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丽珠医药
LIVZON

麗珠醫藥集團股份有限公司
LIVZON PHARMACEUTICAL GROUP INC.*

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

RESULTS ANNOUNCEMENT FOR THE YEAR 2013

The Board of Directors (the “**Board**”) of 麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.* (the “**Company**”) and its subsidiaries (collectively the “**Group**”) is pleased to announce the audited annual results of the Group for the year 2013 (the “**reporting period**”) which was prepared according to China Accounting Standards for Business Enterprises by the Group. This annual results announcement (the “**announcement**”) is extracted from the full text of the annual report (the “**annual report**”). Investors who wish to know more details are advised to refer to the full text of the annual report.

This announcement is published in both Chinese and English. In the event that different interpretation occurs, the Chinese version shall prevail.

1. COMPANY PROFILE

Stock Listing Information

	A Shares	H Shares (Note 1)
Stock abbreviation	Livzon Group	Livzon Pharma, 麗珠H代 (Note 2)
Stock code	000513	01513, 299902 (Note 3)
Stock exchange	The Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited (the “ Hong Kong Stock Exchange ”)

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Note 1: On 16 January 2014, our B Shares (“**Shares**”) were converted into H Shares and the H Shares were listed and traded on the Main Board of the Hong Kong Stock Exchange by way of introduction. The stock code of the original B Shares was 200513, the stock abbreviation of which was Livzon B.

Note 2, 3: The abbreviation and the stock code were only used by shareholders of original B Shares of the Company in the People’s Republic of China (the “**PRC**”) in respect of their trading of H Shares of the Company after H Shares of the Company were listed on the Hong Kong Stock Exchange.

2. THE PRINCIPAL FINANCIAL DATA AND THE FINANCIAL INDICATORS

For the year 2013, the principal financial data and the financial indicators shown in the consolidated financial statements prepared by the Group according to China Accounting Standards for Business Enterprises are as follows:

1. The principal financial data

	2013 <i>(RMB'000)</i>	2012 <i>(RMB'000)</i>	Year-on-year increase/ (decrease) <i>(%)</i>	2011 <i>(RMB'000)</i>
Total operating income	4,618,680.04	3,943,525.31	17.12%	3,162,915.29
Operating profit	590,556.92	518,752.80	13.84%	429,744.75
Profit before income tax	628,940.45	560,312.74	12.25%	463,151.23
Net profit attributable to the shareholders of the Company	487,502.35	441,671.52	10.38%	359,369.88
Net profit attributable to the shareholders of the Company after deducting the extra-ordinary profit or loss	462,159.19	396,190.25	16.65%	341,610.16
Net cash flow from operating activities	439,986.53	593,964.66	(25.92%)	708,201.34
	As at 31 December 2013 <i>(RMB'000)</i>	As at 31 December 2012 <i>(RMB'000)</i>	Year-on-year increase/ (decrease) <i>(%)</i>	As at 31 December 2011 <i>(RMB'000)</i>
Total assets	6,566,006.12	5,633,753.96	16.55%	4,602,908.98
Total liabilities	2,961,486.64	2,453,634.71	20.70%	1,591,291.15
Net assets attributable to the shareholders of the Company (Total equity attributable to the shareholders of the Company)	3,344,648.58	3,008,015.81	11.19%	2,843,169.71
Share capital <i>(RMB)</i>	295,721,852.00	295,721,852.00	–	295,721,852.00

2. Principal financial indicators

	2013	2012	Year-on-year increase/ (decrease) (%)	2011
Basic earnings per share (<i>RMB</i>)	1.65	1.49	10.74%	1.22
Diluted earnings per share (<i>RMB</i>)	1.65	1.49	10.74%	1.22
Basic earnings per share after deducting extra-ordinary profit or loss (<i>RMB</i>)	1.56	1.34	16.42%	1.16
Weighted average return on net assets (%)	15.34%	15.17%	An increase of 0.17 percentage points	13.41%
Return on total equity attributable to shareholders of the Company (%)	14.58%	14.68%	A decrease of 0.10 percentage points	12.64%
Return on total equity attributable to shareholders of the Company to total assets (%)	50.94%	53.39%	A decrease of 2.45 percentage points	61.77%
Gearing ratio (%)	45.10%	43.55%	An increase of 1.55 percentage points	34.57%

3. THE SHAREHOLDING STRUCTURE

1. As at 31 December 2013, the shareholders holding more than 5% of the Company's shares or the top 10 shareholders are as follows:

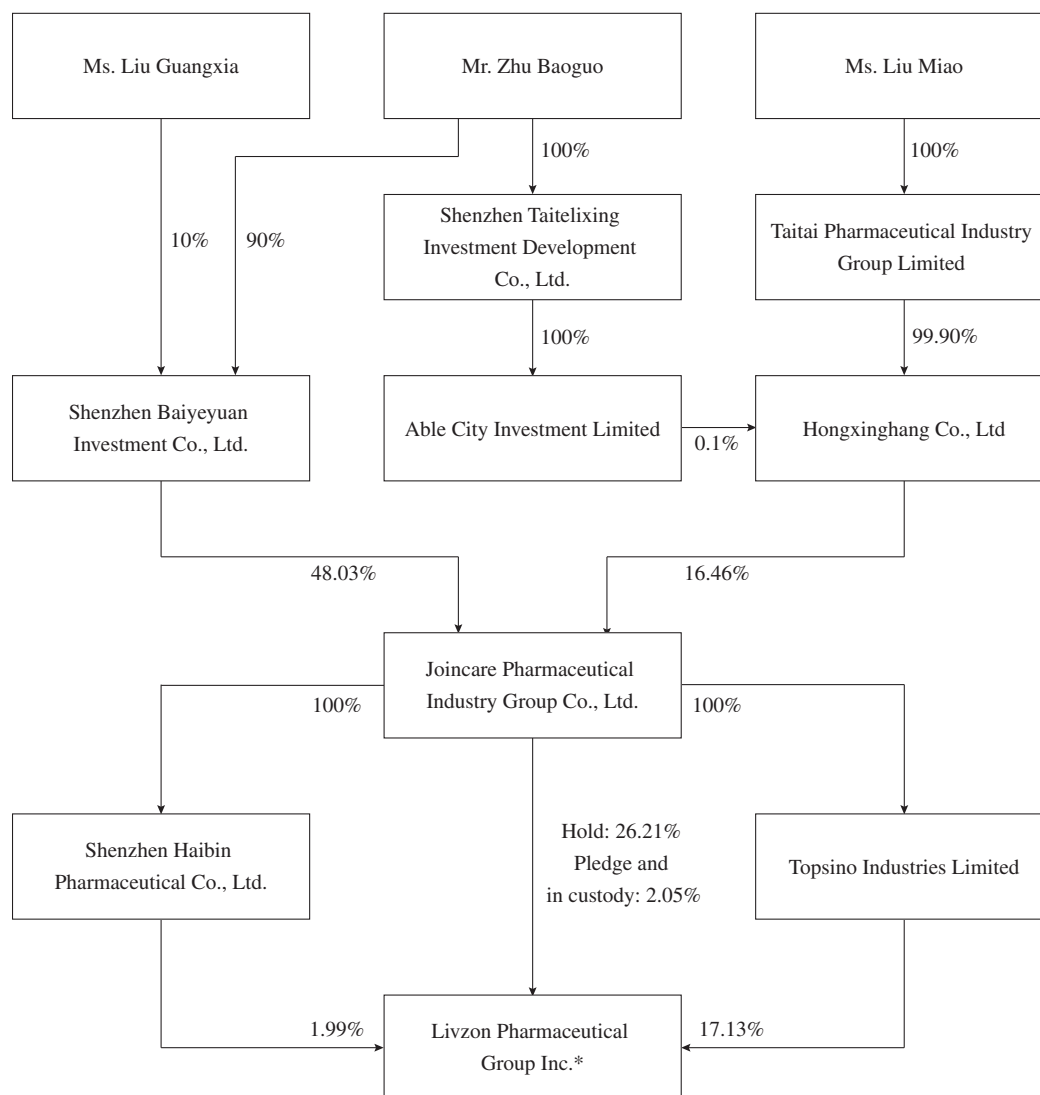
Total number of shareholders as at the end of the reporting period	18,548
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Shareholders	Nature of shares	Shareholding percentage (%)	Number of shares held as at the end of the reporting period (share)	Increase/ (Decrease) during the reporting period (share)	Number of shares with selling restrictions (share)	Number of shares without selling restrictions (share)	Number of pledged or locked up shares (share)
Joincare Pharmaceutical Industry Group Co., Ltd. (“Joincare”)	A Share	26.21%	77,510,167	–	–	77,510,167	–
Topsino Industries Limited Shenzhen A/C	B Share	17.13%	50,660,052	–	–	50,660,052	–
Gaoling Fund, L.P.	B Share	3.64%	10,767,777	–	–	10,767,777	–
First Shanghai Securities Limited	B Share	3.64%	10,751,097	19,993	–	10,751,097	–
Industrial and Commercial Bank of China – Bosera Select Equity Securities Investment Fund	A Share	2.98%	8,800,237	8,800,237	–	8,800,237	–
Guangzhou Begol Trading Corporation Shenzhen Haibin Pharmaceutical Co., Ltd.	A Share	2.05%	6,059,428	–	6,059,428	–	6,059,428
Bank of Communications – Bosera Emerging Growth Equity Securities Investment Fund	A Share	1.99%	5,892,943	–	–	5,892,943	–
Bank of Communications – Bosera Emerging Growth Equity Securities Investment Fund	A Share	1.85%	5,464,326	5,464,326	–	5,464,326	–
Agricultural Bank of China – Greatwall Anxin Return Mixed Type Securities Investment Fund	A Share	1.81%	5,362,584	(337,416)	–	5,362,584	–
Agricultural Bank of China – Penghua Power Growth Mixed Type Securities Investment Fund	A Share	1.16%	3,416,900	(5,783,082)	–	3,416,900	–

Explanation on the connection among the above shareholders or persons acting in concert

(1) Joincare, Guangzhou Begol Trading Corporation and Zhuhai Lishi Investment Co., Ltd. entered into a share transfer, custody and share pledge agreement on 2 January 2004. Joincare and Guangzhou Begol Trading Corporation entered into a share transfer and custody agreement and a share pledge agreement, pursuant to which the 6,059,428 domestic legal person shares held by Guangzhou Begol Trading Corporation have been directly transferred to, held in custody by and pledged to Joincare; (2) Topsino Industries Limited and Shenzhen Haibin Pharmaceutical Co., Ltd. are subsidiaries controlled by Joincare which directly and indirectly holds 100% interest in them; (3) Industrial and Commercial Bank of China – Bosera Select Equity Securities Investment Fund and Bank of Communications – Bosera Emerging Growth Equity Securities Investment Fund are the funds managed by Bosera Asset Management Co., Limited. (4) The Company does not know if there is any association relationship between the other top 10 shareholders or if they act as persons acting in concert under the provisions of the Acquisition of Listed Companies Management Approach (《上市公司收購管理辦法》).

2. Relationship between the Company and its beneficial owners as at the end of the reporting period



3. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the reporting period.

4. Public float

Based on the information available to the Company and within the knowledge of the directors of the Company (the “**Directors**”), the Company has maintained sufficient public float as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Hong Kong Listing Rules**”) as at the date of this announcement.

5. Pre-emptive rights

According to the Articles of Association of the Company and the relevant laws of the PRC, there is no pre-emptive right, which would oblige the Company to issue new shares to existing shareholders on a pro-rata basis.

4. REPORT OF THE DIRECTORS

Management discussion and analysis

During the reporting period, the domestic pharmaceutical market experienced ups and downs. Faced with a complex and changing market environment, the Company, under the leadership of the Board and through the concerted efforts of all staff, adhered to its established operating principles with sales as the essence, implementing precision marketing to timely adjust marketing strategies and strengthening internal management, which effectively reduced the impact of adverse external factors and promoted the sustainable growth in operating results, hence bringing the Group's operating income to new highs.

During the reporting period, the Group achieved operating income of RMB4,618.68 million, representing an increase of 17.12% when compared with RMB3,943.53 million of last year. Net profit was RMB523.99 million, representing a growth of 10.26% over RMB475.22 million of the previous year. Net profit attributable to the shareholder of the Company was RMB487.50 million, up by 10.38% year-on-year as compared with RMB441.67 million in last year. Excluding extra-ordinary items, net profit attributable to the shareholders of the Company generated from core operations in 2013 was RMB462.16 million, representing an increase of 16.65% when compared with RMB396.19 million in the previous year.

(1) Analysis of principal activities

1. Summary

During the reporting period, there was no change to the Group's core operations, primarily the research and development, production and distribution of pharmaceutical products. Our products covered drug preparation products, bulk medicines and intermediaries as well as diagnostic reagents and equipment. Major products included Chinese and Western drug preparation products such as Shengqi Fuzheng Injection (參芪扶正注射液), Bismuth Potassium Citrate Granules (麗珠得樂), Anti-viral Granules (抗病毒顆粒), Urofollitropin for Injection (麗申寶), Menotropins for Injection (樂寶得), Ilaprazole (壹麗安), Leuprorelin Acetate Microspheres for Injection (貝依), Cefodizime Sodium for Injection (康麗能), Voriconazole for Injection (麗福康) and Cefodizime Sodium for Injection (麗康樂); bulk

medicines and intermediaries such as Mevastatin (美伐他汀), Colistin (硫酸粘菌素), Phenylalanine (苯丙氨酸), Ceftriaxone Sodium (頭孢曲松鈉) and Cefodizime Sodium (頭孢地嗪鈉); and diagnostic reagent products such as ELISA HIV Testing Reagent (HIV抗體診斷試劑), MYCOII Testing Reagent (肺炎支原體抗體診斷試劑(被動凝集法)) and TPPA Testing Reagent (梅毒螺旋體抗體診斷試劑(凝集法)) .

2. Analysis for Operating Income and Costs from Principal Activities

	Operating income (RMB million)	Operating costs (RMB million)	Gross profit/(loss) margin (%)	Year-on-year increase/ (decrease) in operating income (%)	Year-on-year increase/ (decrease) in operating costs (%)	Year-on-year increase/ (decrease) in gross profit margin
(1) Western drug preparation products						
Gastrointestinal drugs	358.68	41.09	88.54%	19.30%	2.78%	Up by 1.84 percentage points
Cardio-cerebral- vascular drugs	148.09	35.33	76.14%	3.72%	6.43%	Down by 0.61 percentage points
Antibiotic drugs	279.20	71.94	74.23%	1.05%	(18.39%)	Up by 6.14 percentage points
Gonadotropic hormones	605.50	204.29	66.26%	32.17%	28.52%	Up by 0.96 percentage points
Blood and hemopoietic system drugs	30.60	31.08	(1.59%)	23.66%	28.96%	Down by 4.17 percentage points
Others	280.47	44.28	84.21%	73.29%	15.16%	Up by 7.97 percentage points
(2) Bulk medicines and intermediaries	798.58	713.21	10.69%	(4.32%)	0.19%	Down by 4.02 percentage points
(3) Chinese drug preparation products	1,658.92	331.57	80.01%	19.93%	11.73%	Up by 1.46 percentage points
(4) Diagnostic reagents and equipment	368.73	162.88	55.83%	8.08%	2.80%	Up by 2.27 percentage points
(5) Others	40.63	17.68	56.49%	–	–	–
Total	4,569.40	1,653.35	63.82%	16.46%	6.67%	Up by 3.32 percentage points

During the reporting period, the Group's principal activities generated income of RMB4,569.40 million, representing an increase of RMB645.90 million or 16.46% when compared with RMB3,923.50 million of previous year. Among which, the growth of Chinese drug preparation products and Gonadotropic Hormone products was significant, which recorded a year-on-year increase of 19.93% and 32.17% respectively. The growth in the sales of Chinese drug preparation products was mainly attributed to the boost from the increased sales of Shengqi Fuzheng Injection (參芪扶正注射液) whereas the growth in the sales of Gonadotropic Hormone products was mainly because of the increased sales of Urofollitropin for Injection (麗申寶) and Leuprorelin Acetate Microspheres for Injection (貝依). The growth in the sales of those products concerned has primarily reflected the continuous increase in the demand for such products and the Group's further reinforcement of marketing management.

During the reporting period, the Company's operating costs from principal activities amounted to RMB1,653.35 million, representing an increase of RMB103.45 million or 6.67% when compared with RMB1,549.90 million in the previous year. The increase in operating costs was well below the growth in operating income, as a result of which the Group's consolidated gross profit margin rose by 3.32 percentage points year-on-year. This was mainly due to the improvement in gross profit margins across major finished pharmaceutical products given the gradually increasing proportion of finished pharmaceutical product sales in the Group's total sales and the Company's strengthening of cost control management.

3. Business taxes and surcharges

During the reporting period, the Group's business taxes and surcharges were approximately RMB58.52 million, representing an increase of RMB3.97 million or 7.28% when compared with RMB54.55 million in previous year. The main reason was the increase in payable urban maintenance and construction taxes and educational surcharges arising from the expansion of the Group's operating scale.

4. *Expense analysis*

During the reporting period, the Group's total amount of three major expenses incurred was RMB2,232.96 million, up by RMB457.40 million or 25.76% when compared with RMB1,775.56 in the previous year. Among which, selling expenses rose 25.60% year-on-year to RMB1,810.75 million, mainly because the Group's sales growth during the reporting period resulted in a corresponding increase in the selling expenses. Administrative expenses were RMB437.29 million, up by 24.57% as compared to the same in previous year, mainly attributed to the year-on-year increase in research and development investments and the additional expenditure arising from the B-to-H Share conversion. Net financial income was RMB15.08 million, representing a decrease of RMB2.05 million or 11.95% when compared to last year. The main reasons for the decline were the year-on-year decrease in interest income for the reporting period and the growth in income taxes by 23.35% year-on-year to RMB104.95 million, primarily arising from the year-on-year growth in taxable income as a result of the growth in operating profit given the Group's good business during the reporting period.

5. *Non-operating income*

During the reporting period, the Group's non-operating income was RMB43.11 million, representing a decline of RMB1.16 million or 2.62% when compared with RMB44.27 million in previous year. This was mainly attributable to the decreased government subsidies included in the profit and loss for the reporting period.

6. *Research and development expenditure*

During the reporting period, the Group's expenditure related to research and development amounted to RMB233.06 million, accounting for 6.97% of the Group's net assets and 5.05% of the Group's total operating income for the reporting period.

During the reporting period, the Group's ongoing research projects were successfully implemented, among which, the progress of major research and development projects is set out below: for the Ilaprazole Injection (艾普拉唑針劑) project, clinical approval was obtained during the reporting period and Phase I clinical research and preparations for Phase II clinical trial were basically completed; clinical approval on Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody for Injection (注射用重組人源化抗腫瘤壞死因數 α 單克隆抗體) was obtained with clinical research program and executing hospital determined and Phase I clinical drug production completed during the reporting period; for the project on capsules for toxin degradation and kidney protection, Phase IIa clinical trial and summary analysis was completed and Phase IIb clinical research was commenced; the Sanhuafen Injection (三花粉針) project as well as the completion of complementary pharmaceutical research, efficacy validation, animal pharmacokinetic testing and human pharmacokinetic clinical research during the reporting period. Apart from the existing research and development projects, the Group introduced and self-developed two projects on monoclonal antibody drugs and two projects on Chinese drug preparations, which further enriched the Group's products under research.

During the reporting period, the Group applied for a total of 25 domestic invention patents and 11 foreign invention patents and obtained 17 domestic and foreign invention patent authorisations. The Group was granted capital funding of RMB108 million for 7 domestic and foreign patents and received two trademark registration certificates. It completed the renewal of 24 domestic and foreign registered trademarks and filed 22 trademark licences for record. It also completed new application for 7 design patents and obtained 8 design patent authorisations.

(2) Analysis of Financial Condition

1. Material Change in Assets

	As at the year end of 2013		As at the year end of 2012		Year-on-year change (%)
	Amount (RMB'000)	Proportion of total assets (%)	Amount (RMB'000)	Proportion of total assets (%)	
Cash at bank and on hand	761,044.14	11.59%	1,221,332.80	21.68%	-37.69%
Accounts receivables	1,053,350.43	16.04%	774,021.47	13.74%	36.09%
Inventories	641,649.97	9.77%	546,498.00	9.70%	17.41%
Long-term equity investments	123,764.87	1.88%	120,961.20	2.15%	2.32%
Fixed assets	1,976,910.77	30.11%	1,127,285.49	20.01%	75.37%
Construction in progress	1,082,419.10	16.49%	1,028,769.05	18.26%	5.21%

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

- (1) “Cash at bank and on hand” decreased by 37.69% year-on-year, which was mainly attributable to the increase in funds used in construction and the purchase of equipment during the reporting period.
- (2) “Accounts receivables” increased by 36.09% year-on-year, which was mainly attributable to the corresponding increase in accounts receivable as a result of an increase in sales, the sales channel consolidation which enhanced the cooperation with the distributors and reduced the customers using cash during the reporting period.
- (3) “Fixed assets” increased by 75.37%, which was mainly attributable to the transfer of construction projects in operation to fixed assets during the reporting period.

2. *Material Change in Liabilities*

	As at the year end of 2013		As at the year end of 2012		Year-on-year change (%)
	Amount (RMB'000)	Proportion of total assets	Amount (RMB'000)	Proportion of total assets	
		(%)		(%)	
Bills payables	375,775.89	5.72%	283,581.12	5.03%	32.51%
Accounts payables	435,966.09	6.64%	311,814.06	5.53%	39.82%
Short-term loans	491,084.45	7.48%	536,169.50	9.52%	-8.41%
Long-term loans	149,900.00	2.28%	700.00	0.01%	21,314.29%

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

“Bills payables” increased by 32.51% year-on-year, which was mainly attributable to the settlement of purchase amount in bills payables of the Company during the reporting period.

“Account payables” increased by 39.82% year-on-year, which was mainly due to the increase in unpaid amount in credit periods as a result of the sales volume increase, which in turn increased the purchase volume during the reporting period.

“Long-term loans” increased by 21,314.29% year-on-year, which was mainly attributable to the additions of long-term financing so as to fulfill the funds needs in construction projects and technology advancement projects.

3. *Assets and liabilities measured at fair value*

	At the beginning of the year (RMB' 000)	Gains or loss from changes in fair value for the current year (RMB' 000)	Accumulated change in fair value in equity (RMB' 000)	Provision of impairment for the current year (RMB' 000)	Purchase amount for the current year (RMB' 000)	Sales amount for the current year (RMB' 000)	At the end of the year (RMB' 000)
Financial assets							
Among others:							
1. Financial assets at fair value through profit and loss	59,319.62	-1,236.41	-	-	-	46,531.88	11,335.13
Including							
Derivative financial assets	-	-	-	-	-	-	-
2. Available-for-sale financial assets	10,612.86	-	-571.30	-	-	-	10,041.56
Sub-total for financial assets	69,932.48	-1,236.41	-571.30	-	-	46,531.88	21,376.69
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	69,932.48	-1,236.41	-571.30	-	-	46,531.88	21,376.69
Financial liabilities	-	-	-	-	-	-	-

4. Cash flow analysis

Items	2013 (RMB' 000)	2012 (RMB' 000)	Change in Year-on-year (%)
Cash inflows from operating activities	4,614,134.06	4,026,632.57	14.59%
Cash outflows from operating activities	4,174,147.53	3,432,667.91	21.60%
Net cash flows from operating activities	439,986.53	593,964.66	-25.92%
Cash inflows from investing activities	54,459.64	18,344.94	196.86%
Cash outflows from investing activities	929,024.83	913,835.04	1.66%
Net cash flows from investing activities	-874,565.18	-895,490.10	2.34%
Cash inflows from financing activities	1,439,183.91	915,507.89	57.20%
Cash outflows from financing activities	1,431,417.51	868,302.81	64.85%
Net cash flows from financing activities	7,766.40	47,205.08	-83.55%
Effects of foreign exchange rates changes on cash and cash equivalents	-895.81	780.86	-214.66%
Net increase/(decrease) in cash and cash equivalents	(427,707.57)	(253,539.50)	-68.69%

The reasons for a year-on-year change of more than 30% in the related items:

- (1) “Cash inflows from investing activities” increased by 196.86% year-on-year, which was mainly attributable to the cash received from disposal of part of the securities investments by the Company during the reporting period.

- (2) “Cash inflows from financing activities” increased by 57.32% year-on-year, which was mainly attributable to the increase in cash received by subsidiaries in the form of investment from minority shareholders during the reporting period, and the new bank loans.
- (3) “Cash outflows from financing activities” increased by 64.85% year-on-year, which was mainly attributable to the repayment of bank loans matured during the period.
- (4) “Net cash inflows from financing activities” decreased by 83.55% year-on-year, which was mainly attributable to the relatively larger year-on-year increase in the cash outflows from financing activities (please see the above for the reason) during the reporting period.
- (5) “Net increase in cash and cash equivalents” decreased by 68.69% year-on-year, which was mainly attributable to the expansion of sales scale which resulted in the increase in expenses paid in cash and tax expenses during the reporting period.
- (6) “Effects of foreign exchange rates changes on cash and cash equivalents” decreased by 214.66% year-on-year, which was mainly attributable to the appreciation of RMB during the reporting period.

6. *Liquidity and financial resources*

The liquidity and the financial position of the Group have been stable and healthy. As at 31 December 2013, the current ratio was 1.28 (2012: 1.25), the quick ratio was 1.00 (2012: 1.02). As at 31 December 2013, the cash at bank and on hand amounted to RMB761.04 million (2012: RMB1,121.33 million). The borrowings from bank amounted to RMB640.98 million (2012: RMB536.87 million), of which short-term borrowings to mature within one year amounted to RMB491.08 million (2012: RMB536.17 million, long-term borrowings to mature after one year amounted to RMB149.90 million (2012: RMB0.7 million).

7. Pledge of assets

As at 31 December 2013, the restrictions on the Group's pledge of assets were as follows:

	Closing amount	Reasons for restriction
Assets for pledge		
Other cash fund	1,019,151.39	Deposit for letter of credit
Other cash fund	<u>9,026,250.84</u>	Deposit for bankers'
		acceptances
Total	<u><u>10,115,402.23</u></u>	

8. Contingencies

As at 31 December 2013, there was no significant contingency that required to be disclosed by the Group.

9. Capital commitments

As at 31 December 2013, the Group's capital commitments contracted in relation to purchase of long-term assets amounted to RMB276.17 million (2012: RMB362.45 million).

10. Material acquisition and disposal

During the reporting period, the Group has not participated in any material acquisition or disposal.

11. Foreign exchange risk

The Group conducts its operation primarily in China. Substantially all of the transactions were denominated and settled in Renminbi. However, the Group still has certain imports and exports businesses regarding bulk medicines and diagnostic reagents and equipment, for which they are settled in U.S. dollar and Japanese Yen. The Group's businesses outside China (mainly in Hong Kong) are settled in Hong Kong dollars. In addition, the Group had loans denominated in Hong Kong dollars. As at the end of the year, the balance of loans in Hong Kong dollars amounted to HK\$306.63 million (equivalent to RMB241.08 million). In respect of the above, the Group is still exposed to certain foreign exchange risks. Taking into account the foreign exchange risks acceptable by the Group, the Group does not use derivatives to hedge foreign exchange risks. However, as to the foreign exchange risk in loans, the Group shall closely monitor the trend on the exchange rate of Renminbi, and timely adjust the extent of borrowings, so as to reduce its risks to the minimum.

Financial assets and liabilities in foreign currencies held by the Group expressed in RMB are stated below:

(1) 31 December 2013

	Hong Kong dollars items (RMB' 000)	U.S. dollars items (RMB' 000)	Euro items (RMB' 000)	Japanese Yen items (RMB' 000)	Macau dollars items (RMB' 000)
Financial assets in foreign currencies					
Cash at bank and on hand	33,220.85	18,102.66	202.45	2,741.95	1,016.77
Accounts receivables	-	103,438.59	-	1,131.26	763.25
Prepayments	-	-	-	-	-
Other receivables	324.02	-	-	-	-
Sub-total	33,544.87	121,541.25	202.45	3,873.21	1,780.02
Financial liabilities in foreign currencies					
Short-term loans	241,084.45	-	-	-	-
Accounts payables	-	2,434.48	-	-	-
Receipts in advance	-	765.63	-	-	-
Interest payables	1,131.24	-	-	-	-
Other payables	121.29	-	-	-	0.85
Sub-total	242,336.98	3,200.11	-	-	0.85

(2) 31 December 2012

	Hong Kong dollars items (RMB' 000)	U.S. dollars items (RMB' 000)	Euro items (RMB' 000)	Japanese Yen items (RMB' 000)	Macau dollars items (RMB' 000)
Financial assets in foreign currencies					
Cash at bank and on hand	15,780.14	6,497.35	244.83	185.63	78.88
Accounts receivables	–	63,074.25	–	420.11	–
Prepayments	3,811.00	–	–	–	–
Other receivables	264.91	–	–	–	–
Sub-total	19,856.05	69,571.60	244.83	605.74	78.88
Financial liabilities in foreign currencies					
Short-term loans	246,169.50	–	–	–	–
Accounts payables	–	–	–	–	–
Receipts in advance	–	348.10	–	–	–
Interest payables	2,086.28	–	–	–	–
Other payables	126.97	–	–	–	–
Sub-total	248,382.75	348.10	–	–	–

As at 31 December 2013, in respect of Group's financial assets and liabilities denominated in Hong Kong dollar, U.S. dollar, Euro, Japanese Yen, Macau dollar, should the value of RMB appreciate or depreciate by 5% against the Hong Kong dollar, U.S. dollar, Euro, Japanese Yen, Macau dollar, and other factors remain unchanged, the Group would be subject to an increase or decrease in profit of RMB4.22981 million (2012: RMB7.91869 million).

12. The operation and results of the major controlled companies

Company names	Main products or services	Shareholding		Total assets (RMB' 000)	Net assets (RMB' 000)	Net profit (RMB' 000)
		Registered capital (RMB' 000)	of the Company (%)			
Livzon Group Livzon Pharmaceutical Factory	principally engaged in the production and sale of products for chemical drugs, biochemical drugs, biochemical preparations, antibiotics produced by the company itself.	442,109.31	100%	1,952,211.46	1,160,039.15	173,195.54
Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd.	principally engaged in the research, production and sale of traditional Chinese medicine, major products include Anti-viral Granules, Dexaltin Oral Paste and etc.	149,000.00	100%	554,640.67	477,261.70	72,248.37
Livzon Group Limin Pharmaceutical Manufacturing Factory	principally engaged in the production operation of the Chinese drug preparations and pharmaceutical raw materials, major products include Shenqi Fuzheng Injection, Xueshuantong and etc.	61,561.01	100%	749,778.07	364,301.13	132,450.80
Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd.	principally engaged in the production of biochemical and polypeptide bulk medicine, major products include biological bulk medicines for HMG and Choragon.	87,328.90	75.99%	213,111.19	129,487.19	16,345.97
Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.	principally engaged in the production operation of chemical bulk medicines, major products include Cefuroxime Sodium, Cefodizime Sodium, Ceftriaxone Sodium and etc.	128,280.00	100%	473,610.84	196,449.12	3,915.23

Company names	Main products or services	Shareholding		Total assets (RMB' 000)	Net assets (RMB' 000)	Net profit (RMB' 000)
		Registered capital (RMB' 000)	of the Company (%)			
Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc.	principally engaged in the operation of the bulk medicines, intermediates products and exports of related technologies, major products include Pravastatin, Mevastatin, Salinomycin and etc.	134,925.20	92.14%	322,939.25	224,397.70	21,277.41
Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd.	principally engaged in the production of the antibiotics bulk medicines, intermediates and drug preparations and chemical raw materials for pharmaceutical production, major products include Colistin, Vancomycin and Amino Acid Phenylalanine.	USD41,700	100%	589,780.72	393,827.99	-4,971.25
Zhuhai Livzon Diagnostic Reagents Inc.	principally engaged in the production and sale of diagnostic reagents, major products include Chlamydia Trachomatis Antigen Diagnostic Kit and ELISA HIV Testing Reagents Kit.	46,450.84	51%	387,846.12	241,680.44	69,404.72

(3) Core competitiveness analysis

After years of accumulated and continuous innovation, in response to the fierce market competition, the Group has gradually formed its own core competitiveness which is primarily reflected in the following aspects:

1. A diversified product mix and core products with leading market share. The Group's products are related to a number of pharmaceutical sectors such as drug preparation products, bulk medicines and intermediaries as well as diagnostic reagents and equipment. Its core business segment, drug preparation products, has an even stronger competitive edge. The diversified product structure may allow the Group to diversify risks and maintain stable growth of operating income by adjusting sales structure at times of declining demand in one market segment. 2. A mature marketing network and relatively strong promotional capability. The Group has a marketing network with nationwide coverage and a sales force of more than 4,000 staff. Through the accumulation of experience, the Group has also formulated effective marketing and promotional measures and has built a sound marketing structure. 3. Strong research and development capability. The Group has always attached great importance to the research and development of new products and technologies. Currently, there are three major research and development teams consisting of a total of 255 staff, including 10 staff with doctor's degree and 88 staff with master's degree, to undertake research and development of chemical drug preparation products, biological drug preparation products and traditional Chinese medicine products.

(4) Profit distribution plan for the reporting period

Profit distribution plan as proposed by the Board for the Company in 2013: To distribute cash dividend of RMB5 (including taxes) to all shareholders of the Company for every 10 shares held with the Company's total equity of 295,721,852 shares as at 31 December 2013 as the base. The Company is expected to use approximately RMB147,860,926 for profit distribution and the remaining undistributed profit is to be carried forward to the next financial year. No distribution of bonus shares and no transfer of capital reserve into share capital will be undertaken in this financial year.

(5) *Future prospects*

In 2014, intense competition is seen to continue in the pharmaceutical market. The continuous deepening of healthcare structural reforms and the full-swing implementation of a new round of drug tenders, cuts in drug prices and medical insurance cost control as well as the new GMP are expected to bring new opportunities and challenges to the pharmaceutical industry. The Group will actively respond to challenges, firmly seizing market opportunities, adhering to the approach of expanding the size of sales as its essence to ensure the fulfillment of annual business targets. The Group remains committed to quality and cost control to continuously improve the competitiveness of its products. The Group will steadily promote scientific and technological research and development to lay solid foundation for the realisation of its strategic objectives. The Group will explore efficient management mechanisms to enhance efficiency of internal management. The Group's major work arrangements in 2014 are set out below:

1. Expanding the size of sales as the essence to ensure the fulfillment of annual business objectives

The year 2014 will be a year of drug tenders. More than 20 provinces are expected to conduct work on essential and non-essential drug tenders during the year. 2014 will also be a year in which the State deepens healthcare structural reforms. The Group needs to grasp opportunities and seize decisive opportunities through continuous work on market access as well as step up efforts in fundamental marketing management and other measures by further innovating the marketing model in order to ensure the fulfillment of annual business targets. Specific programs are as follows: (1) Enhance the marketing model to strengthen the motivation of marketing staff. The Group will continue to summarise and optimise the allocation of resources in its marketing model in areas such as workforce, variety, end customer and policy to enlarge the scope of promotion and, on such basis, implement the "contract-based" appraisal system by highlighting the combination and unification of "responsibility" and "benefit" to give incentive for the motivation of each marketing staff. (2) Conduct solid work on market access to lay a firm foundation for marketing. The Group will require the sales administration department to conduct conscientious drug tender research in all provinces and formulate appropriate tender programs taking into account the situation of the Group's products in order to ensure a reasonable success

rate of its major products. (3) Expand sales teams to strengthen the building of workforce. The Group will require the sales personnel department to make reasonable estimates of the number of staff needed based on product sales and market expansion plans in the new year and further expand recruitment channels to ensure that the annual demand for marketers is met. (4) The Group will make appropriate adjustment of its sales structure according to market demand and, on the basis of ensuring the growth of existing major products, strengthen marketing efforts for products with potential such as Ilaprazole (壹麗安), Cefodizime Sodium for Injection (麗康樂) and Leuprorelin Microspheres for Injection (貝依) by increasing marketing resources support to a suitable level in order to accelerate the phase of market cultivation for the gradual improvement of its market share.

2. Adhering to quality and cost control to continuously improve products competitiveness

In 2014, the Group remains committed to improve quality and strengthen cost control. It looks to gain the recognition of the majority of patients and customers on quality and effective products and reduce fixed costs to ease pressure through cost saving to improve the competitiveness of its products. Specifically, the following work needs to be done properly: (1) The Group will require the quality management and control headquarters to reinforce quality audit and environment, health and safety audit at all producers and check the rectification progress in a timely manner to prevent risks and eliminate hidden danger through quality, environment, health and safety guidance and supervision at all companies. (2) The Group will conscientiously make arrangements for international certification and China's new GMP certification according to relevant requirements to promote the improvement of quality management and control standards. (3) The Group will establish a special quality management and control database for the overall planning of resources in order to foster a higher level of quality management and control and environment, health and safety management among enterprises of the Group. (4) The Group will refine the cost assessment programs of all producers for stronger supervision over their implementation. (5) The Group will reinforce purchasing and supply management to ensure the quality of purchases and reduce procurement costs.

3. Promoting scientific and technological research and development steadily to lay the cornerstone for the long-term development of the Group

In 2014, the Group will further optimise scientific and technological resources and increase investments in research and development to ensure smooth implementation of ongoing projects, especially major scientific and technological projects such as the clinical trial of Fully Human Recombinant Humanised Anti-tumor Necrosis Factor α Monoclonal Antibody (全人源注射用重組人源化抗腫瘤壞死因數 α 單克隆抗體) and Ilaprazole Injection (艾普拉唑針劑). To ensure that the above objectives are achieved, the following work has to be undertaken well: (1) Ensure project management and audit work is properly done, project assessment systems are in place and set up special management departments responsible for such work. (2) Set up systems on internal job titles of technical positions and other items to provide technicians with promotion channels to improve their stability. (3) Reinforce the building of technical and management workforce with focus on the introduction of core talents overseas and establish various echelons to improve core competitiveness. (4) Strengthen cooperation with domestic and foreign universities and scientific and technological institutions to further improve its research and development innovation model combining independent and cooperative innovation.

4. Exploring efficient management mechanisms vigorously to continuously enhance internal management efficiency

In 2014, the Group will actively explore ways to build more efficient management mechanisms relevant to the Group's actual circumstances. It will strengthen internal efficiency, enhancing work in areas such as administrative personnel and financial information by optimizing processes and reinforcing internal control, adopting measures such as streamlining managers and management team and flattening management structure to raise the Group's internal management standards and reduce operational costs. Meanwhile, faced with the situation of uncentralised business management, relatively narrow business areas and poor resources allocation, the Group will integrate its business areas with authority and responsibility clearly defined, assessment well in place and implementing various incentive measures to achieve full decentralisation so as to increase the initiative and responsibility of its staff at all levels in promoting higher efficiency.

With tougher and more challenging tasks ahead in 2014, we are all of one mind in improving our execution capability adhering to the fundamental principle of quality and sales as the essence, deeply tapping our internal management potential and bringing greater passion to all of our staff in order to ensure the fulfillment of our 2014 business targets to achieve new heights.

5. MAJOR EVENTS

(1) Corporate Governance

During the reporting period, the Group was committed to improving the level of corporate governance. In strict accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Guidelines for Corporate Governance of Listed Companies, the Guidelines of the Shenzhen Stock Exchange for Standardized Operation of Companies Listed on the Main Board, the Hong Kong Listing Rules and other requirements of normative documents relating to the governance of listed companies announced by the securities regulatory authorities, the Group constantly improved its corporate governance structure and strengthened internal control systems to achieve higher corporate governance standards.

As the Company's H Shares were listed on the Main Board of the Hong Kong Stock Exchange on 16 January 2014 (the "**Listing Date**"), the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 14 of the Hong Kong Listing Rules does not apply to the Group during 2013. The Company has strictly complied with the code provisions set out in the Corporate Governance Code since the Listing Date.

(2) The Model Code for Securities Transactions by Directors and Supervisors

As examined and approved at the 26th Meeting for the Seventh Board convened on 31 December 2013, the Company has confirmed and adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules as its own code of conduct regarding the securities transactions in the H Shares of the Company by the Directors, supervisors and the “relevant employees” as defined in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. After making specific enquiries to all Directors and supervisors, all the Directors and supervisors of the Company have confirmed that they had complied with the standards as set out in the above code since the Listing Date.

(3) The Audit Committee

The Audit Committee of the Board consists of three independent non-executive Directors, one of whom has appropriate professional accounting qualifications. The Audit Committee has reviewed the accounting policies, accounting principles and methods adopted by the Group, and discussed with the management about the auditing, internal controls and financial reporting. The Audit Committee has also reviewed the audited financial statements for the year 2013.

(4) Staff and Remuneration

The remuneration of the staff was determined by the Group mainly based on the state policies and the Company’s economic performance, and with reference to the compensation levels across the society. As at 31 December 2013, the Group had 5,058 staff. During the reporting period, the total wages, bonuses, allowances and compensation paid to the staff by the Group was RMB374.31 million.

(5) Auditor

The financial statements of the Company and the Group for the year, which were prepared in accordance with China Accounting Standards for Business Enterprises, were audited by Ruihua Certified Public Accountants (LLP), and it issued an unqualified opinion.

The Company proposed to re-appoint Ruihua Certified Public Accountants (LLP) as the auditor of the Company for the year 2014 at the 2013 annual general meeting to be convened in 2014.

(6) Listing and trading on the Main Board of the Hong Kong Stock Exchange by way of introduction of domestic listed foreign investment shares

During the reporting period, the Company has implemented the project of change of venue of listing and trading on the Main Board of the Hong Kong Stock Exchange by way of introduction of the Company's domestic listed foreign investment shares (B Shares). On 16 January 2014, the Company's B Shares were converted into H Shares and successfully listed on the Main Board of the Hong Kong Stock Exchange by way of introduction. The listing of the Company's H Shares not only provided better protection to the interest of the shareholders of the original B Shares, but also helped enhance the international corporate image of the Company and the reputation of our brand. Meanwhile, the Company will have a broader financing platform and value realisation platform, which enabled the Company to participate in the foreign capital arrangement, making efficient financing achievable. This also allowed the Company to expand both the domestic and foreign operation and consolidate its resources. It could therefore accelerate the internationalisation process of the Company and elevate the industrial structure to a high-end, thus strengthening the overall competitiveness of the Group.

6. FINANCIAL REPORT

The Company has prepared the 2013 financial report in accordance with China Accounting Standards for Business Enterprises. Ruihua Certified Public Accountants (LLP) audited the report in accordance with China Standards on Auditing for Certified Public Accountants and issued an unqualified report.

(1) **Financial Statements**

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

1. Consolidated Balance Sheet

	<i>Notes</i>	As at the year end (RMB)	At the beginning of the year (RMB)
Current assets			
Cash at bank and on hand		761,044,135.54	1,221,332,802.40
Financial assets held for trading		11,335,125.54	59,319,616.94
Bills receivables		271,431,749.11	112,482,782.18
Accounts receivables	<i>5(1)</i>	1,053,350,426.59	774,021,470.88
Prepayments		202,437,865.84	207,180,789.68
Interest receivables		–	–
Dividends receivables		–	–
Other receivables		39,477,295.95	53,040,257.13
Inventories		641,649,965.85	546,497,999.53
Non-current assets due within one year		–	–
Other current assets		–	–
		<hr/>	<hr/>
Total current assets		<u>2,980,726,564.42</u>	<u>2,973,875,718.74</u>

	<i>Notes</i>	As at the year end (RMB)	At the beginning of the year (RMB)
Non-current assets			
Available-for-sale financial assets		10,041,559.76	10,612,859.66
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments		123,764,866.29	120,961,203.38
Investment properties		–	–
Fixed assets		1,976,910,773.96	1,127,285,485.37
Construction in progress		1,082,419,104.88	1,028,769,050.48
Construction supplies		481,529.20	1,623,576.06
Fixed assets to be disposed		–	–
Bearer biological assets		–	–
Oil and gas assets		–	–
Intangible assets		224,516,411.93	205,129,693.66
Development costs		–	1,510,153.51
Goodwill		103,040,497.85	103,040,497.85
Long-term deferred expenses		13,914,408.10	17,785,870.45
Deferred tax assets		50,190,408.52	43,159,851.98
Other non-current assets		–	–
		<hr/>	<hr/>
Total non-current assets		<u>3,585,279,560.49</u>	<u>2,659,878,242.40</u>
Total assets		<u><u>6,566,006,124.91</u></u>	<u><u>5,633,753,961.14</u></u>

1. Consolidated Balance Sheet (Continued)

	<i>Notes</i>	As at the year end (RMB)	At the beginning of the year (RMB)
Current liabilities			
Short-term loans		491,084,453.79	536,169,502.91
Financial liabilities held for trading		–	–
Bills payables		375,775,891.08	283,581,118.89
Accounts payables	5(2)	435,966,092.72	311,814,060.41
Receipts in advance		61,780,193.14	37,950,040.42
Employee benefits payables		90,493,756.24	74,462,512.02
Taxes payables		89,414,763.31	96,658,310.36
Interest payables		15,434,979.65	10,454,004.86
Dividends payables		2,531,984.46	2,531,984.46
Other payables		766,798,857.30	622,164,203.12
Non-current liabilities due within one year		400,000.00	400,000.00
Other current liabilities		–	400,000,000.00
Total current liabilities		<u>2,329,680,971.69</u>	<u>2,376,185,737.45</u>
Non-current liabilities			
Long-term loans		149,900,000.00	700,000.00
Notes payables		400,000,000.00	–
Long-term payables		–	–
Special payables		–	–
Accrued liabilities		–	–
Deferred tax liabilities		2,834,136.62	2,576,489.15
Other non-current liabilities		79,071,532.72	74,172,485.90
Total non-current liabilities		<u>631,805,669.34</u>	<u>77,448,975.05</u>
Total liabilities		<u>2,961,486,641.03</u>	<u>2,453,634,712.50</u>

	<i>Notes</i>	As at the year end (RMB)	At the beginning of the year (RMB)
Shareholders' equity			
Share capital		295,721,852.00	295,721,852.00
Capital reserve		218,364,428.76	219,110,205.68
Less: Treasury shares		–	–
Special reserve		–	–
Surplus reserve		501,196,946.97	490,319,036.90
General risks provision		–	–
Retained earnings		2,352,112,358.31	2,023,348,842.58
Translation differences of financial statements denominated in foreign currency		<u>-22,747,009.55</u>	<u>-20,484,128.53</u>
Total equity attributable to shareholders of the parent company		3,344,648,576.49	3,008,015,808.63
Non-controlling interests		<u>259,870,907.39</u>	<u>172,103,440.01</u>
Total shareholders' equity		<u>3,604,519,483.88</u>	<u>3,180,119,248.64</u>
Total liabilities and shareholders' equity		<u>6,566,006,124.91</u>	<u>5,633,753,961.14</u>

2. Consolidated Income Statement

	<i>Notes</i>	For the current year (RMB)	For the previous year (RMB)
<i>I. Total operating income</i>	<i>5(3)</i>	4,618,680,040.86	3,943,525,305.20
Including: Operating income		4,618,680,040.86	3,943,525,305.20
<i>II. Total operating costs</i>		4,031,426,221.20	3,445,290,746.13
Including: Operating costs	<i>5(3)</i>	1,694,615,109.00	1,569,688,115.45
Business taxes and surcharges		58,522,104.24	54,545,405.98
Selling expenses		1,810,747,376.60	1,441,654,242.80
Administrative expenses		437,293,065.57	351,031,228.58
Financial expenses		-15,076,696.90	-17,122,110.76
Impairment loss		45,325,262.69	45,493,864.08
Add: Gains from changes in fair value (“-” represents losses)		-1,236,410.63	16,381,681.02
Investment income (“-” represents losses)	<i>5(4)</i>	4,539,511.05	4,136,556.80
Including: Income from investment in associates and jointly controlled enterprises		2,803,662.91	2,432,195.47
<i>III. Operating profit (“-” represents losses)</i>		590,556,920.08	518,752,796.89
Add: Non-operating income	<i>5(5)</i>	43,108,434.91	44,267,854.06
Less: Non-operating expenses		4,724,901.29	2,707,911.81
Including: Losses from disposal of non-current assets		179,663.39	1,081,686.28
<i>IV. Profit before income tax (“-” represents losses)</i>		628,940,453.70	560,312,739.14
Less: Income tax expenses	<i>5(8)</i>	104,953,936.07	85,089,640.18
<i>V. Net profit (“-” represents losses)</i>		523,986,517.63	475,223,098.96
Net profit attributable to the shareholders of the parent company		487,502,351.80	441,671,519.69
Non-controlling interests		36,484,165.83	33,551,579.27

	<i>Notes</i>	For the current year (RMB)	For the previous year (RMB)
<i>VI. Earnings per share</i>	<i>5(9)</i>		
(1) Basic earnings per share		1.65	1.49
(2) Diluted earnings per share		1.65	1.49
<i>VII. Other comprehensive income for the year</i>		<u>-2,765,356.39</u>	<u>101,902.85</u>
<i>VIII. Total comprehensive income for the year</i>		<u>521,221,161.24</u>	<u>475,325,001.81</u>
Total comprehensive income attributable to the shareholders of the parent company		484,753,865.86	441,774,851.77
Total comprehensive income attributable to non-controlling interests		36,467,295.38	33,550,150.04

(2) Notes to financial statements

1. Basis of preparation for the financial statements

The financial statements have been prepared by the Company on the basis of going concern, actual transactions and events. The financial statements were prepared in accordance with the Accounting Standards for Business Enterprises – Basic Standards issued on 15 February 2006, and another 40 specific accounting standards amended and revised in 2014. The financial statements were also prepared based on the Accounting Standards for Business Enterprises – Application Guide, interpretations to the Accounting Standards for Business Enterprises and the other related provisions (together the “China Accounting Standards for Business Enterprises”), and the disclosure provisions of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2010) issued by the China Securities Regulatory Commission.

2. Changes in significant accounting policies, accounting estimates and correction to accounting errors

The accounting policies of the Company were determined according to China Accounting Standards for Business Enterprises. During the reporting period, according to the provisions of the Notice on the Issuance of “Accounting Standards for Business Enterprises No.39 – Fair Value Measurement”(CaiKuai [2014] No.6), the Notice on the Issuance of “Accounting Standards for Business Enterprises No.30 – The Presentation of Financial Statements”(revised), (CaiKuai [2014] No.7), the Notice on the Issuance of “Accounting Standards for Business Enterprises No.9 – Employee Compensation”(revised), (CaiKuai [2014] No.8), the Notice on the Issuance of “Accounting Standards for Business Enterprises No.33 – Consolidated Financial Statements”(revised), (CaiKuai [2014] No.10) and the Notice on the Issuance of “Accounting Standards for Business Enterprises No.40 – The Joint Venture Arrangements” (CaiKuai [2014] No.11), which encouraged the China enterprises listed overseas to implement the above 5 accounting standards newly issued or amended in 2014 early, it was resolved

in the 28th Meeting for the 7th Board of the Company that, the Company has implemented the above 5 accounting standards early, with effective from 1 January 2013.

The changes in accounting policies due to the implementation of the above accounting standards by the Company has not caused any impact on the financial statements for the reporting period.

There is no change in accounting estimates and correction to accounting errors of the Company during the reporting period.

3. Segmental Information

The Company has been operating one single operating segment in China, which is pharmaceutical manufacturing. Hence, the Company did not state the information of operating and geographical segments.

4. Explanation to the changes in the consolidation scope

During the reporting period, the changes in the consolidation scope included the addition of Shanghai Livzon Biotechnology Co., Ltd. and 珠海市麗珠醫藥企業管理有限公司.

Company names	Net Asset as at the year end (RMB'000)	Net Profit for the current year (RMB'000)
Shanghai Livzon Biotechnology Co., Ltd.	9,430.04	-569.96
珠海市麗珠醫藥企業管理有限公司	998.64	-1.37

5. Notes to the consolidated financial statements

(1) Accounts receivables

According to the credit policies of the Group, the Group usually grants a credit period ranging from 30 to 90 days to its customers. The ageing analysis of accounts receivables (based on dates of recognition of accounts receivables):

	As at the year end Amount (RMB)	Percentage (%)	At the beginning of the year Amount (RMB)	Percentage (%)
1 to 90 days	915,319,753.14	82.11	669,279,711.25	81.63
91 to 180 days	118,197,408.04	10.60	94,857,408.76	11.57
181 days to 1 year	42,671,189.41	3.83	32,912,686.71	4.01
1 to 2 years	28,363,181.65	2.54	14,779,414.89	1.80
2 to 3 years	4,774,679.92	0.43	3,023,759.20	0.37
Over 3 years	5,488,890.55	0.49	5,066,196.91	0.62
	<hr/>		<hr/>	
Total	1,114,815,102.71	100.00	819,919,177.72	100.00
Less: provision for bad debts	61,464,676.12		45,897,706.84	
	<hr/>		<hr/>	
	1,053,350,426.59		774,021,470.88	

(2) *Accounts Payables*

The ageing analysis of accounts payables (based on dates of recognition of accounts payables)

	As at the year end (RMB)	At the beginning of the year (RMB)
1 to 90 days	332,078,144.46	252,023,766.64
91 to 180 days	22,789,943.67	30,820,007.51
181 days to 1 year	41,623,708.26	4,735,905.84
1 to 2 years	30,018,248.59	13,987,566.61
Over 2 years	9,456,047.74	10,246,813.81
Total	<u>435,966,092.72</u>	<u>311,814,060.41</u>

(3) *Operating income and operating cost*

	Amount for the current year		
	Principal activities (RMB)	Other activities (RMB)	Sub-total (RMB)
Operating income	4,569,387,988.66	49,292,052.20	4,618,680,040.86
Operating cost	<u>1,653,344,112.06</u>	<u>41,270,996.94</u>	<u>1,694,615,109.00</u>
Gross operating profit	<u>2,916,043,876.60</u>	<u>8,021,055.26</u>	<u>2,924,064,931.86</u>

	Amount for the previous year		
	Principal	Other	Sub-total
	activities	activities	
	(RMB)	(RMB)	(RMB)
Operating income	3,923,496,825.00	20,028,480.20	3,943,525,305.20
Operating cost	<u>1,549,903,898.38</u>	<u>19,784,217.07</u>	<u>1,569,688,115.45</u>
Gross operating profit	<u><u>2,373,592,926.62</u></u>	<u><u>244,263.13</u></u>	<u><u>2,373,837,189.75</u></u>

(4) *Investment Income*

During the reporting period, the investment income received from the disposal of financial assets held for trading amounted to RMB844,328.90 (2012: RMB556,210.12).

(5) *Non-operating Income*

During the reporting period, the non-operating income received from the disposal of non-current assets amounted to RMB359,811.57 (2012: RMB1,012,443.94).

(6) *Depreciation*

During the reporting period, the depreciation of the Group amounted to RMB149,847,425.36 (2012: RMB131,640,099.15).

(7) *Interest Expenses*

	Amount for the current year (RMB)	Amount for the previous year (RMB)
Interest expenses	9,063,185.39	17,182,224.10
Capitalisation of interest	<u>41,723,173.32</u>	<u>13,799,972.48</u>
Total interest expenses	<u><u>50,786,358.71</u></u>	<u><u>30,982,196.58</u></u>

(8) *Income tax expenses*

(a) The taxes rates applicable to the Group are set out as follows:

Company names	Effective tax rate	Note
Lizhu (Hong Kong) Co., Limited (麗珠(香港)有限公司), Ando Development Limited (安滔發展 有限公司), Livzon Pharmaceutical Biotechnology Co., Limited (麗珠醫藥生 物科技有限公司)	16.5%	Policies regarding Hong Kong profits tax are applicable
Companhia de Macau Carason Limitad a (澳門嘉安信有限公司), Li Zhu (Macau) Limitada (麗珠(澳門)有限公司)	0-12%	Progressive tax rates, with a rate of 12% where the taxable income is MOP 300,000 or more
Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司), Livzon Group Limin Pharmaceutical Manufacturing Factory (麗珠集團利民製 藥廠), Livzon Group Livzon Pharmaceutical Factory (麗珠集團麗珠製藥廠), Zhuhai FTZ Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd. (珠海保稅區麗 珠合成製藥有限公司), Shanghai Livzon Pharmaceutical Manufacturing Co., Ltd. (上海麗珠製 藥有限公司), Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. (麗珠 集團新北江製藥股份有限公司), Sichuan Guangda Pharmaceutical Manufacturing Co., Ltd. (四川光大製藥有限公司), Zhuhai Livzon Diagnostic Reagents Inc. (珠海麗珠試劑股份有限公司), Livzon Group Fuzhou Fuxing Pharmaceutical Co., Ltd. (麗珠集團福州福興醫藥有限公司)	15%	Livzon Group Xinbeijiang Pharmaceutical Manufacturing Inc. and Zhuhai Livzon Diagnostic Reagents Inc. have applied for the renewal of their “High and New Technology Enterprises” status in 2013. It has since been approved, but they have not obtained the certificates of high and new technology enterprises. The other companies were recognised as high and new technology enterprises in 2011 for a valid period of three years.
Other subsidiaries	25%	

(b) Breakdown of income tax expenses

	For the current year (RMB)	For the previous year (RMB)
Current income tax calculated at statutory tax rates	111,641,150.16	91,786,506.53
Include: income tax on domestic enterprises	110,948,465.11	91,729,286.71
Income tax on Hong Kong and Macau enterprises	692,685.05	57,219.82
Adjustment of deferred income tax	-6,687,214.09	-6,696,866.35
Total	<u>104,953,936.07</u>	<u>85,089,640.18</u>

- (c) The relationships between income tax expenses and total profit are as follows

Items	For the current year (RMB)	For the previous year (RMB)
Profit before tax	628,940,453.70	560,312,739.14
Income tax calculated at statutory tax rates	157,235,113.43	140,078,184.79
Tax effect of different rates applicable to subsidiaries	678,758.33	-3,409,446.75
Effect of tax deduction	-76,372,494.55	-60,163,021.54
Effect of non-deductible expenses	2,099,603.18	1,545,866.77
Credit (charge) on temporary differences on which deferred tax assets are not recognised during the current year	9,071,931.33	265,412.31
Deductible losses of deferred tax assets that are not recognised during the current year	10,336,882.08	5,916,481.24
Use of deductible losses of deferred tax assets that are not recognised in the previous year	-673,122.56	-2,732,982.56
Others	2,577,264.83	3,589,145.92
Total	<u>104,953,936.07</u>	<u>85,089,640.18</u>

(9) *Basic earnings per share and diluted earnings per share*

- (a) The basic earnings per share and diluted earnings per share for each period are shown below

Profit for the reporting period	During the current year		During the previous year	
	basic earnings per share (RMB)	diluted earnings per share (RMB)	basic earnings per share (RMB)	diluted earnings per share (RMB)
Net profit attributable to shareholders of ordinary shares	1.65	1.65	1.49	1.49
Net profit attributable to shareholders of ordinary shares after extraordinary gains or losses	1.56	1.56	1.34	1.34

- (b) The calculation of the basic earnings per share and diluted earnings per share for each period

	Serial number	During the current year	During the previous year
Net profit attributable to shareholders of ordinary shares	A	487,502,351.80	441,671,519.69
Extraordinary gains or losses	B	25,343,166.07	45,481,265.18
Net profit attributable to shareholders of ordinary shares after extraordinary gains or losses	C=A-B	462,159,185.73	396,190,254.51
Total number of shares at the beginning of the year	D	295,721,852	295,721,852
Increases of shares due to transfer from capital reserve or share dividend during the reporting period	E	–	–
Increases of shares due to issue of new shares or conversion of debts into shares during the reporting period	F	–	–

	Serial number	During the current year	During the previous year
Accumulated number of months with increase in number of shares from the next month of the increase to the end of the reporting period	G	–	–
Decreases of shares due to shares repurchase during the reporting period	H	–	–
Accumulated number of months with decrease in number of shares from the next month of the decrease to the end of the reporting period	I	–	–
Decreases of shares due to shares consolidation during the reporting period	J	–	–
Amount of months in the reporting period	K	12	12
Weighted average number of ordinary shares issued and outstanding	$L=D+E+F*G/$ $K-H*I/K-J$	295,721,852	295,721,852
Basic earnings per share	$M=A/L$	1.65	1.49
Basic earnings per share after extraordinary gains or losses	$N=C/L$	1.56	1.34

During the reporting period, there was no potential dilutive ordinary share. Therefore diluted earnings per share is equal to basic earnings per share.

(10) Dividends

In accordance with the resolution at the Annual General Meeting held on 21 June 2013, the Company proposed a cash dividend to all shareholders of the Company of RMB0.5 per share (2012: RMB0.5 per share), amounting to a total of RMB147.860.93 million (2012: RMB 147.860.93 million) based on the 295,721,852 issued shares.

(11) *Net current assets*

	At the end of the year (RMB)	At the beginning of the year (RMB)
Current assets	2,980,726,564.42	2,973,875,718.74
Less: Current liabilities	<u>2,329,680,971.69</u>	<u>2,376,185,737.45</u>
Net current assets	<u><u>651,045,592.73</u></u>	<u><u>597,689,981.29</u></u>

(12) *Total assets less current liabilities*

	At the end of the year (RMB)	At the beginning of the year (RMB)
Total assets	6,566,006,124.91	5,633,753,961.14
Less: current liabilities	<u>2,329,680,971.69</u>	<u>2,376,185,737.45</u>
Total assets less current liabilities	<u><u>4,236,325,153.22</u></u>	<u><u>3,257,568,223.69</u></u>

(13) There is no major accounting error during the reporting period.

(14) There is no explanation from the Board and the Supervisory Committee on any non-standard audit report issued by the auditors during the reporting period.

7. CHANGE OF ADDRESS OF THE H SHARE REGISTRAR

The address of Tricor Investor Services Limited, our H Share Registrar, will change from 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, with effect from 31 March 2014. All telephone and fax numbers of the H Share Registrar will remain unchanged.

By order of the Board
麗珠醫藥集團股份有限公司
Livzon Pharmaceutical Group Inc.*
Zhu Baoguo
Chairman

Zhuhai, China
24 March 2014

As at the date of this announcement, the Executive Director of the Company is Mr. Tao Desheng (President); the Non-Executive Directors of the Company are Mr. Zhu Baoguo (Chairman), Ms. Liu Guangxia (Vice Chairman), Mr. Qiu Qingfeng and Mr. Zhong Shan; and the Independent Non-Executive Directors of the Company are Mr. Luo Xiaosong, Mr. Yang Bin, Mr. Guo Guoqing, Mr. Wang Xiaojun and Mr. Yu Xiong.

* For identification purpose only