the minority of	V. 39	172,103,440.01	168,448,125.75
<b>Subtotal of non-current assets</b>		<b>2,659,878,242.40</b>	<b>1,694,913,970.00</b>	<b>Subtotal of shareholders' equities</b>		<b>3,180,119,248.64</b>	<b>3,011,617,831.95</b>
<b>Total of assets</b>		<b>5,633,753,961.14</b>	<b>4,602,908,981.74</b>	<b>Total of liabilities and shareholders' equities</b>		<b>5,633,753,961.14</b>	<b>4,602,908,981.74</b>

## Consolidate Profit Statement

Prepared by Livzon Pharmaceutical Group Inc.

January to December 2012

Unit: RMB Yuan

Item	Note	Amount in this Period	Amount in previous Period
<b>I. Total operating income</b>		<b>3,943,525,305.20</b>	<b>3,162,915,294.50</b>
Including: operating income	V. 40	3,943,525,305.20	3,162,915,294.50
Interests incomes			
Earned premium			
Handling fees and commission incomes			
<b>II. Total operating cost</b>		<b>3,445,290,746.13</b>	<b>2,720,601,223.71</b>
Including: operating cost	V. 40	1,569,688,115.45	1,397,937,193.22
Interests expenses			
Handling charges and commission expenses			
Surrender Value			
Net amount of compensation payout			
Net amount of reserves for reinsurance contract			
Expenditures dividend policy			
Amortized Reinsurance Expenditures			
Operating tax and surtax	V. 41	54,545,405.98	40,730,415.53
Sales expense	V. 42	1,441,654,242.80	970,891,282.10
Management expense	V. 43	351,031,228.58	297,630,062.15
Financial expense	V. 44	-17,122,110.76	-20,723,598.52
Loss from asset depreciation	V. 45	45,493,864.08	34,135,869.23
Plus: returns from the changes of fair values (the loss is listed beginning with "-")	V. 46	16,381,681.02	-11,083,794.52
Investment returns (the loss is listed beginning with "-")	V. 47	4,136,556.80	-1,485,522.49
Including: the investment returns from the associated enterprises and joint enterprises		2,432,195.47	-2,717,372.63
Returns from exchange (the loss is listed beginning with "-")			
<b>III. Operating profit (the loss is listed beginning with "-")</b>		<b>518,752,796.89</b>	<b>429,744,753.78</b>
Plus : non-operating income	V. 48	44,267,854.06	36,182,313.09
Minus: non-operating payments	V. 49	2,707,911.81	2,775,836.34
Including: loss in the disposal of non-current assets		1,081,686.28	161,267.88
<b>IV. Total profit (the loss is listed beginning with "-")</b>		<b>560,312,739.14</b>	<b>463,151,230.53</b>
Minus: income tax expense	V. 50	85,089,640.18	75,352,829.72
<b>V. Net profit (the loss is listed beginning with "-")</b>		<b>475,223,098.96</b>	<b>387,798,400.81</b>
Net profit attributable to the owners of parent company		441,671,519.69	359,369,880.94
Profit and loss of the minority of shareholders		33,551,579.27	28,428,519.87
<b>VI. Profit per share:</b>			
(I) Basic profit per share		1.49	1.22
(II) Diluted profit per share		1.49	1.22
<b>VII. Other comprehensive profit</b>	V. 51	<b>101,902.85</b>	<b>-4,927,326.37</b>
<b>VIII. Total amount of comprehensive profit</b>		<b>475,325,001.81</b>	<b>382,871,074.44</b>
Subtotal of comprehensive profits attributable to the owners of parent company		441,774,851.77	354,442,554.57
Subtotal of comprehensive profits attributable to the minority of shareholders		33,550,150.04	28,428,519.87

Legal representative:

Principal of the Financial Department:

## Consolidated Cash Flow Statement

Item	Note	Amount in this Period	Amount in previous Period
<b>I. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		3,837,904,425.46	3,196,889,077.14
Net increase in customer bank deposits and due to banks and other financial institutions			
Net increase of Borrowings from central bank			
Net increase in placements from other financial institutions			
Premiums received from original insurance contract			
Net cash received from reinsurance business			
Net increase of policy holder deposits and investment funds			
Net increase from disposal of tradable financial assets			
Interest, handling charges and commission received			
Net increase in placements from other financial institutions			
Net increase in repurchase business capital			
Tax refunding		18,549,397.36	7,223,091.58
Cash received related to other operating activities	V. 52	170,178,750.63	147,188,143.34
<b>Subtotal of cash inflow from the operating activities</b>		<b>4,026,632,573.45</b>	<b>3,351,300,312.06</b>
Cash paid for purchase of goods or receiving of services		1,096,651,444.82	937,041,619.49
Net increase in loans and advances to customers			
Net increase in deposits with central bank and other financial institutions			
Cash paid for indemnity of original insurance contract			
Interest, handling charges and commissions paid			
Policyholder Dividend Paid			
Cash paid to and on behalf of employees		318,506,211.16	284,985,114.64
Tax payments		561,470,340.88	458,059,355.80
Other cashes paid to operating activities	V. 53	1,456,039,912.29	963,012,885.55
<b>Subtotal of cash outflow from operating activities</b>		<b>3,432,667,909.15</b>	<b>2,643,098,975.48</b>
<b>Net cash flow from operating activities</b>		<b>593,964,664.30</b>	<b>708,201,336.58</b>
<b>II. Cash flow from investment activities:</b>			
Cash received from disposal of investments		16,855,285.74	-
Cash received from investment returns		1,148,151.21	1,231,850.14
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		341,498.60	654,100.00
Net cash received in disposal of the subcompanies and other operating units			
Cash received related to other investment activities			
<b>Subtotal of cash inflow from the investment activities</b>		<b>18,344,935.55</b>	<b>1,885,950.14</b>
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		762,302,440.55	348,828,871.27
Cash paid to acquire investments		151,532,596.80	75,325,760.00
Net increase in pledge loans			
Net cash paid to acquire the subcompanies and other operating units			
Cash paid related to other investment activities			
<b>Subtotal of cash outflow from investment activities</b>		<b>913,835,037.35</b>	<b>424,154,631.27</b>
<b>Net amount of cash flow received from the investment activities</b>		<b>-895,490,101.80</b>	<b>-422,268,681.13</b>
<b>III. Cash flow from financing activities:</b>			
Cash received from investors			40,670,000.00
Including: cash invested by the minority of shareholders of subcompanies			40,670,000.00

Cash from loans		502,257,886.64	229,859,704.00
Cash received in the issuing of bonds		400,000,000.00	400,000,000.00
Cash received related to other financing activities	V. 54	13,250,000.00	6,200,000.00
<b>Subtotal of cash inflow from the financing activities</b>		<b>915,507,886.64</b>	<b>676,729,704.00</b>
Repayments of loans		620,750,531.16	311,590,658.34
Cash paid for distribution of dividends, profits and repayment of interests		216,702,279.93	59,448,565.13
Including: the dividends and profits paid to the minority of shareholders by the subcompanies		31,433,731.21	22,359,672.00
Cash payments related to other financing activities	V. 55	30,850,000.00	1,600,000.00
<b>Sub-total of cash outflow from the financing activities</b>		<b>868,302,811.09</b>	<b>372,639,223.47</b>
<b>Net cash flow from financing activities</b>		<b>47,205,075.55</b>	<b>304,090,480.53</b>
<b>IV. Effect of foreign exchange fluctuation on cash and cash equivalents</b>		780,867.69	-2,329,198.79
<b>V. Net increase of cash and cash equivalents</b>		<b>-253,539,494.26</b>	<b>587,693,937.19</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>1,178,636,300.52</b>	<b>1,432,175,794.78</b>

Legal representative:

Principal of the Financial Department:

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## Consolidated Change Statement of Shareholders' Equities

Prepared by: Livzon Pharmaceutical Group Inc.

2012年1-12月

Unit: RMB Yuan

Item	Amount in this amount								Equities of the minority of shareholders	Total of shareholders' equities
	Share capital	Capital reserve	Minority treasury shares	Special reserve	Surplus Reserve	General risk reserve	Undistributed Profit	Conversion difference of		
I. Balance at the end of previous 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
Plus: changes of accounting policies										-
Correction of errors in the early stage										-
Others										-
II. Balance at the beginning 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
III. Increase or decrease of change amount	-	-128,982,930.73	-	-	11,107,619.71	-	282,702,973.98	18,439.47	3,655,314.26	168,501,416.69
(I) Net profit							441,671,519.69		33,551,579.27	475,223,098.96
(II) Other comprehensive gains		84,892.61						18,439.47	-1,429.23	101,902.85
Subtotal of (I) and (II)	-	84,892.61	-	-	-	-	441,671,519.69	18,439.47	33,550,150.04	475,325,001.81
(III) Increase and decrease of capitals by the owners		-	-	-	-	-	-	-	3,036,000.00	3,036,000.00
1. Capital investment by owners									3,036,000.00	3,036,000.00
2. Share amount that is accrued to the shareholders' equities										-
3. Others										-
(IV) Profit distribution	-	-	-	-	11,107,619.71	-	-158,968,545.71	-	-31,433,731.21	-179,294,657.21
1. Withdrawal of surplus reserve					11,107,619.71		-11,107,619.71			-
2. Withdrawal of general risk reserve										-
3. Distribution to shareholders										-
4. Others										-179,294,657.21
(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										-
(VI) Special reserve	-	-	-	-	-	-	-	-	-	-
1. Withdrawal of special reserve										-
2. Use of special reserve										-
(VII) Others		-129,067,823.34							-1,497,104.57	-130,564,927.91
IV. Balance at the end of this year	295,721,852.00	219,110,205.68	-	-	490,319,036.90	-	2,023,348,842.58	-20,484,128.53	172,103,440.01	3,180,119,248.64

Legal representative:

Principal of the Financial Department:

Principal of the Accounting Depart

**Consolidated Change Statement of Shareholders' Equities (Continued)**

Prepared by: Livzon Pharmaceutical Group Inc.

2012年1-12月

Unit: RMB Yuan

Item	Amount in previous period									Equities of the minority of shareholders	Total of shareholders' equities
	Equities attributable to shareholders of parent company										
	Share capital	Capital reserve	Minus: treasury shares	Special reserve	Surplus Reserve	General risk reserve	Undistributed Profit	Conversion difference of			
<b>I. Balance at the end of previous year</b>	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										-	
Others										-	
<b>II. Balance at the beginning of this year</b>	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	
<b>III. Increase or decrease of change amount</b>	-	-343,042.93	-	-	35,936,988.09	-	293,930,992.51	-3,793,341.71	46,735,647.34	372,467,243.30	
(I) Net profit							339,369,880.94		28,428,519.87	387,798,400.81	
(II) Other comprehensive gains		-1,133,984.66						-3,793,341.71		-4,927,326.37	
<b>Subtotal of (I) and (II)</b>	-	-1,133,984.66	-	-	-	-	339,369,880.94	-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 owners									40,670,000.00	40,670,000.00	
2. Share amount that is accrued to the shareholders' equities										-	
3. Others										-	
(IV) Profit distribution	-	-	-	-	35,936,988.09	-	-63,438,888.43	-	-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										-	
(VI) Special reserve	-	-	-	-	-	-	-	-	-	-	
1. Withdrawal of special reserve										-	
2. Use of special reserve										-	
(VII) Others		790,941.73								790,941.73	
<b>IV. Balance at the end of this year</b>	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	3,011,617,331.95	

Legal representative:

Principal of the Financial Department:

Principal of the Accounting Department:

### Consolidated Balance Sheet of Parent Company

Prepared by Livzon Pharmaceutical Group Inc.

December 31, 2012

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
<b>Current assets:</b>				<b>Current liabilities:</b>			
Currency capital		1,140,415,395.77	1,321,193,456.29	Short-term loans		403,190,102.91	82,699,143.01
Tradable financial assets				Tradable financial liability			
Notes receivable		18,838,299.32	11,041,114.87	Notes payable		565,951,118.89	
Accounts receivable	VI. 1	356,944,182.17	255,482,126.08	Accounts payable		117,634,591.39	181,117,755.18
Advance payment		11,947,252.36	9,137,814.04	Advance accounts		7,154,698.64	11,373,981.60
Interests receivable				Payroll payable		24,141,017.37	20,721,517.12
Dividend receivable				Tax payable		24,119,667.76	10,233,643.04
Other receivables	VI. 2	672,875,015.59	275,891,035.87	Interests payable		9,058,796.48	15,068,501.59
Inventory		80,003,596.83	110,291,112.80	Dividend payable		20,174.46	20,174.46
Non-current assets due within one year				Other accounts payable		1,042,693,215.88	1,390,842,714.00
Other current assets				Non-current liabilities due within one year			
				Other current liabilities		400,000,000.00	400,000,000.00
				<b>Total of current liabilities</b>		2,593,963,383.78	2,112,077,430.00
<b>Total of current assets</b>		<b>2,281,023,742.04</b>	<b>1,983,036,659.95</b>	<b>Non-current liabilities</b>			
<b>Non-current assets:</b>				Long-term loan			
Saleable financial assets		10,612,859.66	9,238,787.30	Bonds payable			
Investments held to the end				Long-term accounts payable			
Long-term accounts receivable				Special accounts payable			
Long-term equity investment	VI. 3	1,660,096,199.25	1,526,671,374.58	Deferred profit		9,311,879.60	24,138,969.42
Real estate for investment				Anticipation liability			
Fixed assets		89,894,096.64	91,805,857.98	Liabilities with the deferred income taxes		1,218,424.33	1,012,313.47
Engineering under construction				Other non-current liabilities			
Engineering goods				<b>Subtotal of non-current liabilities</b>		10,530,303.93	25,151,282.89
Liquidation of fixed assets				<b>Total of liabilities</b>		2,604,493,687.71	2,137,228,712.89
Production biology assets				<b>Shareholders' equities:</b>			
Oil and gas assets				Share capital		295,721,852.00	295,721,852.00
Intangible assets		33,297,100.50	34,053,322.48	Capital reserve		339,119,144.50	337,951,183.00
Development expenses		1,289,662.78	1,289,662.78	Minus: treasury share			
Goodwill				Special reserve			
Long-term deferred and prepaid expenses				Surplus reserve		285,355,983.32	274,248,363.61
Assets with deferred income taxes		13,899,260.85	12,369,049.28	General risk reserve			
Other non-current assets				Undistributed profit		565,422,254.19	613,314,602.85
<b>Subtotal of non-current assets</b>		<b>1,809,089,179.68</b>	<b>1,675,428,054.40</b>	<b>Subtotal of shareholders' equities</b>		<b>1,485,619,234.01</b>	<b>1,521,236,001.46</b>
<b>Total of assets</b>		<b>4,090,112,921.72</b>	<b>3,658,464,714.35</b>	<b>Total of liabilities and shareholders' equities</b>		<b>4,090,112,921.72</b>	<b>3,658,464,714.35</b>

Legal representative:

Principal of the Financial Department:

Principal of the Accounting Department:

## Profit Statement of Parent Company

Prepared by Livzon Pharmaceutical Group Inc.

January to December 2012

Unit: RMB Yuan

Item	Note	Amount in this Period	Amount in previous Period
<b>I. operating income</b>	VI. 4	1,794,286,022.12	1,347,646,402.74
Minus: operating cost	VI. 4	815,430,745.46	751,674,769.08
Operating tax and surtax	VI. 5	20,545,856.28	11,323,267.12
Sales expense		788,328,327.59	458,844,331.73
Management expense		120,472,848.61	102,455,982.45
Financial expense		-10,089,297.64	-22,331,788.41
Loss from asset depreciation		17,758,281.32	5,810,982.80
Plus: returns from the changes of fair values (the loss is listed beginning with “-”).			
Investment returns (the loss is listed beginning with “-”).	VI. 6	63,630,243.57	98,340,761.54
Including: the investment returns from the associated enterprises and joint enterprises		-304,103.24	-1,563,849.90
<b>III. Operating profit (the loss is listed beginning with “-”)</b>		<b>105,469,504.07</b>	<b>138,209,619.51</b>
Plus : non-operating income		11,990,618.58	2,588,009.96
Minus: non-operating payments		115,734.07	1,701,524.44
Including: loss in the disposal of non-current assets			22,485.09
<b>IV. Total profit (the loss is listed beginning with “-”)</b>		<b>117,344,388.58</b>	<b>139,096,105.03</b>
Minus: income tax expense		6,268,191.53	3,739,370.01
<b>V. Net profit (the loss is listed beginning with “-”)</b>		<b>111,076,197.05</b>	<b>135,356,735.02</b>
<b>VI. Profit per share:</b>			
(I) Basic profit per share			
(II) Diluted profit per share			
<b>VII. Other comprehensive profit</b>		<b>1,167,961.50</b>	<b>-1,133,984.66</b>
<b>VIII. Total amount of comprehensive profit</b>		<b>112,244,158.55</b>	<b>134,222,750.36</b>

### Cash Flow Statement of Parent Company

Prepared | Livzon Pharmaceutical Group Inc.

January to December 2012

Unit: RMB Yuan

Item	Note	Amount in this Period	Amount in previous Period
<b>I. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		1,756,700,972.20	1,372,817,936.71
Tax refunding		-	
Cash received related to other operating activities		223,774,247.00	103,798,719.29
<b>Subtotal of cash inflow from the operating activities</b>		<b>1,980,475,219.20</b>	<b>1,476,616,656.00</b>
Cash paid for purchase of goods or receiving of services		667,109,629.27	844,887,590.99
Cash paid to and on behalf of employees		75,035,649.34	82,431,251.40
Tax payments		176,162,533.14	107,174,810.55
Other cashes paid to operating activities		985,230,737.06	479,915,261.25
<b>Subtotal of cash outflow from operating activities</b>		<b>1,903,538,548.81</b>	<b>1,514,408,914.19</b>
<b>Net cash flow from operating activities</b>		<b>76,936,670.39</b>	<b>-37,792,258.19</b>
<b>II. Cash flow from investment activities:</b>			
Cash received from disposal of investments		14,884,600.00	
Cash received from investment returns		65,017,415.70	99,904,611.44
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		168,000.00	185,000.00
Net cash received in disposal of the subcompanies and other operating units			
Cash received related to other investment activities			
<b>Subtotal of cash inflow from the investment activities</b>		<b>80,070,015.70</b>	<b>100,089,611.44</b>
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		14,286,026.11	22,028,970.02
Cash paid to acquire investments		154,696,596.80	391,655,760.00
Net cash paid to acquire the subcompanies and other operat			
Cash paid related to other investment activities			
<b>Subtotal of cash outflow from investment activities</b>		<b>168,982,622.91</b>	<b>413,684,730.02</b>
<b>Net amount of cash flow received from the investment activities</b>		<b>-88,912,607.21</b>	<b>-313,595,118.58</b>
<b>III. Cash flow from financing activities:</b>			
Cash received from investors			
Cash received from subcompanies			739,873,367.97
Cash from loans		477,852,886.64	85,070,944.00
Cash received in the issuing of bonds		400,000,000.00	400,000,000.00
Cash received related to other financing activities			5,134,525.95
<b>Subtotal of cash inflow from the financing activities</b>		<b>877,852,886.64</b>	<b>1,230,078,837.92</b>
Repayments of loans		559,848,551.16	190,027,800.11
Cash paid for distribution of dividends, profits and repayment of interests		200,570,037.31	32,612,806.00
Including: the dividends and profits paid to the minority of shareholders by the subcompanies		282,559,237.99	
Cash payments related to other financing activities		30,850,000.00	1,600,000.00
<b>Sub-total of cash outflow from the financing activities</b>		<b>1,073,827,826.46</b>	<b>224,240,606.11</b>
<b>Net cash flow from financing activities</b>		<b>-195,974,939.82</b>	<b>1,005,838,231.81</b>
<b>IV. Effect of foreign exchange fluctuation on cash and cash equivalents</b>		<b>291,788.29</b>	<b>-1,670.42</b>
<b>V. Net increase of cash and cash equivalents</b>		<b>-207,659,088.35</b>	<b>654,449,184.62</b>
Plus: Balance of cash and cash equivalents at the beginning of the period		1,306,877,982.24	652,428,797.62
<b>VI Balance of cash and cash equivalents at the end of the period</b>		<b>1,099,218,893.89</b>	<b>1,306,877,982.24</b>

**Consolidated Change Statement of Shareholders' Equities**

Prepared by: Livzon Pharmaceutical Group Inc.

January to December 2012

Unit: RMB Yuan

Item	Amount in this Period							
	Share capital	Capital reserve	Minus: treasury shares	Special reserve	Surplus Reserve	General risk reserve	Undistributed Profit	Total of shareholders'
<b>I. Balance at the end of previous year</b>	295,721,852.00	337,951,183.00			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								-
Others								-
<b>II. Balance at the beginning of this year</b>	295,721,852.00	337,951,183.00	-	-	274,248,363.61	-	613,314,602.85	1,521,236,001.46
<b>III. Increase or decrease of change amount</b>	-	1,167,961.50	-	-	11,107,619.71	-	-47,892,348.66	-35,616,767.45
(I) Net profit							111,076,197.05	111,076,197.05
(II) Other comprehensive gains		1,167,961.50						1,167,961.50
<b>Subtotal of (I) and (II)</b>	-	1,167,961.50	-	-	-	-	111,076,197.05	112,244,158.55
(III) Increase and decrease of capitals by the owners	-	-	-	-	-	-	-	-
1. Capital investment by owners								-
2. Share amount that is accrued to the shareholders' equities								-
3. Others								-
(IV) Profit distribution	-	-	-	-	11,107,619.71	-	-158,968,545.71	-147,860,926.00
1. Withdrawal of surplus reserve					11,107,619.71		-11,107,619.71	-
3. Distribution to shareholders							-147,860,926.00	-147,860,926.00
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								-
(VI) Special reserve	-	-	-	-	-	-	-	-
1. Withdrawal of special reserve								-
2. Use of special reserve								-
(VII) Others								-
<b>IV. Balance at the end of this year</b>	295,721,852.00	339,119,144.50	-	-	285,355,983.32	-	565,422,254.19	1,485,619,234.01

## Consolidated Change Statement of Shareholders' Equities (Continued)

Prepared by: Livzon Pharmaceutical Group Inc.

January to December 2012

Unit: RMB Yuan

Item	Amount in previous Period							
	Share capital	Capital reserve	Minus: treasury shares	Special reserve	Surplus Reserve	General risk reserve	Undistributed Profit	Total of shareholders'
<b>I. Balance at the end of previous year</b>	295,721,852.00	339,085,167.66			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								-
Others								-
<b>II. Balance at the beginning of this year</b>	295,721,852.00	339,085,167.66	-	-	260,712,690.11	-	520,995,441.67	1,416,515,151.44
<b>III. Increase or decrease of change amount</b>	-	-1,133,984.66	-	-	13,535,673.50	-	92,319,161.18	104,720,850.02
(I) Net profit							135,356,735.02	135,356,735.02
(II) Other comprehensive gains		-1,133,984.66						-1,133,984.66
<b>Subtotal of (I) and (II)</b>	-	-1,133,984.66	-	-	-	-	135,356,735.02	134,222,750.36
(III) Increase and decrease of capitals by the owners	-	-	-	-	-	-	-	-
1. Capital investment by owners								-
2. Share amount that is accrued to the shareholders' equities								-
3. Others								-
(IV) Profit distribution	-	-	-	-	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	-
3. Distribution to shareholders							-29,501,900.34	-29,501,900.34
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								-
(VI) Special reserve	-	-	-	-	-	-	-	-
1. Withdrawal of special reserve								-
2. Use of special reserve								-
(VII) Others								-
<b>IV. Balance at the end of this year</b>	295,721,852.00	337,951,183.00	-	-	274,248,363.61	-	613,314,602.85	1,521,236,001.46

Legal representative:

Principal of the Financial Department:

Principal of the Accounting Department:

# Livzon Pharmaceutical Group Inc.

## Notes to Financial Statements

December 31, 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 Guangda (Group) Co., Ltd and transferred all their equities to China Guangda (Group) Co., Ltd. After the transfer, China Guangda (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 Guangda Medicine Co., Ltd and completely transferred 18,893,448 foreign legal person shares to China Guangda Medicine Co., Ltd.

On April 12, 2002, China Guangda (Group) Co., Ltd and Xi'an Topsun Group Co., Ltd signed the *Equity Custody Agreement* and China Guangda (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 Guangda (Group) Co., Ltd. By December 31, 2004, China Guangda (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, Joicare Pharmaceutical Group Industry Co., Ltd (hereinafter referred to as Joicare) 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 (accounting for 12.72% of total shares) of the company to Joicare and handled the formalities for equity transfer on August 3, 2006.

By December 31, 2012, Joicare Group and its holding subcompanies has owned 140,122,590 shares of the company through the agreement transfer and direct purchase from the secondary markets, accounting for 47.3832% 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 Joicare 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 accounts receivable</u>	<u>Withdrawal Percentage of 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 equipments	5	18%-19%	5%-10%
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 polices 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

##### (1) General principle

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) Methods

The company sells the commodities by the sales method. The company signs the sales contracts with distributors, and after receiving the orders from distributors and issuing the commodities, the company will issue the receipts and confirm the sales incomes.

## 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>
Value-added tax	Sales income of products and the biological preparations and materials	The value-added tax rate for selling and the biological preparations 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</u>	<u>Note</u>
	<u>Tax 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.
Macau Jiaanxin Limited	12%	Accumulative tax rate. For the taxable income of over 300000 Macau MOPs, the tax rate will be 12%.
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, 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 and Zhuhai Livzon Reagent Co., Ltd 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%	

### III. 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	Zhuhai City	Commodity	RMB 60 million Yuan	Import and export of Chinese and

<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	subcompany		sales		western 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,	Controlling 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	RMB128.28 million Yuan	Production and sales of chemical 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
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 at home and abroad
Zhuhai Livzon – Bai A Meng	Controlling	Zhuhai City	Pharmaceutical	RMB 12 million Yuan	Production and sales of Hydroxyapatite

<u>Subcompany Name</u>	<u>Subcompany type</u>	<u>Registered place</u>	<u>Business nature</u>	<u>Registered capital</u>	<u>Operation scope</u>
Biological Materials Co., Ltd	subcompany		cal production		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	Pharmaceuti cal 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
Wenshan Livzon Panax Notoginseng Plantation Co., Ltd *2	Controlling subcompany	Wenshan City	Plantation industry	RMB9.20 million Yuan	Plantation and sales of Panax Notoginseng and sales of agricultural side-products (excluding the grains purchase)
Ningxia Xinbeijiang Pharmaceutical	Wholly-owned	Pingluo	Pharmaceuti	RMB100 million Yuan	

<u>Subcompany Name</u>	<u>Subcompany type</u>	<u>Registered place</u>	<u>Business nature</u>	<u>Registered capital</u>	<u>Operation scope</u>
Co., Ltd under Livzon Group	subcompany	County	cal production		
Ningxia Fuxing Pharmaceutical Co., Ltd under Livzon Group	Wholly-owned subcompany	Pingluo County	Pharmaceuti cal production	RMB100 million Yuan	
Macau Jiaanxin Limited	Subcompany under controlling subcompany	Macau	Commodities sales	MOP100000	

**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,	RMB67.44 million Yuan	0.00	75.99%	100%
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	RMB128.28 million Yuan	0.00	100%	100%
Zhuhai Livzon Reagent Co., Ltd	RMB 23.69 million Yuan	0.00	51%	51%
Datong Livzon Qiyuan Medicine Co., Ltd	RMB 3.7 million Yuan	0.00	92.50%	92.50%

<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>
Longxi Livzon Shenyuan Medicine Co., Ltd	RMB 3.6 million Yuan	0.00	90%	90%
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	RMB4.694 million RMB	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%
Macau Jiaanxin Limited	MOP100000	0.00	51%	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

<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>
Livzon (Hongkong) Co., Ltd	Yes	0.00	0.00
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	20,967,668.89	0.00
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	Yes	0.00	0.00
Zhuhai Livzon Reagent Co., Ltd	Yes	84,226,365.07	0.00
Datong Livzon Qiyuan Medicine Co., Ltd	Yes	160,210.17	0.00
Longxi Livzon Shenyuan Medicine Co., Ltd	Yes	264,547.59	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
Livzon Medicine Institute under Livzon Group	Yes	0.00	0.00
Jiaozuo Livzon Syntpharm Co., Ltd	Yes	0.00	0.00
Zhuhai Livzon Dankang Biotechnology Co., Ltd	Yes	39,027,957.67	0.00
Livzon Group Vaccine Engineering Co., Ltd	Yes	6,394,687.69	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>
Wenshan Livzon Panax notoginseng Plantation Co., Ltd	Yes	3,779,670.99	0.00
Ningxia Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	Yes	0.00	0.00
Ningxia Fuxing Pharmaceutical Co., Ltd under Livzon Group	Yes	0.00	0.00
Macau Jiaanxin Limited	Yes	205,609.03	0.00

Note 1: 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.

Note 2: In accordance with the equity transfer agreement between the company and Ding Gongcai on July 24, 2009, Ding Gongcai accepted 49% of total shares of Shanghai Livzon Pharmaceutical Co., Ltd at the price of RMB 40,449,894.58 Yuan. By the end of this year, the company has received the total of RMB 19,884,600.00 Yuan, accounting for 49% of above transfer price. The agreement specifies that Ding Gongcai does not enjoy the bonus right of this company until he completely pays the transfer price, so while confirming the transfer of 24.01% (49%\*49%) of equities of Shanghai Livzon Pharmaceutical Co., Ltd and confirming relevant equities in the different proportion, the company still has 100% of voting right of Shanghai Livzon Pharmaceutical Co., Ltd.

Note 3: On March 26, 2012, in accordance with the Shang Jing Wai Tou Zi Zheng Shu No. 4400201200159 approval certificate issued by the Ministry of Commerce of the People's Republic of China, Zhuhai Livzon Reagent Co., Ltd contributed USD 12,550.00 to establish Macau Jiaanxin Limited in Macau.

#### **(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	RMB149 million	Research, development, production and sales of Chinese and western medicines and finished medicines
Xinbeijiang Pharmaceutical Co.,	Controlling	Qingyuan City	Pharmaceutical	RMB 134.93 million	Export and production of its products and

Ltd under Livzon Group	subcompany		production		Yuan relevant technologies
Limin Pharmaceutical Co., Ltd under Livzon Group	Wholly-owned subcompany	Shaoguan City	Pharmaceutical production	RMB 61.56 million	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	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 under Livzon Group	RMB 124.32 million Yuan	0.00	92.14%	92.14%
Limin Pharmaceutical Co., Ltd under Livzon Group	RMB 56.18 million Yuan	0.00	100%	100%
Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group	USD 41.7 million	0.00	100%	100%
Gutian Fuxing Pharmaceutical Co., Ltd	RMB 26.7 million Yuan	0.00	100%	100%

**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</u>	<u>Equities of the minority of</u>	<u>Amounts that are used for offsetting against the equities of the minority of shareholders</u>
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	<u>in the consolidated statements?</u>	<u>shareholders</u>	
Sichuan Guangda Pharmaceutical Co., Ltd,	Yes		0.00
Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	Yes	15,965,254.96	0.00
Limin Pharmaceutical Co., Ltd under Livzon Group	Yes	0.00	0.00
Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group	Yes	0.00	0.00
Gutian Fuxing Pharmaceutical Co., Ltd	Yes	0.00	0.00

Note: in accordance with the equity transfer agreement between the company and the minority of shareholders of Limin Pharmaceutical Co., Ltd under Livzon Group on July 26, 2012, the company accepted 11.91% of total shares of Limin Pharmaceutical Co., Ltd under Livzon Group at the price of RMB 151,532,596.80 Yuan. After the purchase, the company would held 100% of equities of Limin Pharmaceutical Co., Ltd under Livzon Group.

**(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:**

Name	Net assets at the end of period	Net profit in this period
Macau Jiaanxin Limited	788,342.53	419,610.27

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

### 1. Currency Capital

<u>Item</u>	2012/12/31			2011/12/31		
	<u>Original Currency</u>	<u>Exchange rate</u>	<u>Book-keeping Currency</u>	<u>Original Currency</u>	<u>Exchange rate</u>	<u>Book-keeping Currency</u>
Cash at stock			134,187.07			232,609.61
Including:						
RMB			134,187.07			157,310.55
Euro	0.00	8.3176	0.00	9,225.00	8.1625	75,299.06
Deposits in			1,204,722,004.87			1,442,741,276.3

banks							7
Including:							1,395,390,891.8
RMB			1,184,329,952.82				8
Hongkong							
Dollar	16,507,820.51	0.81085	13,385,366.26	38,498,172.86	0.81070		31,210,468.74
USD	1,033,704.57	6.2855	6,497,350.07	2,371,030.00	6.3009		14,939,622.93
Japanese							
Yuan	2,541,145.00	0.073049	185,628.10	8,263,260.00	0.081103		670,175.18
Euro	29,435.13	8.3176	244,829.64	64,945.50	8.1625		530,117.64
MOP	101,073.78	0.7804	78,877.98	0.00	0.7804		0.00
Other							
Currency							
Capital			16,476,610.46				4,769,669.72
Including:							
RMB			14,081,836.93				2,549,998.85
Hongkong							
Dollar	2,953,411.27	0.81085	2,394,773.53	2,737,968.26	0.81070		2,219,670.87
							1,447,743,555.7
Total			1,221,332,802.40				0

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

(2) RMB 29 million Yuan of deposits in banks that has been mortgaged for the short-term loans and the L/C deposits of RMB 2,020,501.88 in other currency capitals and the deposits for bank acceptance drafts of RMB 11,676,000.00 Yuan 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, pledge or freezing, etc.

## 2. Tradable financial assets

Item	2012/12/31			2011/12/31		
	Cost	Changes of Fair Values	Fair Values	Cost	Changes of Fair Values	Fair Values
Stock	50,726,360.42	8,053,732.39	58,780,092.81	52,140,958.83	-8,321,422.37	43,819,536.46

Fund	150,000.00	389,524.13	539,524.13	150,000.00	373,477.19	523,477.19
Total	50,876,360.42	8,443,256.52	59,319,616.94	52,290,958.83	-7,947,945.18	44,343,013.65

(1) The increase of tradable financial assets by 33.77% at the end of period is because of the increase of market values of stocks.

(2) 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

Item	2012/12/31	2011/12/31
Bank Acceptance Drafts	112,482,782.18	171,033,783.72

(2) The decrease of receivable bills by 34.23% at the end of period is because of the increase of goods expenses and engineering payments by the mode of bill endorsement at this period.

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

(4) By December 31, 2012, the bills that have been endorsed but have not been due are listed as follows:

Bill Type	Due Time	Amount
Bank Acceptance Drafts	2013/6/30	284,299,464.86

(5) 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

Item	2012/12/31				2011/12/31			
	Amount	Percent	Reserves for	Net Value	Amount	Percent	Reserves for	Net Value
		age	Bad Debts			age	Bad Debts	
Accounts receivable								
whose individual								
amount is large and								
whose individual	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
bad debt reserve is								
withdrawn								
Accounts receivable	819,352,306.	99.93%	45,330,835.43	774,021,470.88	595,971,817.92	99.74%	33,825,804.74	562,146,013.18

whose bad debt	31							
reserve is								
withdrawn based on								
the combination								
Accounts receivable								
whose individual								
amount is not large								
but whose individual								
bad debt reserve is								
withdrawn	566,871.41	0.07%	566,871.41	0.00	1,544,607.21	0.26%	1,544,607.21	0.00
Total	819,919,177.	100.00				100.00		
	72	%	45,897,706.84	774,021,470.88	597,516,425.13	%	35,370,411.95	562,146,013.18

(2) The reason for the increase of accounts receivable by 37.69% at the end of period is that the accounts receivable cycle of this company is extended due to the downturn of raw material medicines and slowdown of lower-reaches accounts receivable.

(3) At the end of this period, for the accounts receivable totaling RMB 566,871.41 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 1-2 years amounts to RMB 43,010.00 Yuan; the reserve for 4-5 years amounts to RMB 5,000.00 Yuan; the reserve for over 5 years amounts to RMB 518,861.41 Yuan.

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

Age	2012/12/31				2011/12/31			
	Amount	Percentage	Reserves for Bad Debts	Net Value	Amount	Percent	Reserves for age Bad Debts	Net Value
Within 1 year	797,049,806.72	97.28%	39,852,490.35	757,197,316.37	579,435,893.16	97.22%	6	550,464,098.50
1-2 years	14,736,404.89	1.80%	884,184.30	13,852,220.59	9,399,665.32	1.58%	563,979.93	8,835,685.39
2-3 years	3,023,759.20	0.37%	604,751.84	2,419,007.36	2,863,539.84	0.48%	572,707.98	2,290,831.86
Over 3 years	4,542,335.50	0.55%	3,989,408.94	552,926.56	4,272,719.60	0.72%	3,717,322.17	555,397.43
Total	819,352,306.31	100.00%	45,330,835.43	774,021,470.88	595,971,817.92	%	4	562,146,013.18

(5) In 2012, the accounts receivable with the non-associated parties that have been actually written off amount to RMB

435,749.37 Yuan, and they are listed as follows.

Debtor Name	Writing-off amount	Nature	Cause	是否关联方
		Goods		
UKDo-I Co.,Ltd	435,749.37	expenses	Non-receivable	否

(6) By December 31, 2012, the top 5 accounts receivable are listed as follows:

Debtor Name	Relationship with this company	Debt Amount	Nature or Content	Debt Time	Percentage in Total Amount
BIOCON LIMITED	Non-associated party	32,234,555.06	Goods expense	Within 1 year	3.93%
Hebei Huamin Pharmaceutical Co.,Ltd under North China Pharmaceutical	Non-associated party	31,042,048.20	Goods expense	Within 1 year	3.79%
North China Pharmaceutical co.,Ltd	Non-associated party	15,231,979.34	Goods expense	Within 1 year	1.86%
Shanghai Sifu Medicine Co., Ltd	Non-associated party	12,479,023.50	Goods expense	Within 1 year	1.52%
Changzhou Guanghui Biotechnology Co.,Ltd	Non-associated party	11,497,565.00	Goods expense	Within 1 year	1.40%
Total		102,485,171.10			12.50%

(7) By December 31, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

## 5. Prepaid Accounts

(1) Age analysis

Age	2012/12/31	Percentage	2011/12/31	比例
Within 1 year	170,504,919.52	82.30%	187,411,846.41	87.65%
1-2 years	19,092,658.75	9.21%	20,119,685.37	9.41%
2-3 years	16,822,905.65	8.12%	5,716,219.50	2.67%
Over 3 years	760,305.76	0.37%	570,000.00	0.27%
Total	207,180,789.68	100.00%	213,817,751.28	100.00%

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

(3) By December 31, 2012, the top 5 prepaid accounts 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>
Public Resources Administration of Ningxia Hui Autonomous Region	Trade	Non-associat ed party	24,570,618.00	Land expense	Within 1 year	11.86%	
Management Commission of Sichuan Pengzhou Industrial Development Zone	Trade	Non-associat ed party	20,425,185.00	Land expense	1-2 years, RMB 6,732,904.09 Yuan, RMB 13,692,280.91 Yuan	9.86%	
Swisslog (Shanghai) Co., Ltd		Non-associat ed party	15,940,000.00	Engineerin g expense	Within 1 year	7.69%	
German Lejiawen Co., Ltd		Non-associat ed party	7,877,622.06	Engineerin g expense	Within 1 year	3.80%	
Hongyu Construction Company	Group	Non-associat ed party	6,560,471.50	Engineerin g expense	Within 1 year	3.17%	
<b>Total</b>			<b>75,373,896.56</b>			<b>36.38%</b>	

(4) By December 31, 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>2012/12/31</u>				<u>2011/12/31</u>			
	<u>Amount</u>	<u>Percent</u>	<u>Reserves for</u>	<u>Net Value</u>	<u>Amount</u>	<u>Percent</u>	<u>Reserves fo</u>	<u>Net Value</u>
		<u>age</u>	<u>Bad Debts</u>			<u>age</u>	<u>r Bad Debts</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								
					48,004,392.1		3,516,339.2	
on the combination	58,140,626.54	98.26%	5,100,369.41	53,040,257.13	3	97.80%	7	44,488,052.86
Accounts receivable whose								
individual amount is not large but								
whose individual bad debt reserve								
							1,078,270.5	
is withdrawn	1,026,860.56	1.74%	1,026,860.56	0.00	1,078,270.56	2.20%	6	0.00
<hr/>								
Total		100.00			49,082,662.6	100.00	4,594,609.8	
	59,167,487.10	%	6,127,229.97	53,040,257.13	9	%	3	44,488,052.86

(2) At the end of this period, for the other accounts receivable totaling RMB 1,026,860.56 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 2-3 years amounts to RMB 250,000.00 Yuan, and the reserve for over 5 years amounts to RMB 776,860.56 Yuan.

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

Age	2012/12/31				2011/12/31			
	Amount	Percent age	Reserves for Ba d Debts	Net Value	Amount	Percenta ge	Reserves for Ba d Debts	Net Value
Within 1								
year	46,904,509.66	78.09%	2,345,225.48	44,559,284.18	38,276,235.20	79.74%	1,913,811.77	36,362,423.43
1-2 years	2,641,311.23	16.74%	158,478.67	2,482,832.56	7,968,636.78	16.60%	478,118.21	7,490,518.57
2-3 years	7,352,432.93	1.45%	1,470,486.59	5,881,946.34	711,894.08	1.48%	142,378.82	569,515.26
Over 3								
years	1,242,372.72	3.72%	1,126,178.67	116,194.05	1,047,626.07	2.18%	982,030.47	65,595.60
<hr/>								
Total		100.00						
	58,140,626.54	%	5,100,369.41	53,040,257.13	48,004,392.13	100.00%	3,516,339.27	44,488,052.86

(4) By December 31, 2012, the top 5 other 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>
Guangzhou Yinheyangguang Pharmaceutical Group Industry Co., Ltd	Non-associated party	5,000,000.00	Loans	2-3 years	8.45%
Yuan Zhenjie	Non-associated party	3,540,963.06	Loans for equipment	Within 1 year	5.98%
Li Jiansheng	Non-associated party	3,153,064.39	Loans for equipment and projects	Within 1 year	5.33%
Ding Gongcai	Non-associated party	2,000,000.00	Loans for projects	RMB 400,000.00 Yuan within 1 year; RMB 40,000.00 Yuan for 1-2 years; RMB 1,560,000.00 Yuan for 2-3 years	3.38%
Wang Zhihe	Non-associated party	1,837,914.00	Loans for equipment	Within 1 year	3.11%
Total		15,531,941.4	5		26.25%

(5) By December 31, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

## 7. Inventory

### (1) Inventory classification

Item	2012/12/31			2011/12/31		
	Amount	Depreciation Reserve	Net Value	Amount	Depreciation Reserve	Net Value
Raw materials	208,936,291.88	1,296,162.85	207,640,129.03	202,423,005.91	1,861,885.09	200,561,120.82
Packages	14,252,721.41	78,275.32	14,174,446.09	22,461,455.53	106,644.99	22,354,810.54
Products	106,904,120.64	391,869.11	106,512,251.53	62,881,651.61	230,499.98	62,651,151.63

Inventory						
commodities	172,366,395.81	8,684,390.52	163,682,005.29	124,204,642.82	6,942,721.66	117,261,921.16
Entrusted						
materials for						
processing	0.00	0.00	0.00	332,203.60	0.00	332,203.60
Low-value						
consumables	562,067.18	0.00	562,067.18	123,902.99	0.00	123,902.99
Delivered						
commodities	0.00	0.00	0.00	98,691.41	0.00	98,691.41
Consumable						
biological assets	29,144,084.11	0.00	29,144,084.11	3,623,758.25	0.00	3,623,758.25
Self-made						
semi-finished						
products	27,855,418.10	3,072,401.80	24,783,016.30	18,439,392.00	1,024,111.05	17,415,280.95
<b>Total</b>	<b>560,021,099.13</b>	<b>13,523,099.60</b>	<b>546,497,999.53</b>	<b>434,588,704.12</b>	<b>10,165,862.77</b>	<b>424,422,841.35</b>

## (2) Depreciation reserve for inventory

Inventory type	2011/12/31	Decrease in this period			2012/12/31
		Withdrawal in this period	Reversion in this period	Writing-off in this period	
Raw materials	1,861,885.09	939,702.89	0.00	1,594,306.29	1,207,281.69
Packages	106,644.99	66,733.47	0.00	109,584.73	63,793.73
Products	230,499.98	161,369.13	0.00	0.00	391,869.11
Inventory					
commodities	6,942,721.66	14,818,938.19	0.00	12,973,906.58	8,787,753.27
Self-made					
semi-finished					
products	1,024,111.05	2,048,290.75	0.00	0.00	3,072,401.80
<b>Total</b>	<b>10,165,862.77</b>	<b>18,035,034.43</b>	<b>0.00</b>	<b>14,677,797.60</b>	<b>13,523,099.60</b>

The depreciation reserve for inventory will be withdrawn based on the difference between the inventory book values and their net realizable values on December 31, 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

Item	2012/12/31	2011/12/31
Saleable equity instruments	10,612,859.66	9,238,787.30
Including: stocks	10,612,859.66	9,238,787.30

## 9. Investments to the associated enterprises

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

Continued:

Name of Invested Units			Total assets at the end of period	Total liabilities at the end of period	Total net assets at the end of period	Total operating income in this year	本期净利润
Guangdong	Blue	Treasure					
Pharmaceutical Co. Ltd			96,984,146.03	8,187,294.55	88,796,851.48	90,415,511.12	9,891,118.34
Livzon Medical Electronic Equipment (Factory) Co., Ltd			—	—	—	—	—
Tongyikangshimei Chain (Shenzhen) Co., Ltd			14,590,033.00	1,037,750.59	13,552,282.41	14,452,547.21	-3,102,579.62
Total			111,574,179.03	9,225,045.14	102,349,133.89	104,868,058.33	6,788,538.72

## 10. Long-term Equity Investment

### (1) Long-term equity investment and depreciation reserve

Item	2012/12/31			2011/12/31		
	Book Balance	Depreciation Reserve	Book Values	Book Balance	Depreciation Reserve	Book Values
Calculation						
by Cost						
Method	102,853,108.84	20,600,000.00	82,253,108.84	102,853,108.84	20,600,000.00	82,253,108.84
Calculation						
by Equity						
Method	39,908,094.54	1,200,000.00	38,708,094.54	37,475,899.07	1,200,000.00	36,275,899.07
Total	142,761,203.38	21,800,000.00	120,961,203.38	140,329,007.91	21,800,000.00	118,529,007.91

### (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	2012/12/31	Sharehol ding percenta	Cash dividend

							ge	
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								
Zuhai 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	500,000.00	500,000.00	0.00	0.00	500,000.00	4.55%	0.00	
102,853,108.8								
Total	4	102,853,108.84	0.00	0.00	102,853,108.84		0.00	

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

Name of Invested Units	Investment cost	2011/12/31	Increase in this period	Decrease in this period	2012/12/31	Shareholding percentage	Cash dividend
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							
Pharmaceutical Co. Ltd	11,227,540.45	30,446,697.36	4	0.00	33,964,795.70	35.91%	0.00
Tongyikangshimei Chain (Shenzhen)							
Co., Ltd	35,000,000.00	5,829,201.71	0.00	1,085,902.87	4,743,298.84	35%	0.00
3,518,098.3							
Total	47,427,540.45	37,475,899.07	4	1,085,902.87	39,908,094.54		0.00

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

Investment Projects	2011/12/31	Withdrawal in this period	Transfer in this period	2012/12/31	Withdrawal Cause
Doumen Sanzhou Industry City Co., Ltd	500,000.00	0.00	0.00	500,000.00	净资产小于零
China Resources Bank of Zhuhai Co., Ltd	20,000,000.00	0.00	0.00	20,000,000.00	亏损
Livzon Medical Electronic Equipment (Factory) Co., Ltd	1,200,000.00	0.00	0.00	1,200,000.00	净资产小于零
Beijing Medical Goods Joint Operation Company	100,000.00	0.00	0.00	100,000.00	已被工商吊销
<b>Total</b>	<b>21,800,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>21,800,000.00</b>	

## 11. Fixed Assets and Accumulated Depreciation

### (1) Particulars

Item	2011/12/31	Increase in this period	Decrease in this period	2012/12/31
Original values of fixed assets:				
Houses and buildings	1,046,340,406.36	62,313,012.77	4,310,655.86	1,104,342,763.27
Machine equipments	1,054,042,266.72	94,275,093.64	27,972,562.83	1,120,344,797.53
Transportation equipments	34,222,234.14	9,205,970.18	1,932,514.25	41,495,690.07
Electronic equipments and others	162,678,868.93	21,452,123.99	4,833,638.37	179,297,354.55
<b>Total</b>	<b>2,297,283,776.15</b>	<b>187,246,200.58</b>	<b>39,049,371.31</b>	<b>2,445,480,605.42</b>

Accumulated

depreciation:				
Houses and buildings	405,522,355.40	43,192,548.62	1,962,012.05	446,752,891.97
Machine equipments	581,999,010.91	74,036,428.19	23,125,236.91	632,910,202.19
Transportation equipments	17,209,050.92	3,494,011.85	1,770,744.11	18,932,318.66
Electronic equipments and others	122,432,705.18	10,917,110.49	3,833,087.97	129,516,727.70
<b>Total</b>	<b>1,127,163,122.41</b>	<b>131,640,099.15</b>	<b>30,691,081.04</b>	<b>1,228,112,140.52</b>

Net value of fixed assets: 1,170,120,653.74 1,217,368,464.90

Depreciation reserve for fixed assets:

Houses and buildings	37,555,224.19	10,721,700.00	1,122,714.05	47,154,210.14
Machine equipments	40,986,153.40	3,973,853.63	3,131,590.55	41,828,416.48
Transportation equipments	95,560.44	0.00	0.00	95,560.44
Electronic equipments and others	916,835.49	267,463.72	179,506.74	1,004,792.47
<b>Total</b>	<b>79,553,773.52</b>	<b>14,963,017.35</b>	<b>4,433,811.34</b>	<b>90,082,979.53</b>

Net values of fixed assets: 1,090,566,880.22 1,127,285,485.37

(2) The projects under construction in this period that have been transferred to the fixed assets amount to RMB 129,798,453.94 Yuan.

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

Item	Original Book Values	Accumulated Depreciation	Depreciation Reserve	Net Amount	Estimated Time to put it into use
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Houses and buildings	4,656,571.54	2,391,042.45	0.00	2,265,529.09	2013
Machine equipments	8,245,353.19	6,744,051.01	0.00	1,501,302.18	2013
Office equipments and others	40,112.85	37,397.56	0.00	2,715.29	2013
<b>Total</b>	<b>12,942,037.58</b>	<b>9,172,491.02</b>	<b>0.00</b>	<b>3,769,546.56</b>	

(4) The fixed assets that are proposed to be disposed of are listed as follows:

Item	Original Book Values	Accumulated Depreciation	Depreciation Reserve	Net Amount	Estimated Time to put it into use
Houses and buildings	118,735,567.24	78,606,499.73	15,756,868.85	24,372,198.66	2013
Machine equipments	69,437,834.54	56,313,757.93	3,435,955.94	9,688,120.67	2013
Office equipments and others	14,976,080.32	13,715,792.79	112,797.21	1,147,490.32	2013
<b>Total</b>	<b>203,149,482.10</b>	<b>148,636,050.45</b>	<b>19,305,622.00</b>	<b>35,207,809.65</b>	-

(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:

Item	Original Book Values	Accumulated Depreciation	Depreciation Reserve	Net Amount
Houses and buildings	4,706,459.65	2,872,845.08	26,479.77	1,807,134.80

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

Item	Original Book Values	Accumulated Depreciation	Depreciated on	Net Amount	Cause
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Reserve						
Houses and buildings	333,769,875.10	44,292,944.0	4	0.00	289,476,931.06	They are the newly built projects and the handling of certificates is still under way.

(8) By December 31, 2012, the company has not mortgaged or guaranteed any fixed assets.

## 12. Projects under Construction

### (1) Projects under Construction

Project name	2012/12/31			2011/12/31		
	Original Book-keeping Amount	Depreciation Reserve	Net Value	Original Book-keeping Amount	Depreciation Reserve	Net Value
Newly built plants	563,825,749.23	0.00	563,825,749.23	57,274,311.70	0.00	57,274,311.70
Equipment installation	377,069,920.09	0.00	377,069,920.09	18,546,510.54	0.00	18,546,510.54
Technical improvement	1,181,953.85	0.00	1,181,953.85	2,413,856.54	0.00	2,413,856.54
Plant improvement	11,765,670.48	0.00	11,765,670.48	26,320,944.15	0.00	26,320,944.15
Others	74,925,756.83	0.00	74,925,756.83	44,286,005.23	0.00	44,286,005.23
Total	1,028,769,050.48	0.00	1,028,769,050.48	148,841,628.16	0.00	148,841,628.16

### (2) Particulars

Project name	Budget Amount	2011/12/31	Increase in this period	Fixed Assets Transferred in this Period	Other Decrease	2012/12/31	Capital Source	Percentage of Project Investment to Budget
Newly	1,085,431,002.34	57,274,311.70	539,551,135.88	32,999,698.35	0.00	563,825,749.23	Loans and self	54.99%

built							-owned capitals	
plants								
Equipme							Self-owned	
nt							capitals	
installatio								
n	807,421,398.49	18,546,510.54	411,475,153.84	52,951,744.29	0.00	377,069,920.09		53.26%
Technica								
I								
improve							Self-owned	
ment	50,876,932.95	2,413,856.54	11,673,709.24	12,905,611.93	0.00	1,181,953.85	capitals	27.69%
Plant							Self-owned	
improve							capitals	
ment	54,009,900.00	26,320,944.15	11,150,987.30	25,706,260.97	0.00	11,765,670.48		69.38%
Others							Self-owned	
	86,889,830.00	44,286,005.23	35,874,890.00	5,235,138.40	0.00	74,925,756.83	capitals	92.26%
Total			1,009,725,876.2	129,798,453.9		1,028,769,050.		
	2,084,629,063.78	148,841,628.16	6	4	0.00	48		

(3) At the end of period, the increase of projects under construction by 591.18% over the beginning of period is mainly because of the increase of investments in Ningxia base projects and "relocation project of new factories".

(4) By December 31, 2012, the capitalization amounts of interests for the projects under construction are listed as follows:

Project name	2011/12/31	Increase in this period	Fixed Assets Transferred in this Period	Other Decrease	2012/12/31
Newly built					
plants	3,239,673.65	13,799,972.48	4,442,313.91	0.00	12,597,332.22

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

### 13. Project Goods

Goods name	2012/12/31	2011/12/31
Special equipments	1,623,576.06	2,536,926.00

At the end of period, the decrease of projects under construction by 36.00% 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**

Item	2011/12/31	Increase in this period	Decrease in this period	2012/12/31
① Original price				
Use rights of lands	156,246,944.89	38,043,416.31	0.00	194,290,361.20
Special techniques	131,493,340.02	7,550,000.00	0.00	139,043,340.02
Software	13,689,374.24	9,497,818.26	0.00	23,187,192.50
Trademark rights	24,000.00	0.00	0.00	24,000.00
<b>Total</b>	<b>301,453,659.15</b>	<b>55,091,234.57</b>	<b>0.00</b>	<b>356,544,893.72</b>
② Accumulated amortization				
Use rights of lands	46,039,021.58	4,083,088.98	0.00	50,122,110.56
Special techniques	74,768,659.44	12,796,296.99	0.00	87,564,956.43
Software	7,874,600.72	3,467,705.52	0.00	11,342,306.24
Trademark rights	24,000.00	0.00	0.00	24,000.00
<b>Total</b>	<b>128,706,281.74</b>	<b>20,347,091.49</b>	<b>0.00</b>	<b>149,053,373.23</b>
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	0.00	0.00	0.00	0.00
<b>Total</b>	<b>2,361,826.83</b>	<b>0.00</b>	<b>0.00</b>	<b>2,361,826.83</b>
④ Total of book values of intangible assets				
Use rights of lands	109,226,096.37	33,960,327.33	0.00	143,186,423.70
Special techniques	55,344,680.69	-5,246,296.99	0.00	50,098,383.70
Software	5,814,773.52	6,030,112.74	0.00	11,844,886.26

Trademark rights	0.00	0.00	0.00	0.00
Total	170,385,550.58	34,744,143.08	0.00	205,129,693.66

(1) The intangible assets may be obtained through the purchase or development. The reasons for the increase of special technologies in this period include: ① Livzon Pharmaceutical Group Inc. purchased the special technology Anti-CD20 chimeric monoclonal antibody at the price of RMB 6 million Yuan; ② the subcompany Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group purchased the special technology Arginine FM128, Teicoplanin and Daptomycin, etc at the price of RMB 1.55 million Yuan.

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

Item	Original Book	Accumulated	Depreciation	Net Amount	Cause
	Values	Depreciation	Reserve		
Use right of lands	45,840,399.62	5,642,325.59	0.00	40,198,074.03	正在办理中

## 15. Development payment

Item	2011/12/31	Increase in this period	Decrease in this period		2012/12/31
			Accrued to the current profit and loss	Confirmed as intangible assets	
Capitalization payment	1,510,153.5	0.00	0.00	0.00	1,510,153.51
Expense payment	0.00	15,065,379.75	15,065,379.75	0.00	0.00
Total	1,510,153.5	15,065,379.75	15,065,379.75	0.00	1,510,153.51

## 16 Goodwill

Project	2012/12/31			2011/12/31		
	Book balance	Depreciation Reserve	Book Values	Book balance	Depreciation Reserve	Book Values
Goodwill	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:

Name of Invested Units	2011/12/31	Increase in this period	Decrease in this period	2012/12/31	Formation Source
Livzon Pharmaceutical Factory under Livzon Group	47,912,269.66	0.00	0.00	47,912,269.66	Cost-book value differentials
Sichuan Guangda Pharmaceutical Co., Ltd,	13,863,330.24	0.00	0.00	13,863,330.24	Cost-book value differentials
Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group	46,926,155.25	0.00	0.00	46,926,155.25	Cost-book value differentials
Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	7,271,307.03	0.00	0.00	7,271,307.03	Cost-book value differentials
Zhuhai Livzon Meidaxin Technology Development Co., Ltd	287,756.12	0.00	0.00	287,756.12	Cost-book value differentials
Shanghai Livzon Pharmaceutical Co., Ltd,	2,045,990.12	0.00	0.00	2,045,990.12	Cost-book value differentials
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	3,414,752.58	78,000.00	0.00	3,492,752.58	Cost-book value differentials
Lida Pharmaceutical Co., Ltd in Zhuhai Bonded Area	78,000.00	0.00	78,000.00	0.00	Cost-book value differentials
<b>Total</b>	<b>121,799,561.0</b>	<b>0</b>	<b>78,000.00</b>	<b>121,799,561.00</b>	

The goodwill depreciations are listed as follows:

Name of Invested Units	2011/12/31	Increase in this period	Decrease in this period	2012/12/31
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	287,756.12	0.00	0.00	287,756.12

Total	18,759,063.15	0.00	0.00	18,759,063.15
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### 17 Long-term Amortization Expense

Project Name	Original Amount	2011/12/31	Increase in this period	Transfer in this period	Amortization in this Period	2012/12/31	Accumulated Amortization	Remaining Amortization Period
Overhaul expense of fixed assets	9,425,652.98	4,047,968.11	1,606,836.90	0.00	1,490,414.35	4,164,390.66	5,261,262.32	6-55 months
Decoration expense of offices	3,173,975.43	1,305,384.35	721,744.02	0.00	753,453.11	1,273,675.26	1,900,300.17	7-55 months
Decoration expense of plants	7,323,158.54	5,222,858.46	53,317.00	0.00	2,109,727.36	3,166,448.10	4,156,710.44	5-21 months
Publicly amortized expense of public utilities	591,788.14	209,170.63	0.00	0.00	68,376.15	140,794.48	450,993.66	26-34 months
	11,043,382.6							
Resin	9	1,104,819.82	5,914,821.40	0.00	1,092,074.49	5,927,566.73	5,115,815.96	2-35 months
Others	7,370,582.69	2,380,224.89	3,183,192.47	0.00	2,450,422.14	3,112,995.22	4,257,587.47	6-95 months
	38,928,540.4	14,270,426.2	11,479,911.7			17,785,870.4	21,142,670.0	
Total	7	6	9	0.00	7,964,467.60	5	2	

### 18 Deferred Income Tax Asset

Type	2012/12/31	2011/12/31
Withdrawal of the deductible temporary difference caused by the asset depreciation reserve	24,567,976.14	20,031,422.32
The deductible temporary difference caused by the long-term equity investment out of the scope of consolidation statement	3,763,451.17	3,754,298.60
The deductible temporary difference caused by the amortization of intangible assets	60,230.11	322,098.26

The deductible temporary difference caused by the withdrawal expense	6,621,016.91	4,304,719.21
The deductible temporary difference caused by the deductible loss	7,517,170.15	7,145,831.32
The deductible temporary difference caused by the deferred gains	630,007.50	435,742.50
<b>Total</b>	<b>43,159,851.98</b>	<b>35,994,112.21</b>

### 19 Asset Depreciation Reserve

Item	2011/12/31	Increase in this period	Decrease in this period		2012/12/31
			Reversion	Writing-off	
Reserves for Bad debts	39,965,021.78	12,495,664.40	0.00	435,749.37	52,024,936.81
Depreciation Reserve for inventory	10,165,862.77	18,035,034.43	0.00	14,677,797.60	13,523,099.60
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	14,963,017.35	0.00	4,433,811.34	90,082,979.53
Depreciation Reserve for intangible assets	2,361,826.83	0.00	0.00	0.00	2,361,826.83
Depreciation Reserve for goodwill	18,759,063.15	0.00	0.00	0.00	18,759,063.15
<b>Total</b>	<b>172,605,548.05</b>	<b>45,493,716.18</b>	<b>0.00</b>	<b>19,547,358.31</b>	<b>198,551,905.92</b>

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

Item	2011/12/31	Increase in this period	Decrease in this period	2012/12/31
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Assets used for pledgement:		2,020,501.88		2,020,501.88
L/C deposits	2,317,760.92		2,317,760.92	
Deposits for bank acceptance drafts	0.00	11,676,000.00	0.00	11,676,000.00
Deposits in banks	13,250,000.00	29,000,000.00	13,250,000.00	29,000,000.00
Assets used for mortgage:				
Houses and buildings	20,778,351.53	0.00	20,778,351.53	0.00
Use rights of lands	0.00	0.00	0.00	0.00
<b>Total</b>	<b>36,346,112.45</b>	<b>42,696,501.88</b>	<b>36,346,112.45</b>	<b>42,696,501.88</b>

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

The company pledged the certificate of time deposit of RMB 29,000,000.00 Yuan to Zhuhai Branch of China Everbright Bank for a loan of HKD 35,000,000.00, and the mortgage period is from December 24, 2012 to December 23, 2013.

## 21 Short-term Loan

### (1) Types of short-term loans

Type	2012/12/31	2011/12/31
Credit loan	495,627,002.91	183,225,943.01
Guaranty loan	12,162,750.00	56,749,000.00
Pledgement loan	28,379,750.00	11,349,800.00
<b>Total</b>	<b>536,169,502.91</b>	<b>251,324,743.01</b>

(2) The reasons for the increase of short-term loans by 113.34% at the end of period is that, the project construction investment in this period has increased, the capital demand becomes larger and the loans increase from the pervious year.

(3) By December 31, 2012, there are no due short-term loans that have not been repaid.

(4) Guaranty loan: The Company provides the guaranty to Livzon Pharmaceutical Factory under Livzon Group for a loan of HKD 15 million from China Resources Bank of Zhuhai Co., Ltd.

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

## 22 Bills payable

### (1) classification of bills payable

Item	2012/12/31	2011/12/31
Bank acceptance bills	283,581,118.89	0.00

(2) The reason for the increase of bills payable at the end of period is that, to make the capital use become flexible, the company employs the bill mode to settle with suppliers.

(3) The acceptance period of bills payable are within 6 months, and the bills payable at the end of period will expire by June 30, 2013.

## 23. Accounts payable

### (1) Age analysis

Age	2012/12/31	2011/12/31
Within one year	287,579,679.99	193,454,334.64
Over one year	24,234,380.42	14,486,959.67
Total	311,814,060.41	207,941,294.31

(2) The reason for the increase of accounts payable by 49.95% at the end of period is that, the purchase and engineering investments have increased, and the unsettled accounts within the credit period increase.

(3) By December 31, 2012, the top 5 accounts payable are listed as follows:

Unit name	Debt amount	Nature or content	Debt date	Percentage in total amount
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	25,289,950.00	Materials expense	Within one year	8.11%
Shijiazhang Hejia Health-care Products Co., Ltd	13,366,890.04	Materials expense	Within one year	4.29%
PKU International Healthcare Group Chongqing Daxin Pharmaceutical Co.,Ltd	12,688,586.28	Materials expense	12,684,999.59Yuan within one year RMB; RMB 3,586.69 Yuan for 1-2 years	4.07%
ShandongJincheng Pharmaceutical and Chemical Co.,Ltd.	7,239,647.00	Materials expense	Within one year	2.32%

			RMB 6,884,767.56 Yuan	
Zuhai Singyes Green Building Technology Co., Ltd	7,167,218.54	Engineering expense	within one year, and RMB 282,450.98 Yuan for 1-2 years	2.30%
Total	65,752,291.86			21.09%

(4) By December 31, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

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

#### 24. Advance accounts

(1) Age analysis

Item	2012/12/31	2011/12/31
Within one year	25,949,403.61	33,046,010.58
Over one year	12,000,636.81	5,982,692.43
Total	37,950,040.42	39,028,703.01

(2) By December 31, 2012, the top 5 advance accounts are listed as follows:

Unit name	Debt amount	Nature or content	Debt date	Percentage in total amount
Yunnan Center For Disease Control and Prevention	10,751,476.47	Goods expense	Within one year	28.33%
Guangdong Center For Disease Control and Prevention	1,843,773.45	Goods expense	Within one year	4.86%
Hunan Health Department	1,452,855.76	Goods expense	Within one year	3.83%
Office of Shanxi AIDS Prevention and Treatment Working Commission	1,191,077.00	Goods expense	Within one year	3.14%
Fujian Center For Disease Control and Prevention	1,127,732.40	Goods expense	Within one year	2.97%
Total	16,366,915.08			43.13%

(3) By December 31, 2012, there are no advance accounts with the shareholder units holding over 5% (including 5%) voting rights.

#### 25. Rewards paid to the staffs

Item	2011/12/31	Increase in this period	Payment in this period	2012/12/31
Salary, bonus and allowance	48,815,691.11	269,973,768.14	248,823,828.07	69,965,631.18
Welfare expense for staffs	0.00	16,202,194.45	15,822,605.05	379,589.40
Social insurance fees	281,745.85	37,290,455.05	37,403,276.85	168,924.05
Including: medical insurance fees	72,860.78	10,707,632.24	10,729,218.41	51,274.61
Endowment Insurance	171,240.33	22,566,994.92	22,648,819.07	89,416.18
Unemployment insurance fees	24,286.93	2,125,758.22	2,129,793.45	20,251.70
Occupational Injury Insurance	4,857.39	1,057,877.81	1,060,161.50	2,573.70
Childbirth insurance	8,500.42	832,191.86	835,284.42	5,407.86
Reserves for houses	574,682.32	10,700,284.26	10,646,191.76	628,774.82
Trade union expense and staff education expense	171,725.53	996,102.57	937,445.58	230,382.52
Compensation for the cancellation of work relationship	0.00	696,771.33	696,771.33	0.00
Equity stimulation bonus of subcompanies	2,144,013.86	604,171.04	0.00	2,748,184.90
Others	341,025.15	14,400.00	14,400.00	341,025.15
<b>Total</b>	<b>52,328,883.82</b>	<b>336,478,146.84</b>	<b>314,344,518.64</b>	<b>74,462,512.02</b>

(1) The reason for the increase of rewards paid to staffs by 42.30% at the end of period is that the increase of operation performance has motivated the increase of salary levels of staffs.

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

## 26. Payable Taxes

Tax type	2012/12/31	2011/12/31
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Value-added tax	27,045,774.62	26,548,565.90
Operating tax	4,406.31	4,559.53
City construction tax	5,807,640.79	2,885,653.83
Enterprise income tax	54,609,738.48	50,742,436.32
Real estate tax	1,205,108.90	108,360.22
Utilization tax of lands	367,516.29	265,000.00
Personal income tax	2,020,320.48	6,182,013.00
Stamp tax	924,464.10	923,517.20
Education surtax	4,215,701.89	2,195,414.50
Embankment protection cost	349,356.19	225,709.21
Others	108,282.31	120,470.63
<b>Total</b>	<b>96,658,310.36</b>	<b>90,201,700.34</b>

## 27. Payable interests

Item	2012/12/31	2011/12/31
Interests for short-term financing bonds	8,146,146.10	13,658,301.36
Interests for short-term loans	2,307,858.76	3,183,191.32
<b>Total</b>	<b>10,454,004.86</b>	<b>16,841,492.68</b>

The reason for the decrease of payable dividends by 37.93% at the end of period is that the interest rate of short-term financing bonds issued in this period have decreased and the financing cost has also decreased.

## 28. Payable dividends

Investor name	2012/12/31	2011/12/31	欠款原因
Dividends for common shares	20,174.46	20,174.46	未支付

Qingyuan Enterprise Company	Xinbeijiang (Group)	1,200,710.00	1,200,710.00	未支付
Other legal person shares and personal shares in the subcompanies		1,051,300.00	1,051,300.00	未支付
Internal staff share of subcompanies		259,800.00	259,800.00	未支付
<b>Total</b>		<b>2,531,984.46</b>	<b>2,531,984.46</b>	

## 29 Other accounts payable

### (1) Age analysis

Item	2012/12/31	2011/12/31
Within one year	596,204,141.64	423,288,799.99
Over one year	25,960,061.48	37,158,755.38
<b>Total</b>	<b>622,164,203.12</b>	<b>460,447,555.37</b>

(2) At the end of period, the advance withdrawn expenses from the balance amounts to RMB 393,297,617.40 Yuan, accounting for 63.21% of the balance and are listed as follows:

Item	2012/12/31	2011/12/31	Cause for balance at the end of period
Water and electricity expense	2,985,641.37	1,974,340.58	Not paid.
Research expense	4,655,388.79	1,865,945.99	Not paid.
Business promotion expense	348,654,690.71	213,634,812.50	Not paid.
Leasing expense	14,530.00	185,652.13	Not paid.
Advertisement expense	230,588.19	1,681,539.29	Not paid.
Meeting expense	18,561,351.49	12,864,714.05	Not paid.
Auditing and	1,290,812.30	1,503,067.22	Not paid.

Item	2012/12/31	2011/12/31	Cause for balance at the end of period
information disclosure expenses			
Operating expense of branches	9,050,113.71	5,938,650.50	Not paid.
Drainage expense	97,809.00	148,959.00	Not paid.
Others	7,756,691.84	9,181,281.46	Not paid.
<b>Total</b>	<b>393,297,617.40</b>	<b>248,978,962.72</b>	

(3) The reason for the increase of the advance withdrawn expenses by 35.12% at the end of period is that the advance withdrawn expenses have increased in this period.

(4) By December 31, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

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

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

Borrowing Unit	2012/12/31	2011/12/31	Interest Rate	Loan Period	Condition
Fujian Huaqiao Trust & Investment Company	400,000.00	400,000.00	Interest-free	Not specified	Credit

### 31. Other current liabilities

Type	2012/12/31	2011/12/31
Short-term financing bonds	400,000,000.00	400,000,000.00

On July 6, 2012, the first installment of short-term financing bonds for 2012 was issued to the institution investors of national inter-bank bond market (except the purchasers who are prohibited in accordance with the national laws and regulations), and the issuing amount was RMB 400,000,000.00 Yuan.

### 32. Long-term Loans

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

Type	2012/12/31	2011/12/31
Credit loans	700,000.00	700,000.00
Mortgage and guaranty loans	0.00	500,000.00
<b>Total</b>	<b>700,000.00</b>	<b>1,200,000.00</b>

## (2) List of loan units

Loan unit	2012/12/31			Annual Interest Rate	Loan Period	Loan Conditions
	Principal	Payable Interests	Total			
Loans from non-bank financial institutions:						
				Interest-free	Not specified	Credit
Fuzhou Finance Bureau	700,000.00	0.00	700,000.00			

(3) The reason for the decrease of long-term loans by 41.67% at the end of period is that the loans have been paid in this period.

(4) By December 31, 2012, there are no due long-term loans which have not been repaid.

**33. Deferred Gains**

Item	Total Allowance		Increase in this period	Writing-off in this period	
	Amount	2011/12/31		2012/12/31	2011/12/31
Development and industrialization of Ilaprazole series of Innovation medicines	49,900,000.00	0	0.00	2,748,129.84	6
Guangdong Province Introduced the Innovation Research Team (2012) protein medicine study and industrialization team	30,000,000.00	0.00	30,000,000.00	9,382,375.72	20,617,624.28
I-type Humanized Anti-Human TNF monoclonal antibody for the purpose of treatment	11,000,000.00	0	1,000,000.00	9,729,378.16	1,270,621.84
Demonstration project of solar energy photoelectric structure application	7,010,000.00	7,010,000.00	0.00	116,833.34	6,893,166.66

Item	Total Allowance		Increase in this period	Writing-off in this period	
	Amount	2011/12/31		2012/12/31	2012/12/31
Allowance for technical reform of PVC soft packages and bid-invitation project supported by the provincial finance	4,100,000.00	3,304,217.60	0.00	194,365.80	3,109,851.80
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	394,404.00	1,577,579.00
Shenqifuzheng injection	3,535,000.00	2,435,000.00	0.00	214,407.90	2,220,592.10
Financial allowance for Shenqi quality control technologies	3,500,000.00	0.00	3,500,000.00	183,333.34	3,316,666.66
Shanxi Hunyuan Qiyuan GAP Industrialization Production Base Construction	2,500,000.00	0.00	2,500,000.00	500,000.00	2,000,000.00
Leuprorelin Acetate Microspheres and injection preparation	2,300,000.00	1,000,000.00	0.00	880,000.00	120,000.00
Sterilization and kidney-quieting capsule	2,040,000.00	808,855.64	0.00	15,667.11	793,188.53
Clinic Study Fund for new yantischizophrenic drugs Blonanserin	2,000,000.00	0.00	2,000,000.00	2,000,000.00	0.00
Three-pollen for injection	1,800,000.00	685,041.39	0.00	640,064.88	44,976.51
Development and industrialization of new antidepressant drug Fluvoxamine	1,500,000.00	1,500,000.00	0.00	1,500,000.00	0.00
Little Giant Cultivation Enterprise	1,400,000.00	1,400,000.00	0.00	1,400,000.00	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	250,000.00	1,000,000.00
Guangdong Provincial Public Service Platform Construction	1,225,300.00	0.00	1,225,300.00	1,225,300.00	0.00
5- 4-aminosalicylic acid (0001 project)	1,200,000.00	537,938.10	0.00	537,938.10	0.00
Industry research of potassium citrate sustained release pellets	1,120,000.00	450,622.12	0.00	450,622.12	0.00

Item	Total Allowance	2011/12/31	Increase in this period	Writing-off in this period	2012/12/31
	Amount				
Enzymatic technology innovation project	1,042,631.00	944,812.90	0.00	944,812.90	0.00
Allowance for quality control of Traditional Chinese Medicine injections	1,000,000.00	0.00	1,000,000.00	0.00	1,000,000.00
Absorption purified inactivated Japanese encephalitis virus vaccine	1,000,000.00	1,000,000.00	0.00	1,000,000.00	0.00
Yue Cai Gong No. 319 Provincial Hi-tech Industry Development Zone Development Guide Special Fund	1,000,000.00	0.00	1,000,000.00	150,000.00	850,000.00
Special fund for Zhuhai City strategic new industry in 2012 – industry research of Tigecycline for body injection	800,000.00	0.00	800,000.00	754,268.12	45,731.88
Enterprise innovation fund granted by the provincial financial department in 2009	700,000.00	700,000.00	0.00	700,000.00	0.00
Development of new Xueshuantong preparation RX	600,000.00	31,710.50	0.00	31,710.50	0.00
Special fund for two new products	600,000.00	0.00	600,000.00	600,000.00	0.00
Bifidoboigen preparations	600,000.00	466,205.15	0.00	466,205.15	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
Special fund for Zhuhai City strategic new industry in 2012	500,000.00	0.00	500,000.00	0.00	500,000.00
Modern Chinese medicine hi-tech innovation industrialization base construction	500,000.00	400,000.00	0.00	99,996.00	300,004.00
Electricity-saving of lighting water pump fan and air-conditioner system	350,000.00	280,000.00	0.00	69,996.00	210,004.00
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	140,757.40	0.00
Project expense for Zhuhai municipal-level enterprise	300,000.00	300,000.00	0.00	0.00	300,000.00

Item	Total Allowance	Increase in this period		Writing-off in this period	2012/12/31
	Amount	2011/12/31			
technical center					
Supporting Fund for National and Provincial Scientific and Technical Plan in 2012	250,000.00	0.00	250,000.00	0.00	250,000.00
Project expense for accurate and rapid testing technology and equipment of important harmful substance 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	171,806.50	0.00
Key technical study about intelligent monitoring management system for bottled injection plant	150,000.00	0.00	150,000.00	0.00	150,000.00
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
Development of Carbohydrate and Electrolyte Injection	110,000.00	0.00	110,000.00	0.00	110,000.00
Experiments and research about the anti-Avian influenza of antivirus granules	110,000.00	58,829.14	0.00	58,829.14	0.00
Research about high-throughput testing technology of harmful substances in Aquatic Products in Guangdong Province	80,000.00	0.00	80,000.00	0.00	80,000.00
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	33,900.00	0.00
Allowance for patent application expense in Zhuhai city in 2011	1,000.00	1,000.00	0.00	1,000.00	0.00
Others	731,500.00	490,000.00	0.00	0.00	490,000.00
	147,589,331.0	67,143,287.9	44,715,300.0		74,172,485.9
Total	0	2	0	37,686,102.02	0

#### 34. Deferred Income Tax Liabilities

Type	2012/12/31	2011/12/31
Temporary difference of payable taxes caused by the tradable financial assets	58,428.62	0.00
Temporary difference of payable taxes caused by the saleable financial assets	1,218,424.33	1,012,313.47
Temporary difference of payable taxes caused by the calculation of long-term equity investment with the equity method	1,299,636.20	889,191.40
<b>Total</b>	<b>2,576,489.15</b>	<b>1,901,504.87</b>

The reason for the increase of deferred income tax liabilities by 35.50% at the end of period is that the performance of associated enterprises has been enhanced and the temporary difference of payable taxes caused by the calculation of long-term equity investment with the equity method has increased.

### 33. Share Capital

Item	Increase or Decrease (+ or -)						Unit: share
	2011/12/31	Share-rati oning Amount	Gift share amount	Shares transferred from public reserve fund	Others	Subtotal	2012/12/31
I. Shares with trading restriction							
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
③ Internal staff shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Item	2011/12/31	Increase or Decrease (+ or -)				Subtotal	2012/12/31
		Share-rati oning Amount	Gift share amount	Shares transferred from public reserve fund	Others		
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	0.00	0.00	0.00	0.00	0.00	6,059,428
Total of non-circulation shares	6,059,428	0.00	0.00	0.00	0.00	0.00	6,059,428
II. Shares without trading restriction							
① Domestically-listed Renminbi ordinary shares	177,669,070	0.00	0.00	0.00	0.00	0.00	177,669,070
Including: Management shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
② Domestically-listed shares for overseas investors	111,993,354	0.00	0.00	0.00	0.00	0.00	111,993,354
Total of circulation shares	289,662,424	0.00	0.00	0.00	0.00	0.00	289,662,424
III. Total shares	295,721,852	0.00	0.00	0.00	0.00	0.00	295,721,852

### 36. Capital Reserve

Type	2011/12/31	Increase in this period	Decrease in this period	2012/12/31
Share				
Premium	320,792,441.78	0.00	101,682,236.10	219,110,205.68
Other Capital				
Reserve	27,300,694.63	1,167,961.50	28,468,656.13	0.00
Total	348,093,136.41	1,167,961.50	130,150,892.23	219,110,205.68

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

The decrease in this period includes: ① the company purchased 11.91% of total shares of Limin Pharmaceutical Co., Ltd under Livzon Group at the price of RMB 151,532,596.80 Yuan, and the difference of RMB 129,067,823.34 Yuan between the transfer price and corresponding equities of minority of shareholders of RMB 22,464,773.46 Yuan was offset as the capital reserve; ② In accordance with the equity transfer agreement between the company and Ding Gongcai on July 24, 2009, Ding Gongcai accepted 49% of total shares of Shanghai Livzon Pharmaceutical Co., Ltd at the price of RMB 40,449,894.58 Yuan. By the end of this year, the company has received the total of RMB 19,884,600.00 Yuan, accounting for 49% of above transfer price. This time confirms the transfer of 24.01% (49%\*49%) of equities of Shanghai Livzon Pharmaceutical Co., Ltd, and the difference of RMB 1,083,068.89 Yuan between above transfer price and corresponding shareholders' equities of RMB 20,967,668.89 Yuan was offset as the capital reserve.

### 37. Surplus Reserve

Type	2011/12/31	Increase in this period	Decrease in this period	2012/12/31
Legal Surplus Reserve	311,623,096.79	11,107,619.71	0.00	322,730,716.50
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	21,683,742.35	0.00	0.00	21,683,742.35
<b>Total</b>	<b>479,211,417.19</b>	<b>11,107,619.71</b>	<b>0.00</b>	<b>490,319,036.90</b>

### 38. Undistributed Profit

Item	2012/12/31	2011/12/31
Undistributed profit at the beginning of period	1,740,645,868.60	1,446,714,876.09
Plus: profit transfer in the current period	441,671,519.69	359,369,880.94
Other transfers	0.00	0.00

Minus: Withdrawal of Legal Surplus		
Reserve	11,107,619.71	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	0.00	0.00
Undistributed profit at the end of period	2,023,348,842.58	1,740,645,868.60

### 39. Equities of the minority of shareholders

Company name	2011/12/31		Increase or decrease in 2011			2012/12/31
	Equities of the minority of shareholders	Net profits of subcompanies	Shareholding percentage of the minority of shareholders	Profit and loss of the minority of shareholders	Other changes	Equities of the minority of shareholders
					-22,051,429.2	
Zhuhai Livzon Reagent Co., Ltd	76,961,241.09	59,829,700.42	49.00%	29,316,553.21	3	84,226,365.07
Macau Jiaanxin Limited	0.00	419,610.27	49.00%	205,609.03	0.00	205,609.03
Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	13,484,145.17	31,566,282.27	7.86%	2,481,109.79	0.00	15,965,254.96

Company name	2011/12/31		Increase or decrease in 2011			2012/12/31
	Equities of the minority of shareholders	Net profits of subcompanies	Shareholding	Profit and loss of	Other change s	Equities of the minority of shareholders
			percentage of the minority of shareholders	the minority of shareholders		
Limin Pharmaceutical Co., Ltd under Livzon Group	24,684,262.85	103,432,661.97	0.00%	7,164,241.82	7	0.00
Datong Livzon Qiyuan Medicine Co., Ltd	168,836.36	-115,015.86	7.50%	-8,626.19	0.00	160,210.17
Longxi Livzon Shenyuan Medicine Co., Ltd	334,074.90	-695,273.13	10.00%	-69,527.31	0.00	264,547.59
Zhuhai Livzon – Bai A Meng Biological Materials Co., Ltd	1,111,467.95	0.00	18.00%	0.00	0.00	1,111,467.95
Zhuhai Livzon Dankang Biotechnology Co., Ltd	41,922,056.58	-5,906,324.31	49.00%	-2,894,098.91	0.00	39,027,957.67
Livzon Group Vaccine Engineering Co., Ltd	8,491,508.80	-12,983,412.44	16.15%	-2,096,821.11	0.00	6,394,687.69
Shanghai Livzon Pharmaceutical Co., Ltd,	0.00	12,069,192.61	24.01%	0.00	20,967,668.89	20,967,668.89
Wenshan Livzon	1,290,532.05	-1,116,042.98	49%	-546,861.06	3,036,000.00	3,779,670.99
					-29,896,265.0	172,103,440.0
Total	168,448,125.75	186,501,378.82		33,551,579.27	1	1

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.

#### 40. Operating Income and Cost

##### (1) Item list

Item	2012			2011		
	Operating Income	Operating Cost	Gross operating Profit	Operating Income	Operating Cost	Gross operating Profit
Main Business	3,923,496,825.00	1,549,903,898.38	2,373,592,926.62	3,136,340,136.09	1,377,394,362.64	1,758,945,773.45

## Other

Business	20,028,480.20	19,784,217.07	244,263.13	26,575,158.41	20,542,830.58	6,032,327.83
Total	3,943,525,305.20	1,569,688,115.45	2,373,837,189.75	3,162,915,294.50	1,397,937,193.22	1,764,978,101.28

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

Item	2012			2011		
	Income from Main Business	Cost of Main Business	Gross profit from Main Business	Income from Main Business	Cost of Main Business	Gross profit from Main Business
Western medicine preparation	1,362,014,036.96	382,397,332.27	979,616,704.69	1,145,507,860.68	337,989,364.62	807,518,496.06
Including:						
Digestive tract	300,654,654.88	39,974,429.38	260,680,225.50	261,081,284.10	37,895,488.62	223,185,795.48
Cardiac and cerebral blood vessel	142,778,622.93	33,197,437.21	109,581,185.72	119,122,158.35	31,589,017.60	87,533,140.75
Antimicrobial drugs	273,858,562.52	87,718,635.78	186,139,926.74	300,085,861.76	108,101,855.79	191,984,005.97
Gonadotropic hormone	458,128,077.44	158,953,042.70	299,175,034.74	330,015,436.27	112,727,520.84	217,287,915.43
Others	186,594,119.19	62,553,787.20	124,040,331.99	135,203,120.20	47,675,481.77	87,527,638.43
Chinese traditional drug preparation	1,383,249,300.22	296,754,005.65	1,086,495,294.57	931,842,572.99	246,091,235.10	685,751,337.89
Raw material drugs	834,638,276.57	711,885,932.47	122,752,344.10	777,307,065.52	662,459,357.75	114,847,707.77
Diagnostic reagents and equipments	341,161,298.44	158,441,487.78	182,719,810.66	274,767,123.05	129,514,281.68	145,252,841.37
Imported drugs	2,433,912.81	425,140.21	2,008,772.60	6,915,513.85	1,340,123.49	5,575,390.36

Total	3,923,496,825.00	1,549,903,898.38	2,373,592,926.62	3,136,340,136.09	1,377,394,362.64	1,758,945,773.45
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(2) The main business is classified according to the regions

Item	2012			2011		
	Income from Main	Cost of Main	Gross profit from	Income from Main	Cost of Main	Gross profit from
	Business	Business	Main Business	Business	Business	Main Business
Domestic	3,576,612,422.97	1,296,208,890.00	2,280,403,532.97	2,842,806,447.24	1,169,973,215.05	1,672,833,232.19
Export	346,884,402.03	253,695,008.38	93,189,393.65	293,533,688.85	207,421,147.59	86,112,541.26
Total	3,923,496,825.00	1,549,903,898.38	2,373,592,926.62	3,136,340,136.09	1,377,394,362.64	1,758,945,773.45

(3) Sales volume of top 5 clients

Client Name	2012		2011	
	Sales Volume	Percentage of Total Sales Volume (%)	Sales Volume	Percentage of Total Sales Volume (%)
Total sales volume of top 5 clients	293,689,503.43	7.45%	265,435,634.14	8.39%

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

Item	2012		2011	
	Incomes from Other Businesses	Costs of Other Businesses	Incomes from Other Businesses	Costs of Other Businesses
Sales of raw materials	8,943,220.10	11,713,500.65	7,712,669.69	4,924,616.95
Processing expense	820,662.47	1,897,640.42	1,234,243.80	1,388,503.44
Leasing expense	3,206,924.21	194,129.00	3,271,502.35	103,489.50
Inspection expense	3,846.16	0.00	165,330.23	438,389.58

Power expenses	6,025,535.16	5,832,748.11	13,300,326.83	13,485,011.02
Others	1,028,292.10	146,198.89	891,085.51	202,820.09
Total	20,028,480.20	19,784,217.07	26,575,158.41	20,542,830.58

#### 41. Business Tax and Surtax

Item	2012	2011
City construction tax	29,778,859.67	22,191,374.25
Education surtax	22,633,341.30	16,344,393.69
Embankment protection cost	1,882,826.26	1,733,702.63
Business Tax	55,247.25	73,338.38
Others	195,131.50	387,606.58
Total	54,545,405.98	40,730,415.53

(1) The main cause of the increase of business tax and surtax by 33.92% over the same period of previous year is the increase of circulating tax and surtax due to the increase of sales incomes in this period.

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

#### 42. Sales expense

Item	2012	2011
Sales expense	1,441,654,242.80	970,891,282.10

The reason for the increase of sales expense by 48.49% over the same period of previous year is that the sales channels have been expanded and the market promotion expense has increased.

#### 43. Management expense

Item	2012	2011
Management expense	351,031,228.58	297,630,062.15

#### 44. Financial Expense

Item	2012	2011
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Interest payment	17,182,224.10	22,109,433.56
Minus: Interest income	40,137,267.55	42,026,922.13
Profit and loss in the exchange	188,818.88	-4,742,463.70
Formality expense charged by banks	5,644,113.81	3,936,353.75
Total	-17,122,110.76	-20,723,598.52

#### 45. Loss of asset depreciation

Item	2012	2011
Reserves for Bad Accounts	12,495,812.30	7,023,604.60
Depreciation Reserve for inventory	18,035,034.43	11,149,440.36
Depreciation Reserve for fixed assets	14,963,017.35	15,962,824.27
Total	45,493,864.08	34,135,869.23

In this period, the main causes of the increase of loss of asset depreciation by 33.27% over the same period of previous year is the increase of loss of bad accounts and depreciation reserve for inventory.

#### 46. Gains from changes of fair values

Sources of profits caused by the changes of fair values	2012	2011
Tradable financial assets	16,381,681.02	-11,083,794.52
Including: shares	16,365,634.08	-10,927,116.94
Fund	16,046.94	-156,677.58

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.

#### 47. Investment returns

Item	2012	2011
1. Returns in the holding period:	3,580,346.68	-1,485,522.49
① profits distributed by the associated or joint companies	0.00	0.00
② Tradable financial assets	996,332.31	1,204,246.70

Item	2012	2011
③ Saleable financial assets	151,818.90	27,603.44
④ Net increase or decrease of adjusted shareholders' equities of invested company at the end of year	2,432,195.47	-2,717,372.63
Including: Guangdong Blue Treasure Pharmaceutical Co. Ltd	3,518,098.34	-1,483,100.65
Tongyikangshimei Chain (Shenzhen) Co., Ltd	-1,085,902.87	-1,234,271.98
⑤ Profits from the distributions of other equity investments	0.00	0.00
Including: Guangdong Development Bank Co.Ltd	0.00	0.00
Shanghai Haixin Pharmaceutical Co., Ltd	0.00	0.00
⑥ Others	0.00	0.00
2. Returns from transfers:	556,210.12	0.00
Including: Sales of tradable financial assets	556,210.12	0.00
<b>Total</b>	<b>4,136,556.80</b>	<b>-1,485,522.49</b>

The reason for the huge increase of investment returns at the end of period is that the performance of associated enterprises has been enhanced and the investment returns by the calculation with the equity method has increased.

#### 48. Non-operating Income

##### (1) List about non-operating incomes

Item	2012	2011
Total profit of non-current asset disposal	1,012,443.94	623,272.72
Including: Profit of fixed asset disposal	1,012,443.94	623,272.72
Penalty income	15,700.00	3,700.00

Waste income	540,441.33	470,385.64
Governmental allowance	42,064,456.38	32,046,594.98
Compensation income	0.50	15,300.00
Payments that will not be paid	200,090.00	733,288.41
Others	434,721.91	2,289,771.34
<b>Total</b>	<b>44,267,854.06</b>	<b>36,182,313.09</b>

## (2) Governmental allowance

Type	2012	Source unit	Approval document
Guangdong Province Introduced the Innovation Research Team (2012) protein medicine study and industrialization team	9,382,375.72	Zhuhai Science, Industry, Trade and Information Department	Yue Cai Jiao[2012] No. 319
Development fund for Guangdong Provincial Strategic and New Industry Core Technology Breakthrough (2011) I-type treatment-purpose humanized human Tumor Necrosis Factor $\alpha$ monoclonal antibody new medicines	7,929,378.16	Zhuhai Science, Industry, Trade and Information Department/Zhuhai Finance Bureau	Yue Ke Gui Hua Zi [2011] No. 167/Zhu Ke Gong Mao Xin Ji [2012] No. 19 Yue Fa Gai Gao[2008] No.1282 Fa
Project Development and industrialization of Ilaprazole series of Innovation medicines	2,748,129.84	Zhuhai Finance Bureau	Gai Ban Gao Ji[2008] No. 2223 Yue Cai Gong[2010] No. 445
Special fund for Zhuhai Strategic and New Industries in 2012- fixed allowances for biological pharmacy and medical instruments, etc	2,000,000.00	Zhuhai Finance Bureau	Zhu Ke Gong Mao Xin Ji[2012] No.13
Clinic Study Fund for new antischizophrenic drugs Blonanserin	1,800,000.00	Zhuhai Finance Bureau	Zhu Cai Gong[2012] No. 049
Development and industrialization of new antidepressant drug Fluvoxamine	1,500,000.00	Zhuhai Finance Bureau	Zhu Cai[2010] No. 93
Little Giant Cultivation Enterprise	1,400,000.00	Shanghai Science & Technology Commission	Hu Ke[2010] No. 407
Guangdong Provincial Public Service Platform	1,225,300.00	Zhuhai Finance Bureau	Yue Cai Wai No. 56

Type	2012	Source unit	Approval document
Construction fund		Zhuhai Science, Industry, Trade	
Development and industrialization fund for Inactivated JE Vaccine Produced in Vero cells	1,000,000.00	and Information Department/Zhuhai Finance Bureau	Zhu Ke Gong Mao Xin Ji[2011] No. 16
Enzymatic technology innovation project	944,812.90	Zhuhai Finance Bureau	—
Allowance for Leuprorelin Acetate Microspheres and Injection enterprises	880,000.00	Shanghai Science & Technology Commission	Hu Ke[2011] No. 71
Allowance for daptomycin Project	800,000.00	Fuzhou Finance Bureau	Min Cai (Jiao) Zhi[2012] NO. 73
The 13 <sup>th</sup> National Patent Prize and Zhuhai Patent Prize	800,000.00	Zhuhai Science, Industry, Trade and Information Department	—
Special fund for strategic and new industries in 2012 - Industry research of Tigecycline for body injection	754,268.12	Zhuhai Finance Bureau	—
Enterprise innovation fund granted by the province in 2009	700,000.00	Zhuhai Finance Bureau	—
Three-pollen for injection	640,064.88	Zhuhai Finance Bureau	—
Refunding of rewards to guaranty enterprise for employing the disabled	624,073.02	Zhuhai Finance Bureau	—
Special funds for two new products	600,000.00	Zhuhai Finance Bureau	Yue Cai Wai No.134
5- 4-aminosalicylic acid	537,938.10	Zhuhai Finance Bureau	—
Deferred gains in settling the radix astragali GAPProject	500,000.00	Zhuhai Finance Bureau	Gong Xin Xiao Fei Han(2012) No. 138
Bifidoboigen preparations	466,205.15	Zhuhai Finance Bureau	Yue Fu[2009] No.62
Industry research of potassium citrate sustained release pellets	450,622.12	Zhuhai Finance Bureau	Yue Ke Gui Hua Zi[2009] No. 159
Demonstration project of managing the high-concentration organic wastewater	394,404.00	Zhuhai Environmental Protection Bureau	—
Financial allowance for occupational training in Pudong New Zone	299,362.22	Pudong occupational training center	Pu Cai Jiao (2011) No. 9
Scientific research & development expense in 2010	250,000.00	Zhuhai Science, Industry and Trade Bureau	Zhu Xiang Ke Gong Mao Xin Zi[2010] No. 98
Allowances for Studying Enramycin fermentation	240,000.00	Qingyuan City Science &	—

Type	2012	Source unit	Approval document
process optimization and product quality control methods		Technology Bureau	
Special fund for 2011 export credit insurance	215,697.44	Zhuhai Finance Bureau	Qing Cai Wai[2012] No. 24
Supporting fund for patent technologies	200,000.00	Zhuhai Finance Bureau	Zhu Zhi[2012] No. 32
Technical reform project of PVC soft packages	194,365.80	National Development and Reform Commission	Yue Ke Ji Zi[2007] No. 172
allocation from Shaoguan Science & Technology Bureau for Shengqifuzheng injection quality control research	183,333.34	Shaoguan City Finance Bureau/ Science & Technology Bureau	Shao Guan Cai Jiao[2011] No. 79
Process improvement of ValaciclovirHydrochloride	171,806.50	Zhuhai Finance Bureau	—
Study and application of Xueshuantong Injection UHPLC fingerprint chromatogram	170,000.00	Shaoguan City Science & Technology Bureau	—
Salvianolic acid B	140,757.40	Zhuhai Finance Bureau	—
Allowance for solar energy PV building application demonstration projects	133,662.99	Zhuhai Finance Bureau	—
Rewards for Utilizing Electricity	104,070.00	Fuzhou Finance Bureau	Min Jing Mao Yun Xing[2012] No. 323
Rewards for 2010-2011 top 10 private-owned enterprise	100,000.00	Zhuhai Finance Bureau	Zhu Ke Gong Mao Xin Ji(2012) No. 22
Rewards for Zhuhai Famous Brands in 2012	100,000.00	Zhuhai Finance Bureau	Ke Gong Mao 2012
Rewards for reviewing the hi-tech enterprise by Shanghai Jinqiao Export Processing Zone Management Commission	100,000.00	Shanghai Jinqiao Export Processing Zone Management Commission	Hu Jin Guan[2011] No. 57
Rewards for hi-tech enterprises from Fuzhou Finance Bureau	100,000.00	Fuzhou Finance Bureau	Rong Ke[2012] No. 35
Allowance for overseas patent application of Xueshuantong	100,000.00	Shaoguan City Science & Technology Bureau	—
Special expense for intellectual property protection (Guangdong Provincial Patent Prize)	100,000.00	Zhuhai Finance Bureau	Yue Cai Jiao No. 522
Modern Chinese medicine hi-tech innovation industrialization base construction	99,996.00	Shaoguan City Finance Bureau	Shao Cai Gong[2010] No. 170
Financial support from Shanghai Jinqiao Export Processing Zone Management Commission (tax	91,000.00	Shanghai Jinqiao Export Processing Zone Management	Hu Jin Guan[2011] No. 57

Type	2012	Source unit	Approval document
refunding)		Commission	
Allowance for export credit insurance	83,457.00	Fujian Branch of China Export & Credit Insurance Corporation	—
Electricity-saving of lighting, water pump, fan and air-conditioner system	69,996.00	Shaoguan City Finance Bureau	Shao Cai Gong[2010] No. 179
Rewards for utilizing the electricity	68,910.00	Gutian City Finance Bureau	Gu Zheng Wen[2012] No. 276
Allowance for energy consumption	63,976.00	Management commission of Zhuhai Bonded Area	Zhu Bao[2012] No. 16
Funds for medium and small enterprises in developing the international market in 2011	59,183.00	Zhuhai Finance Bureau	—
Experiments and research about the anti-Avian influenza of antivirus granules	58,829.14	Zhuhai Finance Bureau	—
Allowances from China Chamber of Commerce of Medicines & Health Products Importers & Exporters	170,342.00	China Chamber of Commerce of Medicines & Health Products Importers & Exporters	—
Rewards for patents in Qingyuan City in 2011	50,000.00	Qingyuan City Finance Bureau and Qingyuan City Science & Technology Bureau	Qing Cai Jiao[2012] No.14
Development fund for small and medium enterprises in international market	47,530.00	Zhuhai Finance Bureau	Yue Cai Wai(2010) No. 194
Supporting fund for technical award granted by the nation and Guangdong Province in 2010	40,000.00	Zhuhai Finance Bureau	—
Special funds for developing the market from Zhuhai Science, industry and Trade Bureau	33,900.00	Zhuhai Science, industry and Trade Bureau	—
Scientific advance prize in Qingyuan City in 2011	30,000.00	Qingyuan City Science & Technology Bureau	Qing Fu[2012] No.16
Allowances for overseas patent application	20,000.00	Zhuhai Finance Bureau	—
Sterilization and kidney-quieting capsule	15,667.11	Zhuhai Finance Bureau	Yue Ke Chan Xue Yan Zi [2009] No. 197, Zhu Ke Gong Mao Xin Ji Zi[2010] No. 5
Shenqifuzheng injection	14,407.90	Zhuhai Finance Bureau	—

Type	2012	Source unit	Approval document
allowances for social insurance and position allowance	13,229.53	Pengzhou Employment Service Administration	Cheng Wei Fa[2009] No. 26
On-line monitoring allowances for environmental protection	13,000.00	Qingyuan Environmental Protection Bureau	—
Allowances for providing the interests for imported products in Guangdong Province in 2012	12,755.00	Zhuhai Finance Bureau	Yue Cai Wai[2012] No. 100
Others	27,650.00	—	—
	42,064,456.3		
Total	8		

#### 49. Non-operating Expense

Item	2012	2011
Total of loss for disposal of the non-current assets	1,081,686.28	161,267.88
Including: Loss for disposal of fixed assets	1,081,686.28	161,267.88
Rejection of fixed assets	1,361,457.76	558,533.79
Loss of fixed assets	0.00	3,777.78
Penalty payments	58,779.38	29,710.38
Breach payments	0.00	1,600,000.00
Public welfare donations	186,564.83	260,313.95
Non-recurring loss	0.00	28,659.94
Others	19,423.56	133,572.62
Total	2,707,911.81	2,775,836.34

#### 50. Income Tax Expenses

Item	2012	2011
Current income tax	91,786,506.53	88,574,862.74

Deferred income		
tax	-6,696,866.35	-13,222,033.02
Total	85,089,640.18	75,352,829.72

#### 51. Other comprehensive gains

Item	2012	2011
	1,374,072.3	
1. Profit (loss) caused by the saleable financial assets	6	-1,334,099.59
Minus: Income tax effect of saleable financial assets	206,110.86	-200,114.93
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	1,167,961.5	
	0	-1,133,984.66
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
Subtotal	0.00	0.00

4. Conversion difference of foreign currency financial statements	17,010.24	-3,793,341.71
Minus: Net amount that is transferred to the current profit and loss due to disposal of overseas operation	0.00	0.00
Subtotal	17,010.24	-3,793,341.71
5. Others	-1,083,068.89	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	-1,083,068.89	0.00
Total	101,902.85	-4,927,326.37

For the differences between the other prices paid for selling the equity and corresponding the shareholders's equities, please see the note V. 36 for more details.

## 52. Other Cashes Received Related to the Operating Activities

Item	2012	2011
Deposit	39,225,973.77	13,987,805.15
Fund transfer	19,069,777.51	12,355,280.54
Governmental allowance	51,783,654.36	70,751,424.41
Interest income	40,137,267.55	42,026,922.13
Penalty income	15,700.00	3,700.00
Deposit	1,340,142.13	366,250.00
Loans to staffs	10,438,892.42	5,209,512.99
Waste incomes	540,441.33	470,385.64
Compensation incomes	0.00	15,300.00
Deposits for L/C	2,317,760.92	0.00

Others	5,309,140.64	2,001,562.48
Total	170,178,750.63	147,188,143.34

### 53. Other Cashes Paid Related to the Operating Activities

Item	2012	2011
Office expense	18,019,865.34	15,940,276.70
Traveling expense	25,376,164.37	23,620,411.41
Communication expense	20,374,701.38	23,414,257.75
Water and electricity expenses	9,022,726.60	2,617,330.91
Transportation expense	41,304,690.87	24,489,683.92
Advertising expense	11,751,073.80	4,479,544.00
Meeting expense	27,601,590.38	24,779,224.42
Lease expense	12,290,418.07	6,031,379.44
Maintenance expense	4,169,729.47	10,661,505.19
Environment Protection Cost	931,254.03	490,173.00
Auditing expense and information disclosure expense	2,874,219.19	2,856,552.04
Insurance	1,282,214.61	1,663,997.05
Meeting expense of Board of Directors	797,816.14	206,781.54
Consultancy expense of consultants	2,295,852.53	2,419,393.15
Research and development expense	43,506,598.49	50,505,049.58
Lawsuit expense	278,751.00	464,313.55
Bid-invitation expense	1,738,696.35	1,048,975.89

Item	2012	2011
Testing and inspection expenses	1,398,357.95	487,320.23
Formality expenses charged by banks	5,644,113.81	3,936,353.75
Penalty payment	58,779.38	29,710.38
Reserve fund	40,159,446.52	16,799,794.93
Deposit	31,471,615.38	3,354,065.56
Fund transfer	23,063,626.24	19,413,568.39
Business promotion expense	1,095,658,880.09	697,336,904.63
Deposits for L/C and bank acceptance drafts	13,696,501.88	2,317,760.92
Transfer royalty of technologies	2,568,340.02	1,726,717.36
Others	18,703,888.40	21,921,839.86
<b>Total</b>	<b>1,456,039,912.29</b>	<b>963,012,885.55</b>

#### 54. Other Cashes Received Related to the Financing activities

Item	2012	2011
Release of pledged deposits	13,250,000.00	6,200,000.00

#### 55. Other Cashes Paid Related to the Financing Activities

Item	2012	2011
Formality fees of issuing the bonds	1,850,000.00	1,600,000.00
Mortgaged deposits	29,000,000.00	0.00
<b>Total</b>	<b>30,850,000.00</b>	<b>1,600,000.00</b>

**56. Supplementary Data of Consolidated Cash Flow Statement**

## (1) Supplementary data of cash flow statement

Item	2012	2011
1. Reconciliation of net profit to cash flow from operating activities:		
Net profits	475,223,098.96	387,798,400.81
Plus: Reserve for asset depreciation	45,493,864.08	34,135,869.23
Fixed asset depreciation, consumption of oil and gas assets and production biology asset depreciation	131,640,099.15	124,764,764.47
Amortization of intangible assets	20,347,091.49	16,222,386.69
Amortization of long-term amortization expense and long-term assets	7,964,467.60	4,086,852.83
Loss in disposal of fixed assets, intangible assets and other long-term assets (the profits will be listed beginning with "-")	69,242.34	-458,227.06
Loss in the rejection of fixed assets (the profits will be listed beginning with "-")	1,361,457.76	558,533.79
Loss in the changes of fair values (the profits will be listed beginning with "-")	-16,381,681.02	11,083,794.52
Financial expense (the profits will be listed beginning with "-")	16,401,356.41	17,366,969.86
Investment loss (the profits will be listed beginning with "-")	-4,136,556.80	1,485,522.49
Decrease of deferred income tax assets (the increase will be listed beginning with "-")	-7,165,739.77	-13,049,004.61
Increase of deferred income tax liabilities (the decrease will be listed beginning with "-")	468,873.42	-173,028.41
Decrease of inventory (the increase will be listed beginning with "-")	-140,110,192.61	14,642,159.71
Decrease of receivable operating items (the increase will be listed beginning with "-")	-288,247,037.53	-82,425,460.57
Increase of payable operating items (the decrease will be listed beginning with "-")	351,036,320.82	192,161,802.83
Others	0.00	0.00
Net amount of cash flow from the operating activities	593,964,664.30	708,201,336.58
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

Item	2012	2011
Financing leasing of fixed assets	0.00	0.00
3.Change of cash and cash equivalents:		
Cash balance at the end of period	1,178,636,300.52	1,432,175,794.78
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	-253,539,494.26	587,693,937.19

## (2) Cash and Cash Equivalents

Item	2012/12/31	2011/12/31
I. Cash	1,178,636,300.52	1,432,175,794.78
Including: Cash at stock	134,187.07	232,609.61
Deposits in banks that may be used for payment randomly	1,175,722,004.87	1,429,491,276.37
Other Currency Capitals that may be used for payment randomly	2,780,108.58	2,451,908.80
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	1,178,636,300.52	1,432,175,794.78

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

### 1. Accounts Receivable

(1) Composition of accounts receivable

Item	2012/12/31				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	377,303,477.50	100.00%	20,359,295.33	356,944,182.17	270,476,668.72	100.00%	14,994,542.64	255,482,126.08
Accounts receivable whose individual amount is not large but whose individual bad debt reserve is withdrawn	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>377,303,477.50</b>	<b>100.00%</b>	<b>20,359,295.33</b>	<b>356,944,182.17</b>	<b>270,476,668.72</b>	<b>100.00%</b>	<b>14,994,542.64</b>	<b>255,482,126.08</b>

(2) The reason for the increase of accounts receivable by 37.69% at the end of period is that the accounts receivable cycle of this company is extended due to the downturn of raw material medicines and slowdown of lower-reaches accounts receivable.

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

Age	2012/12/31				2011/12/31			
	Amount	Percentage	Reserves for Bad debts	Net Value	Amount	Percentage	Reserves for Bad debts	Net Value
Within 1 year	370,544,400.26	98.21%	18,527,220.02	352,017,180.24	266,388,981.02	98.49%	13,319,449.05	253,069,531.97
1-2 years	4,525,851.18	1.20%	271,551.08	4,254,300.10	1,569,775.19	0.58%	94,186.51	1,475,588.68
2-3 years	536,357.54	0.14%	107,271.51	429,086.03	959,063.29	0.35%	191,812.66	767,250.63

Over 3

years	1,696,868.52	0.45%	1,453,252.72	243,615.80	1,558,849.22	0.58%	1,389,094.42	169,754.80
Total				356,944,182.1	270,476,668.7			255,482,126.0
	377,303,477.50	100.00%	20,359,295.33	7	2	100.00%	14,994,542.64	8

(4) By December 31, 2012, the top 5 accounts receivable are listed as follows:

Debtor Name	Relationship with this company	Debt Amount	Nature or Content	Debt Time	Percentage in Total Amount
Shanghai Sifu Medicine Co., Ltd	Non-associated party	12,479,023.50	goods expense	Within one year	3.31%
Chongqing Pharmaceutical Xinte Medicine Co., Ltd	Non-associated party	10,833,419.40	goods expense	Within one year	2.87%
Shanghai Pharmaceutical Co., Ltd	Non-associated party	10,515,109.30	goods expense	Within one year	2.79%
Sinopharm Group Co. Ltd.	Non-associated party	9,787,618.00	goods expense	Within one year	2.59%
Guangzhou Pharmaceuticals Corporation	Non-associated party	8,848,741.00	goods expense	Within one year	2.34%
Total		52,463,911.20			13.90%

(5) By December 31, 2012, there are no debts with the shareholder units holding over 5% (including 5%) voting rights.

## 1. Other Accounts Receivable

(1) Composition of other accounts receivable

Item	2012/12/31				2011/12/31			
	Amount	Percent	Reserves for age	Net Value	Amount	Percent	Reserves for age	Net Value
Accounts receivable whose individual amount is large and whose individual bad debt	660,749,892.2	4	97.93%	0.00	660,749,892.2	4	94.69%	0.00
					262,215,870.1	6		262,215,870.1

reserve is withdrawn									
Accounts receivable whose									
bad debt reserve is withdrawn			1,868,360.5				1,028,972.9		
based on the combination	13,993,483.90	2.07%	5	12,125,123.35	14,704,138.61	5.31%	0	13,675,165.71	
Accounts receivable whose									
individual amount is not large									
but whose individual bad debt									
reserve is withdrawn	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	674,743,376.1		1,868,360.5	672,875,015.5	276,920,008.7		1,028,972.9	275,891,035.8	
		4 100.00%	5		9		7 100.00%	0	7

(2) Other accounts receivable whose individual amount is large

Debtor Name	Debt Amount	Withdrawal Percentage	Cause
Ningxia Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	215,254,031.98	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	165,296,451.85	0.00	The debtor is the subcompany controlled by the company and there are no risks in receiving the debts.
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	56,714,411.00	0.00	The debtor is the subcompany controlled by the company and there are no risks in receiving the debts.
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	48,076,469.16	0.00	The debtor is the subcompany controlled by the company and there are no risks in receiving the debts.
Wenshan Livzon Panax notoginseng Plantation Co., Ltd	25,450,000.00	0.00	The debtor is the subcompany controlled by the company and there are no risks in receiving the debts.

			The debtor is the subcompany controlled by the company and there are no risks in receiving the debts.
Livzon (Hongkong) Co., Ltd	21,155,328.14	0.00	
			The debtor is the subcompany controlled by the company and there are no risks in receiving the debts.
Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group	5,045,864.19	0.00	
<b>Total</b>	<b>660,749,892.24</b>		

(3) The reason for the increase of other accounts receivable by 143.89% at the end of period is that the fund transfer to subcompanies has increased.

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

Age	2012/12/31				2011/12/31			
	Amount	Percentage	Reserves for Bad debts	Net Value	Amount	Percentage	Reserves for Bad debts	Net Value
Within 1 year	6,220,199.01	44.45%	311,009.95	5,909,189.06	8,540,247.17	58.08%	413,432.33	8,126,814.84
1-2 years	1,657,323.91	11.84%	99,439.43	1,557,884.48	5,436,373.37	36.97%	326,182.40	5,110,190.97
2-3 years	5,691,933.94	40.68%	1,138,386.79	4,553,547.15	481,003.78	3.27%	96,200.76	384,803.02
Over 3 years	424,027.04	3.03%	319,524.38	104,502.66	246,514.29	1.68%	193,157.41	53,356.88
<b>Total</b>	<b>13,993,483.90</b>	<b>100.00%</b>	<b>1,868,360.55</b>	<b>12,125,123.35</b>	<b>14,704,138.61</b>	<b>100.00%</b>	<b>1,028,972.90</b>	<b>13,675,165.71</b>

(5) By December 31, 2012, the top 5 other accounts receivable are listed as follows:

Debtor Name	Relationship with this company	Debt Amount	Nature or Content	Debt Time	Percentage in Total Amount
Ningxia Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	Subcompany	215,254,031.98	Fund transfer	Within 1 year	31.90%
Ningxia Fuxing Pharmaceutical Co., Ltd under Livzon Group	Subcompany	165,296,451.85	Fund transfer	Within 1 year	24.50%

	Subcompany	123,757,335.9	Fund		
Antao Development Limited		2	transfer	Within 1 year	18.34%
Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	Subcompany	56,714,411.00	Fund		
			transfer	Within 1 year	8.41%
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	Subcompany	48,076,469.16	Fund		
			transfer	Within 1 year	7.12%
		609,098,699.9			
Total		1			90.27%

(6) By December 31, 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	2012/12/31			2011/12/31		
	Book Balance	Depreciation Reserve	Book Values	Book Balance	Depreciation Reserve	Book Values
Calculation by Cost Method	1,686,876,475.0	39,071,307.03	1,647,805,168.0	1,553,147,547.1	39,071,307.03	1,514,076,240.1
Calculation by Equity Method	13,491,031.22	1,200,000.00	12,291,031.22	13,795,134.46	1,200,000.00	12,595,134.46
Total	1,700,367,506.2	40,271,307.03	1,660,096,199.2	1,566,942,681.6	40,271,307.03	1,526,671,374.5

(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	2012/12/31
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

Name of Invested Units	Initial Amount	2011/12/31	Increase in this period	Decrease in this period	2012/12/31
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 Development Co., Ltd	800,000.00	800,000.00	0.00	0.00	800,000.00
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., Ltd,	170,872,457.35	170,872,457.35	0.00	0.00	170,872,457.35
Shanghai Livzon Pharmaceutical Co., Ltd,	74,229,565.00	74,229,565.00	0.00	20,967,668.89	53,261,896.11
Zhuhai Modern Chinese Medicine Hi-tech Co., Ltd	4,539,975.00	4,539,975.00	0.00	0.00	4,539,975.00
Livzon Medicine Institute under Livzon Group	6,004,000.00	6,004,000.00	0.00	0.00	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 under Livzon Group	116,446,982.80	116,446,982.80	0.00	0.00	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 under Livzon Group	12,008,000.00	12,008,000.00	0.00	0.00	12,008,000.00
Limin Pharmaceutical Co., Ltd under Livzon Group	32,768,622.72	32,768,622.72	151,532,596.80	0.00	184,301,219.52
Zhuhai Livzon Medicine Trade Co., Ltd	40,020,000.00	40,020,000.00	0.00	0.00	40,020,000.00
Fuzhou Fuxing Pharmaceutical Co.,	190,075,938.00	280,769,410.50	0.00	0.00	280,769,410.50

Name of Invested Units	Initial Amount	2011/12/31	Increase in this period	Decrease in this period	2012/12/31
Ltd under Livzon Group					
Zhuhai Livzon Dankang Biotechnology Co., Ltd	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
Ningxia Fuxing Pharmaceutical Co., Ltd under Livzon Group	90,000,000.00	90,000,000.00	0.00	0.00	90,000,000.00
Ningxia Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	90,000,000.00	90,000,000.00	0.00	0.00	90,000,000.00
Wenshan Livzon Panax notoginseng Plantation Co., Ltd	1,530,000.00	1,530,000.00	3,164,000.00	0.00	4,694,000.00
<b>Total</b>	<b>1,461,578,653.32</b>	<b>1,553,147,547.15</b>	<b>154,696,596.80</b>	<b>20,967,668.89</b>	<b>1,686,876,475.06</b>

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

Name of Invested Units	Investment Cost	2011/12/31	Increase in this period	Decrease in this period	2012/12/31	现金红利
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	781,799.63	0.00	7,547,732.38	0.00
Tongyikangshimei Chain (Shenzhen) Co., Ltd						
	35,000,000.00	5,829,201.71	0.00	1,085,902.87	4,743,298.84	0.00
<b>Total</b>	<b>38,662,407.5</b>	<b>13,795,134.46</b>	<b>781,799.63</b>	<b>1,085,902.87</b>	<b>13,491,031.22</b>	<b>0.00</b>

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

Investment Project	2011/12/31	Withdrawal in this period	Transfer		2012/12/31	Withdrawal Cause
			in this period			
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	0.00	0.00	20,000,000.00	Loss
Livzon Medical Electronic Equipment (Factory) Co., Ltd	1,200,000.00	0.00	0.00		1,200,000.00	The net assets are less than zero.
Fuzhou Fuxing Pharmaceutical Co., Ltd under Livzon Group	11,200,000.00	0.00	0.00		11,200,000.00	The depreciations have occurred.
Beijing Medical Goods Joint Operation Company	100,000.00	0.00	0.00		100,000.00	The business license has been cancelled by the local administration of industry and commerce
Xinbeijiang Pharmaceutical Co., Ltd under Livzon Group	7,271,307.03	0.00	0.00		7,271,307.03	Operation loss
	40,271,307.0					
Total	3	0.00	0.00		40,271,307.03	

#### 4. Operating Income and Operating Cost

##### (1) Item lists

Item	2012	2011
------	------	------

	Operating Income	Operating Cost	Gross operating Profit	Operating Income	Operating Cost	Gross operating Profit
	1,791,955,150.4			1,345,327,902.3		
Main Business	1 815,305,789.48		976,649,360.93	9 751,583,219.82		593,744,682.57
Other Business	2,330,871.71	124,955.98	2,205,915.73	2,318,500.35	91,549.26	2,226,951.09
Total	1,794,286,022.1			1,347,646,402.7		
	2 815,430,745.46		978,855,276.66	4 751,674,769.08		595,971,633.66

The main cause of the increase of operating incomes by 33.14% over the same period of previous year is the increase of sales prices of commodities in this period.

(3) The main business is listed as follows as per the products:

Item	2012			2011		
	Operating Income of main business	Operating Cost of main business	Gross operating Profit of main business	Operating Income of main business	Operating Cost of main business	Gross operating Profit of main business
Western medicine preparation	705,955,200.53	474,989,748.99	230,965,451.54	654,425,504.55	485,270,039.98	169,155,464.57
Including:						
Digestive tract	267,156,911.63	190,459,204.98	76,697,706.65	244,456,208.28	210,387,406.09	34,068,802.19
Cardiac and cerebral blood vessel	75,658,430.10	53,288,981.00	22,369,449.10	54,528,129.34	42,477,880.69	12,050,248.65
Antimicrobial drugs	226,570,289.34	165,653,327.54	60,916,961.80	262,452,044.68	182,493,469.69	79,958,574.99
Gonadotropic hormone	2,151,871.91	1,616,457.09	535,414.82	862,415.50	650,391.63	212,023.87
Others	134,417,697.55	63,971,778.38	70,445,919.17	92,126,706.75	49,260,891.88	42,865,814.87

Chinese

traditional drug

preparation	1,083,566,037.07	339,890,900.28	743,675,136.79	683,986,883.99	264,973,056.35	419,013,827.64
Imported drugs	2,433,912.81	425,140.21	2,008,772.60	6,915,513.85	1,340,123.49	5,575,390.36
Total	1,791,955,150.41	815,305,789.48	976,649,360.93	1,345,327,902.39	751,583,219.82	593,744,682.57

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

Item	2012			2011		
	Operating Income of main business	Operating Cost of main business	Gross operating Profit of main business	Operating Income of main business	Operating Cost of main business	Gross operating Profit of main business
Domestic	1,788,293,808.67	813,089,692.65	975,204,116.02	1,343,875,755.63	750,544,916.01	593,330,839.62
Export	3,661,341.74	2,216,096.83	1,445,244.91	1,452,146.76	1,038,303.81	413,842.95
Total	1,791,955,150.41	815,305,789.48	976,649,360.93	1,345,327,902.39	751,583,219.82	593,744,682.57

(5) Sales volume of top 5 clients

Client Name	2012		2011	
	Sales Volume	Percentage of Total Sales Volume (%)	Sales Volume	Percentage of Total Sales Volume (%)
Total sales volume of top 5 clients	224,883,570.66	12.53%	128,527,733.19	9.54%

#### 44. Business Tax and Surtax

Item	Tax rate	2012	2011
Business tax	5%	0.00	18,627.52
City construction tax	7%	11,671,835.40	6,403,470.29
Education surtax	5%	8,337,025.28	4,570,784.59
Embankment protection cost	0.07%	536,995.60	330,384.72
Total		20,545,856.28	11,323,267.12

The business tax and surtax increase by 81.45% over the same period of previous year, and the main cause is listed in 41 of notes V.

## 6. Investment returns

Item	2012	2011
1. Returns in the holding period:	64,713,312.46	98,340,761.54
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	27,603.44
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	-304,103.24	-1,563,849.90
Including: Guangdong Blue Treasure Pharmaceutical Co. Ltd	781,799.63	-329,577.92
Tongyikangshimei Chain (Shenzhen) Co., Ltd	-1,085,902.87	-1,234,271.98
⑥ Investment return of subcompanies	64,865,596.80	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

Item	2012	2011
Zhuhai Livzon Advertising Co., Ltd	0.00	0.00
Zhuhai Livzon Medicine Trade Co., Ltd	0.00	0.00
Zhuhai Livzon Reagent Co., Ltd	22,950,000.00	0.00
⑦Others	0.00	0.00
2. Transfer returns:	-1,083,068.89	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	-1,083,068.89	0.00
<b>Total</b>	<b>63,630,243.57</b>	<b>98,340,761.54</b>

The reason for the decrease of investment returns by 35.30% over the same period of previous year is the decrease of bonus of subcompanies.

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

Item	2012	2011
1. Reconciliation of net profit to cash flow from operating activities:		
Net profits	111,076,197.05	135,356,735.02
Plus: Reserve for asset depreciation	17,758,281.32	5,810,982.80
Fixed asset depreciation, consumption of oil and gas assets and production biology asset depreciation	12,708,131.14	11,406,662.46
Amortization of intangible assets	10,100,630.79	7,234,918.45
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 "-")	-101,517.10	-138,714.53
Loss in the rejection of fixed assets (the profits will be listed beginning with "-")	21,806.66	4,541.75
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 "-")	10,858,078.96	13,869,336.27
Investment loss (the profits will be listed beginning with "-")	-63,630,243.57	-98,340,761.54
Decrease of deferred income tax assets (the increase will be listed beginning with "-")	-1,530,211.57	-818,714.08
Increase of deferred income tax liabilities (the decrease will be listed	0.00	0.00

Item	2012	2011
beginning with "-")		
Decrease of inventory (the increase will be listed beginning with "-")	24,150,987.33	-41,429,420.56
Decrease of receivable operating items (the increase will be listed beginning with "-")	-263,863,212.47	-58,173,079.45
Increase of payable operating items (the decrease will be listed beginning with "-")	219,387,741.85	-12,574,744.78
Others	0.00	0.00
Net amount of cash flow from the operating activities	76,936,670.39	-37,792,258.19
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	1,099,218,893.89	1,306,877,982.24
Minus: cash balance at the beginning of period	1,306,877,982.24	652,428,797.62
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	-207,659,088.35	654,449,184.62

## 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

Enterprise Name	Registered Place	Main Business	Organization Code	Relationship with the Company	Economic Nature	Legal Representative
Joicare pharmaceutical	Shenzhen	Production and	61887436-7	Parent	Company	Zhu

Group Industry  
 Co., Ltd n sales of oral liquids, company Limited Baoguo  
 medicines and (Listed  
 health-care food company)

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

Enterprise Name	2011/12/31	Increase in this period	Decrease in this period	2012/12/31
Joincare pharmaceutical Group Industry Co., Ltd	1,317,448,800	228,387,090	0.00	1,545,835,890

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

Enterprise Name	2011/12/31	Percentage (%)	Increase in this period	Decrease in this period	2012/12/31	比例(%)
Joincare pharmaceutical Group Industry Co., Ltd and its subcompanies	135,470,620	45.8101 %	4,651,970	0.00	140,122,590	47.3832 %

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

Enterprise Name	Organization Code	Relationship with the Company
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	77512952-0	Company controlled by parent

Industry Co., Ltd		company
Zhuhai Joincare Pharmaceutical Group		Company controlled by parent
Industry Co., Ltd	75788087-1	company
Health Pharmaceutical (China) Co., Ltd		Company controlled by parent
	61749891-0	company
Shenzhen Haibin Pharmaceutical Co., Ltd		Company controlled by parent
	74121715-1	company
Shenzhen Haibin Gene Engineering Co., Ltd		Company controlled by parent
	73308333-3	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	2012		2011	
	Amount	Percentage in Similar Transaction Amount (%)	Amount	Percentage in Similar Transaction Amount (%)
Zhuhai Joincare Pharmaceutical	284,443.66	0.01%		
Group Industry Co., Ltd			26,369.33	0.00%
Guangdong Blue Treasure	25,914,485.75	0.66%		
Pharmaceutical Co. Ltd			0.00	0.00%
Jiaozuo Joincare	3,076.92	0.00%		
Pharmaceutical Group Industry				
Co., Ltd			0.00	0.00%
<b>Total</b>	<b>26,202,006.33</b>	<b>0.67%</b>	<b>26,369.33</b>	<b>0.00%</b>

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

Name of Associated	2012	2011
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Parties	2012		2011	
	Amount	Percentage in Similar Transaction Amount (%)	Amount	Percentage in Similar Transaction Amount (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd	5,492,412.56	91.15%	9,147,755.19	68.78%

### ③ Purchase of commodities

Name of Associated Parties	2012		2011	
	Amount	Percentage in Similar Transaction Amount (%)	Amount	Percentage in Similar Transaction Amount (%)
Guangdong Blue Treasure Pharmaceutical Co. Ltd	5,695,958.79	0.28%	4,625,430.48	0.46%
Shenzhen Haibin Pharmaceutical Co., Ltd	4,845,110.15	0.24%	11,695,434.19	1.17%
Shenzhen Haibin Gene Engineering Co., Ltd	159,418.82	0.01%	0.00	0.00%
Joincare pharmaceutical Group Industry Co., Ltd	160,957.27	0.01%	98,358.97	0.01%
Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	79,468,360.65	3.96%	74,679,679.48	7.48%
<b>Total</b>	<b>90,329,805.68</b>	<b>4.50%</b>	<b>91,098,903.12</b>	<b>9.12%</b>

### ④ Leasing of Assets

Name of Associated Parties	2012		2011	
	Amount	Percentage in Similar Transaction Amount (%)	Amount	Percentage in Similar Transaction Amount (%)
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	251,263.13	7.84%	106,533.25	3.26%
Health Pharmaceutical (China) Co., Ltd	99,948.00	3.12%	108,277.00	3.31%
<b>Total</b>	<b>351,211.13</b>	<b>10.96%</b>	<b>214,810.25</b>	<b>6.57%</b>

## ⑤ Payments for renting

Name of Associated Parties	2012		2011	
	Amount	Percentage in Similar Transaction Amount (%)	Amount	Percentage in Similar Transaction Amount (%)
Joincare pharmaceutical Group Industry Co., Ltd	658,944.00	100%	329,472.00	100%

## ⑥ Receivable and payable balances with associated parties

Enterprise Name	2012/12/31		2011/12/31	
	Amount	Percentage	Amount	Percentage
Accounts receivable:				
Guangdong Blue Treasure Pharmaceutical Co. Ltd	8,724,846.80	1.06%	0.00	0.00%
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	19,928.25	0.00%	0.00	0.00%
<b>Total</b>	<b>8,744,775.05</b>	<b>1.06%</b>	<b>0.00</b>	<b>0.00%</b>
Advance payments:				
Shenzhen Haibin Pharmaceutical Co., Ltd	0.00	0.00%	150,000.00	0.07%
<b>Total</b>	<b>0.00</b>	<b>0.00%</b>	<b>150,000.00</b>	<b>0.07%</b>
Other accounts receivable:				
Zhuhai Joincare Pharmaceutical Group Industry Co., Ltd	26,386.99	0.04%	0.00	0.00%
Guangdong Blue Treasure Pharmaceutical Co. Ltd	942,888.96	1.59%	2,865,078.12	5.84%
<b>Total</b>	<b>969,275.95</b>	<b>1.63%</b>	<b>2,865,078.12</b>	<b>5.84%</b>
Accounts receivable:				
Guangdong Blue Treasure Pharmaceutical Co. Ltd	275.00	0.00%	300,195.00	0.14%
Shenzhen Haibin Pharmaceutical Co., Ltd	4,065,860.00	1.30%	0.00	0.00%

Ltd

Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	25,289,950.00	8.11%	22,301,104.02	10.72%
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Total	29,356,085.00	9.41%	22,601,299.02	10.86%
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Other Accounts payable:

Jiaozuo Joincare Pharmaceutical Group Industry Co., Ltd	7,261.05	0.00%	0.00	0.00%
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Joincare pharmaceutical Group Industry Co., Ltd	878,592.00	0.14%	0.00	0.00%
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Total	885,853.05	0.14%	0.00	0.00%
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## VIII. Contingent Events

By December 31, 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

On March 22, 2012, in accordance with the 2012 annual profit distribution plan in the 6<sup>th</sup> meeting of the 7<sup>th</sup> Board of Directors, the parent company achieved the net profit of RMB 135,356,735.02 Yuan and withdrawn 10% (RMB 13,535,673.50 Yuan) as the legal reserve in accordance with relevant regulations; after adding the undistributed profit of RMB 520,995,441.67 Yuan at the beginning of year and deducting the paid dividends of RMB 29,501,900.34 Yuan in the 2011 annual profit distribution plan, the distributable but undistributed profit of the parent company in 2012 amounted to RMB 613,314,602.85 Yuan.

Based on the operation status and capital demands in the future, the company proposes the 2012 annual profit distribution plan as follows: taking the total share capital of 295,721,852 shares at the end of report period as the base, the company will distribute a cash bonus of RMB 3 Yuan to every 10 shares of all shareholders; the distributed profit of the company is expected to amount to RMB 88,716,555.60 Yuan and the remaining undistributed profit will be transferred to the next year. In this year, the company will not transfer the capital reserve to the share capital.

This proposal is to be submitted to the 2012 annual shareholders' meeting for approval.

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

## XI. 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	Balance at the end of period	Actual guarantee amount	Guarantee Amount	Guaranty type	Period
	(Signing date of agreement)					
Zhuhai Livzon Reagent Co., Ltd	2012.3.12	0.00	0.00	2,000.00	Joint and several liability guaranty	2012.3.12-2015.3.21(Zhuhai Branch of Bank of China)

Name of Guarantee	Occurrence Date	Balance at the end of period	Actual guarantee amount	Guarantee Amount	Guaranty type	Period
	(Signing date of agreement)					
Zhuhai Livzon Reagent Co., Ltd	2012.3.22	0.00	0.00	1,264.98 (USD200.00)	Joint and several liability guaranty	2012.3.22-2015.3.21(Zhuhai Branch of Standard Chartered Bank)
Zhuhai Livzon Medicine Trade Co., Ltd	2012.7.2	0.00	0.00	1,000.00	Joint and several liability guaranty	2012.7.2-2015.7.2(Zhuhai Branch of Bank of Communications)
Limin Pharmaceutical Co., Ltd under Livzon Group	2012.4.17	0.00	0.00	15,000.00	Joint and several liability guaranty	2012.4.17-2015.4.16(Zhuhai Branch of Agricultural Bank of China)
Livzon Syntpharm Co., Ltd in Zhuhai Bonded Area	2012.6.7	0.00	2,445.66 (HKD3,000.00)	3,000.00	Joint and several liability guaranty	2012.6.7-2015.6.7(China Resources Bank of Zhuhai Co., Ltd)
Livzon Pharmaceutical Factory under Livzon Group	2012.5.17	0.00	0.00	16,000.00	Joint and several liability guaranty	2012.5.17-2015.5.16(Zhuhai Branch of Xiamen International Bank)
Livzon Pharmaceutical Factory under Livzon Group	2010.12.23	0.00	50.00	32,000.00	Joint and several liability guaranty	2010.12.14-2018.12.14(Zhuhai Branch of Bank of Communications)
Livzon Pharmaceutical	2009.10.15	0.00	0.00	12,000.00	Joint and several	2010.6.12-2018.6.3(Zhuhai Branch of Bank of China)

Name of Guarantee	Occurrence Date	Balance at the end of period	Actual guarantee amount	Guarantee Amount	Guaranty type	Period
	(Signing date of agreement)					
Factory under Livzon Group					liability guaranty	
Livzon Pharmaceutical Factory under Livzon Group	2012.6.15	0.00	0.00	10,000.00	Joint and several liability guaranty	2012.6.15-2015.6.15(Zhuhai Branch of Bank of China)
Livzon Pharmaceutical Factory under Livzon Group	2010.5.13	0.00	0.00	8,316.20 (HKD10,000.00)	Joint and several liability guaranty	2010.7.20-2013.7.20(Shenzhen Branch of Nanyang Commercial Bank)
Livzon Pharmaceutical Factory under Livzon Group	2012.7.31	0.00	1,222.83 (HKD1,500.00)	4,115.80 (USD650.00)	Joint and several liability guaranty	2012.7-31-2015.7.31(Guangzhou Branch of Societe Generale)
Livzon Pharmaceutical Factory under Livzon Group	2012.6.7	1,216.28	1,216.28 (HKD1,500.00)	9,000.00	Joint and several liability guaranty	2012.6.7-2015.6.7(China Resources Bank of Zhuhai Co., Ltd)
Livzon Pharmaceutical Factory under Livzon Group	2011.8.4	0.00	4,483.71 (HKD5,500.00)	4,458.85 (HKD5,500.00)	Joint and several liability guaranty	2011.8.4-2014.8.4(Macau Branch of Wing Lung Bank)
Total guaranty amount to its controlling subcompanies in the report period			9,418.48			
Total balance of guaranty amount to its controlling subcompanies in the report period			1,216.28			

2. On July 30, 2010, the 2010 second temporary shareholders' meeting examined and approved the *Proposal of the Company on Applying for the Issuing of the Short-Term Financing Bonds* and agreed that, the company would apply the National Association of Financial Market Institutional Investors for the short-term financing bonds with the total registered amount of no more than RMB 800 million Yuan; the validity period of registration is two years, and the bonds will be issued for three times. The agricultural bank of China Limited will act as the principal underwriter.

On January 28, in accordance with Zhong Shi Xie Zhu [2011] No. CP15 Notice about Registration Acceptance issued by the National Association of Financial Market Institutional Investors, the association agreed that, the Company registered RMB 800 million Yuan of the Short-Term Financing Bonds with the National Association of Financial Market Institutional Investors; the validity period of registration is two years from the issuing date of the notice about registered amount. The agricultural bank of China Limited will act as the principal underwriter; the company may issue the short-term financing bonds in installments within the validity period. On July 6, 2012, the company issued the third installment of short-term financing bonds, and the issuing amount was RMB 400 million Yuan.

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

Unit: RMB 1000 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					
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	16,381.68	0.00	0.00	59,319.62
2. Derivative financial assets	0.00	0.00	0.00	0.00	0.00
3. Saleable financial assets	9,238.79	0.00	1,374.07	0.00	10,612.86
Subtotal of financial assets	53,581.80	16,381.68	1,374.07	0.00	69,932.48
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	53,581.80	16,381.68	1,374.07	0.00	69,932.48
Financial liabilities	0.00	0.00	0.00	0.00	0.00

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

Unit: RMB 1000 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					
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	16,365.63	0.00	0.00	58,780.09
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	269.99	64,130.63
4. Saleable financial assets	0.00	0.00	0.00	0.00	0.00
5. Investments that are held to the maturity dates	0.00	0.00	0.00	0.00	0.00
Subtotal of financial assets	105,364.51	16,365.63	0.00	269.99	122,910.72
Financial liabilities	251,449.80	0.00	0.00	0.00	248,730.85

**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:

Item	2012	2011
Profit and loss in disposal of non-current assets, including the written-off part of already withdrawn depreciation reserves	-69,242.34	462,004.84
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
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	42,064,456.38	32,046,594.98
Capital occupancy expense from the non-financial enterprises that is accrued to the current profit and loss	0.00	0.00
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	18,086,042.35	

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		-9,851,944.38
Reversion of depreciation reserves for accounts receivable whose depreciation testing have been individually made.	636,406.43	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	-435,271.79	897,876.93
Other profit and loss items that comply with the definition for non-operating profit and loss	0.00	0.00
Subtotal	60,282,391.03	23,554,532.37
Minus: effect of income tax	8,151,476.68	5,156,062.49
Effect of the minority of shareholders' equities	6,649,649.17	638,752.79
Total	45,481,265.18	17,759,717.09

## 2. Yield Rate of Net Assets and Profit Per Share

Profit in the report period	Weighted average yield rate of net asset	Profit per share (Yuan/share)	
		Basic profit per share	Profit per share after dilution
Net profit attributable to the ordinary shareholders	15.17%	1.49	1.49
Net profit attributable to the ordinary shareholders after deduction of non-recurring profit and loss	13.61%	1.34	1.34

## Calculation Steps:

## 1. Basic profit per share

Item	Calculation Steps	Amount	After deduction of non-recurring profit and loss
Current net profit attributable to the ordinary shareholders	P	441,671,519.69	396,190,254.51
Total quantity of shares in the beginning of period	S0	295,721,852	295,721,852
Increase of shares in the current period	Si	0	0
Length from the next month after share increase to the end of report period (unit: month)	Mi	0	0
Length of report period (unit: month)	M0	12	12
The weighted average number of ordinary shares which are issued to the public	$S = S0 + Si \times Mi \div M0$	295,721,852	295,721,852
Basic profit per share	$P \div S$	1.49	1.34

## 2. Diluted profit per share:

Item	Calculation Steps	Amount	After deduction of non-recurring profit and loss
Current net profit attributable to ordinary shareholders	P	441,671,519.69	396,190,254.51
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	295,721,852
Increase of shares in the current period	Si	0	0
Length from the next month after share increase to the end of report period (unit: month)	Mi	0	0
Length of report period (unit: month)	M0	12	12
The weighted average number of ordinary shares which are issued to the public	$S=S0+Si \times Mi \div M0$	295,721,852	295,721,852
Weighed average number in the conversion from diluted potential ordinary shares to ordinary shares	X	0	0
Diluted profit per share	$(P+A1 \pm A2) \div (S+X)$	1.49	1.34

### XIII. Approval of Financial Statement

This financial statement is passed and issued by the Board of Direction on March 9, 2013.

Company Name: Livzon Pharmaceutical Group Inc.

Principal of the Company:                      Principal of the Financial      Principal of the Accounting  
 Department:                                      Department:

## **Section XI: Catalog of Files for Reference**

### **I. Files for future reference:**

- 1 Accounting reports with signature and seal of legal representative, principal of Financial Department and principal of Accounting Department.
- 2 The original audit report with the seal of accountants firm and with the signature and seal of certified public accountants.
- 3 All original files and announcement manuscript that have been published in newspaper appointed by China Securities Regulatory Commission during the report period.

**Livzon Pharmaceutical Group Inc.**

**Chairman: Zhu Baoguo**

**March 9, 2013**