



山東新華製藥股份有限公司  
Shandong Xinhua Pharmaceutical Company Limited

( H Share Stock Code : 0719 )

( A Share Stock Code : 000756 )

2012

Interim Report





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### Important:

The board of directors ("Board") and the directors ("Directors") of Shandong Xinhua Pharmaceutical Company Limited hereby confirm that there are no false representations, misleading statements or material omissions contained in this interim report ("Report") and they, jointly and severally, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this Report. The financial report of the Company and its subsidiaries (collectively referred to as "Group") for the six months ended 30 June 2012 (the "Reporting Period") has not been audited.

The chairman (Mr. Zhang Daiming), financial controller (Mr. Zhao Songguo) and the chief of financial department (Mr. Wang Jianxin) of the Company hereby state that the financial report of the Company for the Reporting Period is true and complete.

This Report has been prepared in both Chinese and English. In the event of any discrepancy between two versions, the Chinese version shall prevail.

## Company Information

Chinese Name of the Company	:	山東新華製藥股份有限公司
English Name of the Company	:	SHANDONG XINHUA PHARMACEUTICAL COMPANY LIMITED (the “Company” or “Xinhua Pharm”)
Legal Representative	:	Mr. Zhang Daiming
Company Secretaries	:	Mr. Cao Changqiu, Ms. Guo Lei
Telephone Number	:	86-533-2196024
Facsimile Number	:	86-533-2287508
E-mail Address of Company Secretaries	:	cqcao@xhzy.com, guolei@xhzy.com
Registered Address	:	Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, the People’s Republic of China (the “PRC”)
Office Address	:	No.1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province, the PRC
Postal Code	:	255086
Website of the Company	:	<a href="http://www.xhzy.com">http://www.xhzy.com</a>
E-mail Address of the Company	:	<a href="mailto:xhzy@xhzy.com">xhzy@xhzy.com</a>
PRC newspaper for information disclosure	:	Securities Times
Website designated by the China Securities Regulatory Commission (the “CSRC”)	:	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Listing Information		
H Shares		
Stock Exchange	:	The Stock Exchange of Hong Kong Limited (the “SEHK”)
Abbreviated Name	:	Shandong Xinhua
Stock Code	:	0719
A Shares		
Stock Exchange	:	Shenzhen Stock Exchange (the “SZSE”)
Abbreviated Name	:	Xinhua Pharm
Stock Code	:	000756



## Summary of Financial and Operating Results

### 1. FINANCIAL SUMMARY PREPARED IN CONFORMITY WITH PRC ACCOUNTING STANDARDS (RMB)

Item	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (The "End of Last Year") (Audited)	Change as compared to the End of Last Year (%)
Total assets	<b>3,398,464,127.00</b>	3,004,190,190.68	13.12
Total equity attributable to equity holders of Company	<b>1,740,887,172.03</b>	1,709,932,330.07	1.81
Capital	<b>457,312,830.00</b>	457,312,830.00	—
Net assets per share attributable to equity holders of Company	<b>3.81</b>	3.74	1.87
Asset-Liability ratio (%)	<b>47.55</b>	41.76	Increase 5.79 points
Item	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (the "Same Period Last Year") (Unaudited)	Change as compared to the Same Period Last Year (%)
Total operating income	<b>1,537,930,023.23</b>	1,522,811,524.54	0.99
Operating profit	<b>25,524,759.04</b>	79,496,686.58	(67.89)
Profit before taxation	<b>40,002,473.65</b>	77,517,940.76	(48.40)
Profit attributable to the equity holders of Company	<b>31,195,182.82</b>	60,702,135.83	(48.61)
Profit attributable to the equity holders of Company after extraordinary items (Note)	<b>18,012,640.74</b>	60,845,003.76	(70.40)
Basic earnings per share	<b>0.07</b>	0.13	(46.50)
Diluted earnings per share	<b>0.07</b>	0.13	(46.15)
Basic earnings per share after extraordinary loss	<b>0.04</b>	0.13	(69.23)
Return on equity of weighted average (%)	<b>1.81</b>	3.56	Decrease 1.75 points
Return on equity of fully diluted (%)	<b>1.79</b>	3.54	Decrease 1.75 points
Return on equity of weighted average after extraordinary loss (%)	<b>1.04</b>	3.56	Decrease 2.52 points
Return on equity of fully diluted after extraordinary loss (%)	<b>1.03</b>	3.54	Decrease 2.51 points
Net cash flow from operating activities	<b>(42,186,834.32)</b>	27,512,297.58	(253.34)
Net cash flow from operating activities per share	<b>(0.09)</b>	0.06	(250.00)

## Summary of Financial and Operating Results

Note:

Extraordinary items include:

<b>Item</b>	<b>Amount (RMB)</b>	<b>Notes (if applicable)</b>
Profit or loss from disposal of non-current assets	(6,299,924.27)	Loss of disposal of fixed assets
Government subsidies recognised in current profit and loss, (excluding those closely related to the Company's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume)	22,103,692.89	Received government subsidies reckoned into current term
Gains (losses) from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's normal operations	2,571,920.00	Dividends from available-for-sale financial assets
Other non-operating income or cost except the above items	(1,326,054.01)	—
Non-controlling interests	(1,363.19)	—
Income tax expense	(3,865,729.34)	—
<b>Total</b>	<b>13,182,542.08</b>	—

Unit: RMB

### Items by fair value

<b>Items</b>	<b>Amount as at 1 January 2012</b>	<b>Change of fair value</b>	<b>Total change of fair value</b>	<b>Provision impairment</b>	<b>Amount as at 30 June 2012</b>
Financial assets:					
Include: 1. Financial assets by fair value and its change is included into profit and loss	—	—	—	—	—
Include: Derivative financial assets	—	—	—	—	—
2. Available-for-sale financial assets	136,072,016.00	—	126,989,850.00	—	151,415,168.00
Total of financial assets	136,072,016.00	—	126,989,850.00	—	151,415,168.00
Financial liabilities	—	—	—	—	—
Investment property	—	—	—	—	—
Biological assets	—	—	—	—	—
Others	—	—	—	—	—
<b>Total</b>	<b>136,072,016.00</b>	<b>—</b>	<b>126,989,850.00</b>	<b>—</b>	<b>151,415,168.00</b>



## Summary of Financial and Operating Results

Unit: RMB

### Other Comprehensive income Items

Items	Six months ended 30 June 2012	Six months ended 30 June 2011
1. The amount of profits (losses) on financial assets available for sale	<b>16,208,100.71</b>	(2,101,680.00)
Less: tax by financial assets available for sale	<b>2,431,215.11</b>	(315,252.00)
Net profit or loss transferred from previously recognized in other comprehensive income	—	—
Subtotal	<b>13,776,885.60</b>	(1,786,428.00)
2. Exchange difference arising from transaction of financial statements denominated in foreign currencies	<b>(458,217.78)</b>	684,789.38
Less: net profit or loss transferred from foreign operation is disposed current	—	—
Subtotal	<b>(458,217.78)</b>	684,789.38
Total	<b>13,318,667.82</b>	(1,101,638.62)

## 2. FINANCIAL SUMMARY PREPARED IN CONFORMITY WITH HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (HKGAAP) (RMB'000)

### Condensed Consolidated Income Statement

Item	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Revenue	<b>1,525,008</b>	1,509,029
Profit before taxation	<b>39,087</b>	76,764
Income tax expense	<b>(6,831)</b>	(15,305)
Profit for the period	<b>32,256</b>	61,459
Includes:		
Profit attributable to owners of the Company	<b>30,416</b>	60,061
Non-controlling interests	<b>1,840</b>	1,398

### Condensed Consolidated Statement of Financial Position

Item	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Total assets	<b>3,406,428</b>	3,017,412
Total liabilities	<b>(1,616,786)</b>	(1,259,624)
Non-controlling interests	<b>(41,486)</b>	(39,807)
Equity attributable to owners of the Company	<b>1,748,156</b>	1,717,981

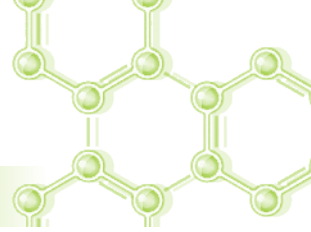
## Summary of Financial and Operating Results

### 3. RECONCILIATIONS OF ACCOUNTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND HKGAAP (RMB) (UNAUDITED)

Item	Profit attributable to the equity holders of Company		Total equity attributable to equity holders of Company	
	the Reporting Period	Same Period Last Year	As at 30 June 2012	As at 1 January 2012
Prepared under PRC accounting standards	<b>31,195,182.82</b>	60,702,135.83	<b>1,740,887,172.03</b>	1,709,932,330.07
HKGAAP adjustments:				
Provision for education fund	<b>(916,000.00)</b>	(753,000.00)	<b>8,554,000.00</b>	9,469,000.00
Deferred taxation	<b>136,817.18</b>	111,864.17	<b>(1,285,172.03)</b>	(1,420,330.07)
Total of the difference between the PRC accounting standards and HKGAAP	<b>(779,182.82)</b>	(641,135.83)	<b>7,268,827.97</b>	8,048,669.93
Prepared under HKGAAP	<b>30,416,000.00</b>	60,061,000.00	<b>1,748,156,000.00</b>	1,717,981,000.00

Explanation of the difference between the PRC accounting standards and HKGAAP:

1. Education fees are set out as per the actual circumstances, without the need of provision under HKGAAP. As at 30 June 2012 provision made for the balance of education fees under the PRC accounting standards was RMB8,554,000 with an amount in education fees of RMB916,000 for this period.
2. Education fees also led to the difference in the Company's deferred income tax, with the difference in accumulated deferred income tax of RMB1,285,172.03 and that in deferred income tax of the current period of 136,817.18.



## Changes in Share Capital and Information on Shareholders

### 1. Share Capital structure

Class of shares	30 Jun 2012		1 Jan 2012	
	Number of shares (Share)	% of the total share capital	Number of shares (Share)	% of the total share capital
1. Total number of conditional tradable shares	961	0	5,331	0
Stated-owned shares	0	0	0	0
Domestic legal person shares	0	0	0	0
Conditional tradable senior management A Shares	961	0	5,331	0
Others	0	0	0	0
2. Total number of unconditional tradable shares	457,311,869	100.00%	457,307,499	100.00%
Renminbi ordinary shares (A Shares)	307,311,869	67.20%	307,307,499	67.20%
Overseas listed foreign shares (H shares)	150,000,000	32.80%	150,000,000	32.80%
3. Total number of shares	457,312,830	100.00%	457,312,830	100.00%

2. As at 30 June 2012, the Company had on record a total of 39,195 shareholders, including 55 holders of H Shares and 39,140 holders of A Shares.



## Changes in Share Capital and Information on Shareholders

3. As at 30 June 2012, the ten largest shareholders of the Company were as follows:

Name of Shareholder	Types of shareholders	Number of shares held (Share)	Proportion of the total share capital %	Number of conditional tradable shares held (Share)	Number of shares being charged or frozen (Share)
Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC")	State-owned shareholder, A shares	166,115,720	36.32	0	0
HKSCC (Nominees) Limited	Listed H shares	147,963,998	32.36	0	0
Qingdao Haowei Investment Development Company Limited	Domestic general legal person shares	11,536,143	2.52	0	0
Wang Cuiping	Domestic person	751,400	0.16	0	0
Zeng Xiuling	Domestic person	650,815	0.14	0	0
Zhang Linlin	Domestic person	639,000	0.14	0	0
Liu Shida	Domestic person	591,800	0.13	0	0
Zheng Huidan	Domestic person	499,990	0.11	0	0
China Construction Bank-Morgan Stanley Huaxin multiple factor selection strategy stock type investment securities fund	Fund, A shares	471,768	0.10	0	0
WANG ZHIHAI	Listed H shares	456,000	0.10	0	0



## Changes in Share Capital and Information on Shareholders

4. As at 30 June 2012, the ten largest shareholders of the unconditional tradable shares of the Company were as follows:

Name of Shareholder	Number of unconditional listed shares (Share)	Class of shares
SXPGC	166,115,720	A Shares
HKSCC (Nominees) Limited	147,963,998	H Shares
Qingdao Haowei Investment Development Company Limited	11,536,143	A Shares
Wang Cuiping	751,400	A Shares
Zeng Xiuling	650,815	A Shares
Zhang Linlin	639,000	A Shares
Liu Shida	591,800	A Shares
Zheng Huidan	499,990	A Shares
China Construction Bank-Morgan Stanley Huaxin multiple factor selection strategy stock type investment securities fund	471,768	A Shares
WANG ZHIHAI	456,000	H Shares

Note:

1. *The Directors are not aware as to whether there is any association amongst the ten largest shareholders of the Company, nor the persons acting in concert as defined in the "Rules for the information Disclosure of Changes in the Shareholding of Listed Companies" issued by the CSRC. In addition, the Directors do not know whether there is any association amongst the shareholders of H Shares of the Company or persons acting in concert as referred to above.*

*The Directors do not know whether there is any association amongst the ten largest shareholders of unconditional tradable shares of the Company, any association between the ten largest shareholders of the Company and the ten largest shareholders of the Company or the persons acting in concert as defined in the "Rules for the information Disclosure of Changes in the Shareholding of Listed Companies" issued by the CSRC.*

2. *The only domestic shareholder with more than 5% of the total issued shares of the Company is SXPGC.*
3. *There was no change of controlling shareholder of the Company during this Reporting Period.*
4. *Save as disclosed above and so far as the Directors are aware, as at 30 June 2012, no other person (other than the Directors, supervisors of the Company (the "Supervisors"), chief executives or members of senior management of the Company (the "Senior Officers")) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules")) of the Company.*

## Changes in Share Capital and Information on Shareholders

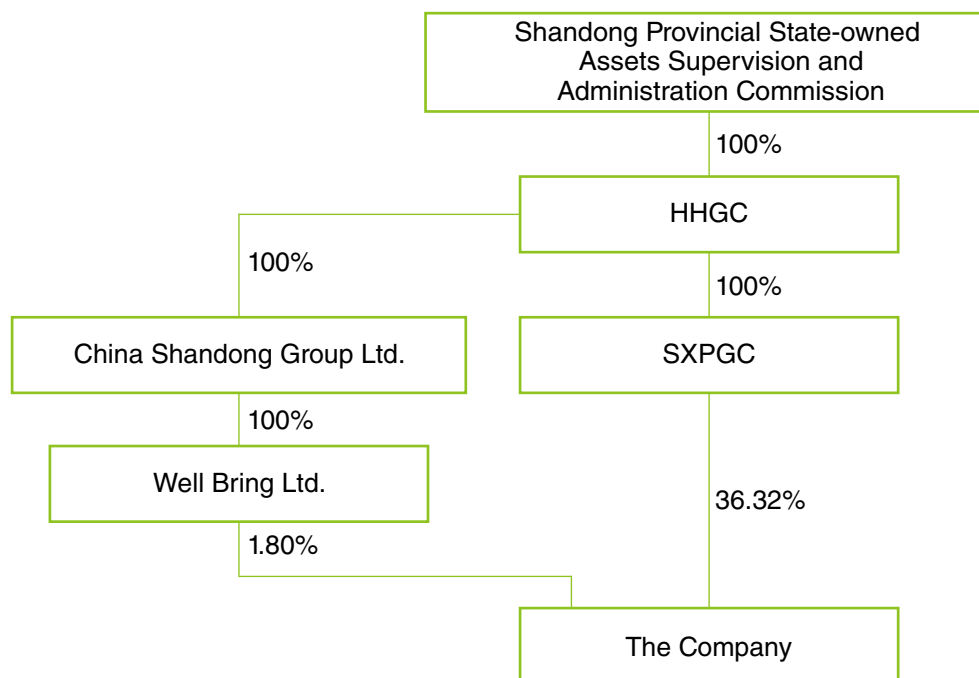
### 5. Information about the controlling shareholder and ultimate controller

- (1) During this Reporting Period, there were no change of controlling shareholder and ultimate controller.
- (2) Information about the controlling shareholder and ultimate controller

Name of ultimate controller	Shandong Provincial State-owned Assets Supervision and Administration Commission
Class of ultimate controller	Local State-owned Assets Supervision and Administration Commission

SXPGC, being the controlling shareholder of the Company, was established as a wholly state-owned company on 15 June 1995. The registered capital of SXPGC is RMB298,500,000 and its legal representative is Mr. Zhang Daiming. SXPGC is mainly engaged in the engineering design, real estate and restaurants; packaging, and manufacturing of chemical equipment; production and sale of chemical engineering apparatus and instruments; sales of chemical products (except for hazardous chemicals) and import and export business (within the scope approved).

Hualu Holdings Group Company Limited ("HHGC"), a wholly state-owned company, the controlling shareholder of SXPGC, was established on 28 January 2005. The registered capital of HHGC is RMB800,000,000 and its legal representative is Mr. Cheng Guanghui. HHGC is mainly engaged in the investment of fertilisers, petrochemical industries and investment in sectors which are not prohibited by the state (or the local community). HHGC is also engaged in asset management.





## Directors, Supervisors, Senior Officers and Staff

As at 30 June 2012, the number of shares held by the Directors, Supervisors and the Senior Officers were as follows:

<b>Name</b>	<b>Position</b>	As at 1 January 2012 <i>Number of Shares</i>	As at Change <i>Number of Shares</i>	<b>30 June 2012 Number of Shares</b>
<b>Directors:</b>				
Mr. Zhang Daiming	Chairman	Nil	Nil	<b>Nil</b>
Mr. Ren Fulong	Non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Du Deping	Executive Director, General Manager	Nil	Nil	<b>Nil</b>
Mr. Zhao Songguo	Executive Director, Deputy General Manager & Financial Controller	Nil	Nil	<b>Nil</b>
Mr. Xu Lie	Non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Zhao Bin	Non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Zhu Baoquan	Independent non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Bai Huiling	Independent non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Kwong Chi Kit, Victor	Independent non-executive Director	Nil	Nil	<b>Nil</b>
<b>Supervisors:</b>				
Mr. Li Tianzhong	Chairman of Supervisory Committee	Nil	Nil	<b>Nil</b>
Mr. Zhang Yueshun	Independent Supervisor	Nil	Nil	<b>Nil</b>
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil	<b>Nil</b>
Ms. Hu Yanhua	Employee Supervisor	Nil	Nil	<b>Nil</b>
<b>Senior Officers:</b>				
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil	<b>Nil</b>
Mr. Du Deqing	Deputy General Manager	Nil	Nil	<b>Nil</b>
Mr. He Tongqing	Deputy General Manager	Nil	Nil	<b>Nil</b>
Mr. Cao Changqiu	Company Secretary	1,281	Nil	<b>1,281</b>
Ms. Guo Lei	Company Secretary	Nil	Nil	<b>Nil</b>
<b>Total</b>		<b>1,281</b>	<b>Nil</b>	<b>1,281</b>

All shares held by the Directors, Supervisors and Senior Officers are A Shares.

The number of shares held by the Directors, Supervisors and Senior Officers has no change during this Reporting Period.

So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2012, no Director, Senior Officer or Supervisor had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Officer or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

## Directors, Supervisors, Senior Officers and Staff

### CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

During this Reporting Period, there were no changes of Directors, Supervisors and Senior Officers.

#### Position in shareholder company

Name	Name of shareholder	Office	Start date	Termination date	Remuneration from shareholder company
Mr. Zhang Daiming	SXPGC	Chairman	6 July 2010	—	No
Mr. Ren Fulong	SXPGC	Director, general manager	6 July 2010	—	Yes
Mr. Li Tianzhong	SXPGC	Deputy general manager	16 October 2009	—	Yes

#### Remuneration of Directors, Supervisors and Senior Officers

Decision-making process for remuneration of Directors, Supervisors and Senior Officers	The remuneration of Directors and Supervisors was submitted to the general meeting of the Company for consideration and approval by the Board, the remuneration of Senior Officers was considered and approved by the Board.
Basis for determining the remuneration of Directors, Supervisors and Senior Officers	The remuneration of Directors, Supervisors and Senior Officers was determined with reference to State policies, the Company's profit realised in the corresponding period, individual achievement and the average income of local residents.
Payment of Directors, Supervisors and Senior Officers' remuneration	A payment of RMB1,041,678 was made during this Reporting Period.

#### Staff information (as at 30 June 2012)

Number of staff	6,033
Number of retired staff whose costs were borne by the Company	0

#### Professional constitution

Classes of professional constitution	Number of Professionals
Production staff	3,884
Sales staff	1,044
Technology staff	576
Finance staff	89
Administration staff	440

#### Academic qualification attained

Classes of academic qualification attained	Number
Senior high schools or below	3,810
Tertiary institutions	1,466
Undergraduate	659
Master	90
Doctor	8



## Chairman's Statement

Dear shareholders,

I am pleased to report the operating results of the Company for the six months ended 30 June 2012.

For the six months ended 30 June 2012, pursuant to the PRC accounting standards, the operating income of the Group was RMB1,537,930,000 and net profit attributable to equity holders of the Company was RMB31,195,000, representing an increase of 0.99% and a decrease of 48.61% respectively, as compared to that of the Same Period Last Year.

The Group had a turnover of RMB1,525,008,000 and the profit attributable to owners of the Company of RMB30,416,000 for the six months ended 30 June 2012 under HKGAAP, representing an increase of 1.06% and a decrease of 49.36% respectively, as compared with that of the Same Period Last Year.

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2012.

### BUSINESS REVIEW

In the first half of 2012, the Group took proactive measures against a series of adverse factors such as weak demand in the pharmaceutical market, increased pressure on the tender system for essential drugs and on environmental protection and the implementation of the new version of GMP. By further carrying out the "Year of Fundamental Management" event, seizing market opportunities, focusing on technological innovation and placing emphasis on energy saving and consumption reduction as well as project construction, with details set out as follows:

#### 1. Seized opportunities and increased efforts to explore markets

During the first half of 2012, by fully leveraging on its comprehensive competitive edges, the Company continued to consolidate its key markets and key customers, and increased its efforts in exploring international emerging markets and developing new domestic pharmaceuticals clients, the Company experienced encouraging growth in sales of strategic products. Upon passing the on-site audit of the Medicines and Healthcare Products Regulatory Agency ("MHRA") of the United Kingdom in last year, the amount of preparation products exported to the European Union grew substantially.

We insisted on increasing efforts in the building of the terminal marketing teams for hospitals and in market development, while aggressively developed markets for new products and strove to cultivate major products, leading to a significant rise of the sales of new key products such as rabeprazole, glimepiride and aspirin enteric-coated sustained release tablets.

#### 2. Aggressively promoted innovation and accelerated R&D

During the first half of the year, the Company continued to accelerate its strategic deployment of new products and construction of R&D platforms, turning 8 projects into full production and completing mid-scale trial production of 7 pharmaceuticals. Meanwhile, the Company concluded agreements of intent for cooperation with a number of domestic and foreign research institutions and universities.

During the first half of the year, the Company was granted three invention patents and one new utility model patent.

### 3. Focused on deployment and steadily advanced construction of parks and projects

During the first half of 2012, the phase-1 relocation project for the Hutian Park proceeded smoothly, the commissioning of the salicylic acid and aspirin projects achieved a success with stable technical parameters and remarkable increase in single-pass conversion rate. With the application of new process, new equipment and new materials in the construction of parks a foundation will be established for effective reduction of raw material consumption. The project for construction of the modern chemical pharmaceuticals industrialization center went smoothly; and other projects for product technological renovation proceeded in an orderly way.

During the first half of 2012, Xinhua Pharmaceutical (Gaomi) Co., Ltd. (新華制藥(高密)有限公司) completed the registration of changes, filling the gap of the Company in the area of powder injections.

### 4. Strengthened quality control to boost corporate comprehensive competitiveness

In the first half of 2012, the Company successfully passed the audit on quality by 53 clients including GSK, Merck and Roche. It also successfully passed the on-site audit on caffeine food additives by the Shandong Bureau of Quality and Technical Supervision, the on-site audit on the production of amlodipine besylate by Shandong Bureau of Food and Drug Administration and the review of the food safety system certification (FSSC) for the food supply chain of caffeine products by SGS of Switzerland.

The Company has formulated the internal control inspection standards about hollow capsules according to the CP2010 version of Pharmaceutical Codex, and has maintained strict compliance of such standards. As such, pharmaceuticals produced by us are in line with the national quality standards. Our products succeeded in withstanding the test of the "poison capsule" incident and were widely praised by different sectors of the society.

We strengthened the control of the production process, and the passing rate of market surveillance checks was 100%.

### 5. Upgraded technology to focus on energy saving and consumption reduction

We stuck to the "one strategy for one product" approach to make breakthroughs in product technology and saved raw materials of RMB5,430,000 in the first half of 2012.

By actively promoting the application of new energy saving technologies such as MVR, the Company worked intently on energy conservation and consumption reduction, and recorded 4.26% drop in energy consumption per RMB10,000 production value during the first half of 2012, saving energy amounting to approximately RMB3,880,000.



### MAJOR WORKS FOR THE SECOND HALF OF THE YEAR 2012

In the second half of 2012, the Group is still facing the adverse impact of many unfavourable factors, but the two interest cuts in June has eased some pressure on capital. The meticulously planned marketing campaign for the new products of preparations has laid a good foundation for its future sales. The construction of parks has enabled the application of new technologies and equipment to project construction as well as the overall improvement in economic indicators of product technologies and production capacity. The low market price of chemicals is helpful for the reduction in procurement cost. Considering these factors, the Group will focus on the following in the second half of 2012:

1. Ramp up efforts for market expansion and product sales. The Company will take advantage of its comprehensive competitive edges in leading pharmaceuticals, adopt effective sales strategies to increase sales of products; promote the market development for special pharmaceuticals and new products to cultivate new growth points; and focus on the sales of the new products of preparations to enhance profitability.
2. Increase efforts in scientific research and quicken application of scientific research results. The Company will put more resources in R&D to expedite the R&D of new products. We will ensure that 8 projects are turned into full production in the multi-function industrialization center and that one-site audit and production registration are completed for 13 projects. We will strive to complete mid-scale trial production of 20 projects.
3. Further carrying out of the "Year of Fundamental Management" event to enhance the Company's competitiveness. The Company will continue to carry out technical quality breakthroughs based on the "one strategy for one product" approach, and commit to lower production costs, control expenditure, boost product quality and increase the acceptance rate. We will seek to improve risk control, execution power and enhance the quality of economic functioning, especially striving for the turnaround of our subsidiaries.
4. Accelerate restructuring and cultivate new economic growth points. We will construct parks at high standards, pay attention to industry correlation, steadily press ahead with acquisition and merger of companies, speed up restructuring; vigorously push forward with project construction and relocation, and make good preparation for the certification of the relocation project.
5. Implement international strategies and improve the Company's development level. We will seek to pass the on-site MHRA reexamination, and continually seek exports expansion, in particular exports of preparations. We will aggressively develop strategic collaborative relations with more international enterprises, expedite overseas product registration and accelerate the building of a R&D platform for international cooperation.

By order of the Board  
**Zhang Daiming**  
*Chairman*

23 August 2012  
Zibo, Shandong, PRC



## Management Discussion and Analysis

The Group is mainly engaged in the development, manufacturing and sale of bulk pharmaceuticals, pharmaceutical preparations, chemical and other products. The profit of the Group is mainly attributable to these businesses.

### 1. LIQUIDITY AND ANALYSIS OF FINANCIAL RESOURCES AND CAPITAL STRUCTURE UNDER HKGAAP

As of 30 June 2012, the liquidity ratio of the Group was 106.96%, the quick ratio was 71.59%, the turnover ratio of account receivables was 410.15% (turnover ratio of account receivables = turnover / average account receivables and net value of bills x 100%) and the turnover ratio of inventory was 285.05% (inventory turnover ratio = cost of sales / average net value of inventory x 100%).

There was no significant seasonal effect on the capital demand of the Group.

The main source of funds for the Group was loans from financial institutions and funds provided by the medium term note issued by Hualu Holdings Group Limited, the parent company's controlling shareholder. As at 30 June 2012, the total amount of bank loans was RMB480,098,000, which was floating rate loans and was accounted by HIBOR and rates issued by the People's Bank of China, and the total amount of medium term note was RMB500,000,000. As at 30 June 2012, cash on hand and in bank amounted to RMB394,346,000 (including bank acceptance drafts deposits of RMB22,281,000).

During the Reporting Period, the Group charged the land use rights in Hutianzhen, Zhangdian, to a bank for loans. The book value of the land use rights is RMB 68,844,000. There was no charge on the Group's assets except the above charged assets.

The Group has stringent internal control systems for cash and fund management in order to strengthen financial management. The Group has sound liquidity and repayment ability.

During the Reporting period, the Group invested RMB22,000,000 to purchase all the equity of Shandong Tianda Biology Pharmaceutical Company Limited ( "Tianda Biological"). As at the time of acquisition, Tianda Biological's registered capital was RMB6,000,000. Its name was changed to Xinhua Pharmaceutical (Gaomi) Company Limited ( "Xinhua Gaomi") in April 2012 after the completion of the acquisition. The Company increased its capital in Xinhua Gaomi by RMB13,000,000 in May 2012 and Xinhua Gaomi's registered capital was changed to RMB19,000,000.

The clarification of the performance results of the Group is referred to in the section headed "Results and Financial Analysis under PRC accounting standards".

As at 30 June 2012, the number of employees of the Group was 6,033. The total salaries for employees in the first half of 2012 amounted to RMB120,028,000.

The main investment projects in the second half of 2012 will be Hutian Park project and Shouguang Park project.

As at 30 June 2012, the capital debt ratio of the Group was 56.06% (capital debt ratio = total borrowings / equity attributable to owners of the Company x 100%).

The cash and bank balances of the Company will mainly be used as working capital for production, operation, projects and research development.

The assets and debts of the Group were denominated in Renminbi. However, the Group achieved USD94,361,000 in its export for the first half of 2012. Therefore, there was a greater impact from foreign exchange. The Group adopted the following measures to minimise the foreign exchange fluctuation risk: 1. raising the export price in order to minimise foreign exchange fluctuation risk; and 2. when the Group enters into an export contract involving large quantities of products with other parties, the Group shall seek prior consent from the other party that both parties will bear the foreign exchange fluctuation risk should the foreign exchange fluctuation exceed the contractual limit as agreed by both parties.



### 2. RESULTS AND FINANCIAL ANALYSIS UNDER PRC ACCOUNTING STANDARDS

In the first half of 2012, the Group had achieved a turnover of RMB1,537,930,000, representing an increase of 0.99% as compared to the Same Period Last Year. The increase in revenue was mainly attributable to the slight increase in sales and prices of products. The increase in net cash and cash equivalents was RMB101,099,000, while there was a decrease of RMB9,696,000 in the Same Period Last Year. The main reason for the change was due to the increase in net cash flow of RMB204,870,000 from financing activities as compared to the Same Period Last Year. Operating profit amounted to RMB25,525,000, representing a decrease of 67.89% as compared to the Same Period Last Year. The main reason for the decrease was that the costs recorded a larger increase as compared to the Same Period Last Year.

Total assets of the Group as at 30 June 2012 amounted to RMB3,398,464,000, representing an increase of RMB394,274,000 or 13.12% as compared to the figure of RMB3,004,190,000 as at the beginning of this year. The increase was mainly due to a newly addition of RMB500,000,000 medium term note from Hualu Holdings Group Company Limited during the Reporting Period. The Group's bank loans as at 30 June 2012 was RMB480,098,000, representing a decrease of RMB208,370,000 from RMB688,468,000 at the beginning of this year. Such decrease was mainly attributable to a newly addition of RMB500,000,000 medium term note from Hualu Holdings Group Company Limited during the Reporting Period. As such, we have sufficient capital. Total equity attributable to equity holders of the Company as at 30 June 2012 increased by RMB30,955,000 or 1.81%, from RMB1,709,932,000 at the beginning of this year to RMB1,740,887,000. This increase was mainly attributable to an increase of RMB31,195,000 from the operating profit of the Group during the Reporting Period.

#### **Operations and results analysis of major subsidiaries and invested companies of the Company**

- (1) The total registered capital of Shandong Xinhua Medical Trade Company Limited, a wholly-owned subsidiary of the Company, is RMB48,499,000. This subsidiary is mainly engaged in the business of biological products, prepared herbal medicine for decoction, traditional Chinese medicine, pharmaceutical raw materials, preparations, antibiotic preparations biochemical medicine, health food, medical appliances, drugs and products for birth control and cosmetics etc.. As at 30 June 2012, the total assets of the subsidiary were approximately RMB256,455,000, equity attributable to shareholders of the subsidiary was approximately RMB9,413,000. In the first half of 2012, the operating income of the subsidiary was approximately RMB574,178,000, representing an increase of 2.48% as compared with that of the Same Period Last Year. The net loss of the subsidiary was approximately RMB9,281,000, representing a decrease of approximately RMB19,021,000 as compared with that of the Same Period Last Year.
- (2) The total paid-up capital of Xinhua Pharmaceutical (Shouguang) Company Limited ("Shouguang Company"), a wholly-owned subsidiary of the Company, is RMB230,000,000. This subsidiary is mainly engaged in producing and selling chemical products. As at 30 June 2012, the total assets of the subsidiary were approximately RMB652,004,000, equity attributable to shareholders of the subsidiary was approximately RMB277,276,000. In the first half of 2012, the operating income of the subsidiary was approximately RMB226,821,000, representing an increase of 1.43% as compared with that of the Same Period Last Year. The net loss of the subsidiary was approximately RMB3,173,000, representing a decrease of approximately RMB29,811,000 as compared with that of the Same Period Last Year.

## Management Discussion and Analysis

An analysis of the Group's turnover from principal operations is as follows (RMB'000):

By geographical location of customers	First half of 2012		First half of 2011	
	Total turnover	Costs	Total turnover	Costs
PRC (incl. Hong Kong)	911,697	733,860	927,985	732,016
Europe	249,443	220,276	224,577	184,257
Americas	256,616	199,318	267,315	244,426
Others	98,985	86,118	81,684	70,984
Total	<u>1,516,741</u>	<u>1,239,572</u>	<u>1,501,561</u>	<u>1,231,683</u>

By industry and By product	Income from principal operations	Costs of sales of principal operations	Gross profit margin
			(%)
Bulk pharmaceutical Preparations	744,897	603,001	19.05
Medical commercial logistics	290,644	161,785	44.34
Chemical products and other products	385,869	372,171	3.55
	95,331	102,615	(7.64)
Total	<u>1,516,741</u>	<u>1,239,572</u>	<u>18.27</u>

The gross profit margin of chemical products and others recorded a larger decrease as compared with that of the Same Period Last Year. Such larger decrease was mainly caused by the larger decrease in the price of the export products of Shouguang Company,

An analysis of profit as compared to 2011 is as follows:

Items	Amount (RMB'000)		% of total profit	
	Jan.–Jun. 2012	2011	Jan.–Jun. 2012	2011
Operating profit	25,524	71,928	63.81	77.17
Profit/Loss from non-operation activities	14,478	21,284	36.19	22.83
Profit before taxation	40,002	93,212	100.00	100.00



## Management Discussion and Analysis

### 3. USE OF PROCEEDS

On 3 September 2001, the Company raised an amount of RMB370,517,000 from the public offer and issue of 33,000,000 A Shares (including the sale of 3,000,000 State-owned shares). As at 30 June 2012, RMB347,238,000 were used in the following projects:

Name of project	Planned investment (RMB'000)	Actual investment Jan.–Jun. 2012 (RMB'000)	Accumulated amount of investment (RMB'000)	% of the investment	Remarks
State-level technical center renovation	74,500	4,149	37,305	50.07%	—
Injection GMP renovation	80,000	—	80,226	100.28%	completed
Caffeine technical renovation	160,000	—	188,201	117.63%	completed
L-350 technical renovation	29,980	—	23,442	78.19%	completed
Analgin GMP renovation	39,800	—	46,265	116.24%	completed
Total	<u>384,280</u>	<u>4,149</u>	<u>375,439</u>	—	—

- (1) Injection GMP renovation project did not reach its profit forecast due to the decrease in pharmaceutical prices.
- (2) Caffeine technical renovation did not reach its profit forecast because of the effects of the drop in the price and the export tax rebate rate.
- (3) The main project of the renovation of the state-level technical center has been completed.

The remaining proceeds were deposited with banks and will be used in accordance with the Company's project commitments.

### 4. FORMULATION AND IMPLEMENTATION OF THE COMPANY'S CASH DIVIDEND POLICY

In accordance with Article 147 of the Company's Articles of Association, "The aggregate amount of distribution of profits in cash of the Company in the most recent three years should not be less than 30 percent of the realized annual distributable profits of the Company in the most recent three years. If the above ratio shall not be attained for any particular reason, the Board should make a special explanatory statement to the general meeting of the Company; if there are circumstances where the shareholders of the Company use the funds of the Company in a manner which violates the regulations, the Company should deduct the cash dividend of those shareholders in order to repay the funds it used." The dividend for 2011 of the Company at RMB0.03 per share was distributed by the mid of August 2012.

## Review of Major Events

1. There is no material deviation between the actual corporate governance implemented by the Company and the rules and requirements of corporate governance required to be observed by listed companies in the PRC.
2. According to the resolution of 2011 annual general meeting of the Company, the Company distributed a final dividend at RMB0.3 per 10 shares (tax inclusive) on the basis of 457,312,830 total issued shares of the Company for the year ended 31 December 2011, amounting to an aggregate of RMB13,719,384.90. The distribution completed by the mid of August 2012.
3. The Board did not recommend the payment of any interim dividend, nor any transfer from reserves to share capital, for the year 2012.
4. The Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.
5. There was no material purchase of assets or disposal of the Company's assets nor did any material mergers or acquisition involving the Company occur during this Reporting Period. Similarly, no transactions of such nature occurred during the last Reporting Period were carried over to this Reporting Period.

### 6. Material Related Party Transactions

Related party transactions of the Company during the Reporting Period are set out in Note 9 to the accounts of the Company ("Accounts") prepared in conformity with PRC accounting standards and Note 14 to the Accounts prepared in conformity with HKGAAP.

7. During this Reporting Period, there was no trust, subcontract and lease of the assets between the Company and other companies.
8. The independent non-executive directors' special explanation and independent opinions in respect of the use of funds by related parties and external security provided are as follows:

During the Reporting Period, there was no non-operational use of the Company's funds by the controlling shareholder and other related parties.

During this Reporting Period, save and except the guarantee of bank accepted bills of exchange of RMB14,000,000 provided by the Company in favour of Shouguang Company, its wholly-owned subsidiary, there has been no other material guarantee provided by the Company, nor has there been any obligations that have not been performed in full by the Company. There were no guarantees provided by any controlling shareholders, non-legal entity or individuals which were prejudicial to the interests of the Company and the shareholders, in particular the minority shareholders, of the Company. As at 30 June 2012, the Company had no overdue external guarantee debts and the Company had no liability arising from any guarantee due to the default of a guaranteed party.

9. The Company and its shareholders holding more than 5% of total number of issued shares of the Company have provided undertakings for information disclosure as follows: Nil
10. Purchase, Sales and Redemption of the Company's listed securities

During this Reporting Period, neither the Company nor its subsidiaries purchased, sold or redeemed any of its securities.

### 11. Management of Funds

During this Reporting Period, the Company did not appoint any person for managing the Company's funds. No such appointment was made in the preceding Reporting Period which has been carried over to this Reporting Period.



## Review of Major Events

### 12. Information about holding other listed companies (RMB)

Stock Code	Abbreviated Name	Initial investment amount	Proportion of equity interest in investee	Book value of end of the Reporting Period	Profit/loss in the Reporting Period	Change of shareholder's equity in the Reporting Period	Accounting courses	Share source
601601	China Pacific Insurance	7,000,000.00	0.06%	37,315,168.00	1,750,000.00	493,152.00	Available-for-sale financial assets	Purchase
601328	BANKCOMM	14,225,318.00	0.02%	110,900,000.00	821,920.00	14,850,000.00	Available-for-sale financial assets	Purchase
Total		21,225,318.00	—	148,215,168.00	2,571,920.00	15,343,152.00	—	—

### 13. Explanation for the proposal or the implementation of a share purchase plan by the majority shareholder and its parties acting in concert during this Reporting Period.

Between 15 May 2012 to 30 June 2012, Well Bring Limited (a Hong Kong subsidiary of HHGC, the ultimate controlling company of the Company) purchased 2,054,000 H shares of the Company via the trading system of the SEHK representing 1.369% of the issued H shares of the Company and 0.45% of the total issued share capital of the Company. After the aforesaid purchase of H shares on 15 May 2012, HHGC and its parties acting in concert intend to increase its holding of H shares of the Company by no more than 2% of the total issued share capital of the Company within the next 12 months.

### 14. Index of important information which has been disclosed

The announcement of the “2011 Annual Results Announcement” was published on the HKExnews, in the Securities Times C21 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 26 March 2012.

The announcement of the “The First Quarter Report of 2012” was published on the HKExnews, in the Securities Times D38 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 26 April 2012.

The announcement of the “The Notice of Annual General Meeting for the 2011” was published on the HKExnews, in the Securities Times D27 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 10 May 2012.

The announcement of the “Announcement of 2011 Annual General Meeting Resolutions” was published on the HKExnews, in the Securities Times D18 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 27 June 2012.

### 15. Information of reception research, communication and interview during the Reporting Period: Nil

### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Directors confirmed that the Company was in compliance with the Code on Corporate Governance Practices (the “Code”) and has not deviated from the Code during the six months ended 30 June 2012. The Code includes the provisions continued in Appendix 14 to the Listing Rules.

### **AUDIT COMMITTEE**

The Company set up the audit committee under the Board (the “Audit Committee”) in accordance with Rule 3.21 of the Listing Rules.

The Audit Committee along with the management of the Company have reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2012.

The Audit Committee agreed to the accounting standards, principles and methods adopted by the Group for the unaudited interim accounts for the six months ended 30 June 2012, and it has been disclosed fully.

### **INDEPENDENT NON-EXECUTIVE DIRECTOR**

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors and at least one independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive directors including one with financial management expertise, details of their biographies were set out in the 2011 Annual Report of the Company.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (“MODEL CODE”)**

During the Reporting Period, the Company has adopted a code of conduct regarding transactions by Directors on terms no less exacting than the required standards set out in the Model Code. After having made specific enquiries to the Directors and Supervisors, the Company has confirmed that during the Reporting Period, all Directors and Supervisors have complied with the required standard set out in the Model Code in relation to directors’ securities transactions and they did not have any non-compliance with the Model Code.

# Financial Report

(Prepared under PRC Accounting Standards)

## Consolidated and the Company's Balance Sheet

Unit: RMB

Assets	Notes	2012.6.30		2011.12.31	
		Consolidated	The Company	Consolidated	The Company
<b>Current assets</b>					
Cash and Cash equivalent	8.1	394,346,006.26	283,975,559.64	299,228,829.32	207,012,221.62
Held-for-trade financial assets		—	—	—	—
Notes receivable	8.2	77,233,382.41	50,424,111.27	83,971,658.62	53,562,295.88
Accounts receivable	8.3	333,941,805.65	333,676,121.95	262,870,515.11	256,004,460.97
Advances to suppliers	8.4	37,993,469.11	29,132,491.23	44,548,095.94	41,726,080.18
Interest receivable		—	—	—	—
Dividend receivable		—	—	—	1,503,000.00
Other receivables	8.5	44,205,509.48	315,240,838.51	23,130,932.27	225,540,918.19
Inventories	8.6	445,934,290.69	272,764,672.99	423,789,013.64	246,788,527.02
Non-current assets due within one year		—	—	—	—
Other current assets	8.7	1,101,017.95	1,101,017.95	3,504,303.10	2,881,980.90
<b>Sub-Total current assets</b>		<b>1,334,755,481.55</b>	<b>1,286,314,813.54</b>	<b>1,141,043,348.00</b>	<b>1,035,019,484.76</b>
<b>Non-current assets</b>					
Available-for-sale Financial Assets	8.8	151,415,168.00	151,415,168.00	136,072,016.00	136,072,016.00
Held-to-maturity investment		—	—	—	—
Long-term receivable		—	—	—	—
Long-term equity investment	8.9	24,926,019.58	409,003,360.92	23,354,546.13	370,235,110.84
Investment property	8.10	35,512,968.21	35,512,968.21	37,142,164.71	37,142,164.71
Fixed assets	8.11	1,102,103,917.60	745,009,156.72	1,063,156,229.23	702,928,789.04
Construction in progress	8.12	488,892,679.99	319,622,744.27	363,329,570.66	280,648,914.69
Construction materials		—	—	—	—
Disposal of fixed assets		—	—	—	—
Biological assets		—	—	—	—
Oil and nature gas		—	—	—	—
Intangible assets	8.13	243,619,426.04	170,668,363.21	223,503,849.92	164,337,991.21
Research & Development cost		—	—	—	—
Goodwill		—	—	—	—
Long-term prepayments		—	—	—	—
Deferred tax assets	8.14	17,238,466.03	—	16,588,466.03	—
Other non-current assets		—	—	—	—
<b>Sub-Total non-current assets</b>		<b>2,063,708,645.45</b>	<b>1,831,231,761.33</b>	<b>1,863,146,842.68</b>	<b>1,691,364,986.49</b>
<b>Total Assets</b>		<b>3,398,464,127.00</b>	<b>3,117,546,574.87</b>	<b>3,004,190,190.68</b>	<b>2,726,384,471.25</b>



# Financial Report

(Prepared under PRC Accounting Standards)

## Consolidated and the Company's Balance Sheet (Continued)

Unit: RMB

Liabilities & Shareholders' equity	Notes	2012.6.30		2011.12.31	
		Consolidated	The Company	Consolidated	The Company
<b>Current liabilities</b>					
Short-term loans	8.16	190,000,000.00	190,000,000.00	296,147,188.29	259,307,188.29
Held-for-trade financial liabilities					
Notes payable	8.17	108,610,000.00	97,440,000.00	113,522,400.00	110,352,400.00
Accounts payable	8.18	306,101,938.59	153,076,864.23	244,632,752.42	116,746,797.70
Advances for customers	8.19	18,028,452.71	5,549,549.10	18,506,602.50	7,520,634.94
Employees' wage payable	8.20	13,104,135.18	12,776,867.33	24,853,604.12	24,641,435.12
Tax payable	8.21	(2,533,953.06)	7,070,010.80	(7,979,147.28)	(860,605.43)
Interest payable	8.22	15,221,789.41	15,221,789.41	740,352.28	740,352.28
Dividends payable	8.23	19,030,013.33	19,030,013.33	15,111,220.33	13,614,220.33
Other accounts payable	8.24	76,916,251.86	32,573,712.18	87,032,292.23	54,208,783.24
Non-current liabilities within one year	8.25	—	—	179,000,000.00	179,000,000.00
Other current liabilities	8.26	590,000.00	590,000.00	590,000.00	590,000.00
<b>Sub-Total current liabilities</b>		<b>745,068,628.02</b>	<b>533,328,806.38</b>	972,157,264.89	765,861,206.47
<b>Non-current liabilities</b>					
Long-term borrowings	8.27	290,098,140.00	290,098,140.00	213,321,000.00	213,321,000.00
Bonds payable		—	—	—	—
Long-term payables	8.28	500,000,000.00	500,000,000.00	—	—
Specific payables	8.29	13,500,000.00	13,500,000.00	—	—
Provisions		—	—	—	—
Deferred tax liabilities	8.30	5,714,867.15	5,714,867.15	4,148,600.75	4,148,600.75
Other non-current liabilities	8.31	61,709,435.52	61,709,435.52	64,824,303.73	64,824,303.73
<b>Sub-total of non-current liabilities</b>		<b>871,022,442.67</b>	<b>871,022,442.67</b>	282,293,904.48	282,293,904.48
<b>Total liabilities</b>		<b>1,616,091,070.69</b>	<b>1,404,351,249.05</b>	1,254,451,169.37	1,048,155,110.95
<b>Shareholders' equity</b>					
Share capital	8.32	457,312,830.00	457,312,830.00	457,312,830.00	457,312,830.00
Capital reserve	8.33	673,276,386.82	672,795,656.05	659,499,501.22	659,018,770.45
Less: Treasury stock		—	—	—	—
Special reserve		—	—	—	—
Surplus reserve	8.34	191,170,376.99	190,507,835.68	191,170,376.99	190,507,835.68
General Risk Provision		—	—	—	—
Undistributed profits	8.35	420,248,314.12	392,579,004.09	402,772,516.20	371,389,924.17
Exchange difference arising from transaction of financial statements denominated in foreign currencies		(1,120,735.90)	—	(822,894.34)	—
<b>Sub-Total shareholders' equity attributable to the parent company</b>		<b>1,740,887,172.03</b>	<b>1,713,195,325.82</b>	1,709,932,330.07	1,678,229,360.30
Minority Interest	8.36	41,485,884.28	—	39,806,691.24	—
<b>Total shareholders' equity</b>		<b>1,782,373,056.31</b>	<b>1,713,195,325.82</b>	1,749,739,021.31	1,678,229,360.30
<b>Total liabilities &amp; shareholders' equity</b>		<b>3,398,464,127.00</b>	<b>3,117,546,574.87</b>	3,004,190,190.68	2,726,384,471.25

# Financial Report

(Prepared under PRC Accounting Standards)

## Consolidated and the Company's Income Statement

Unit: RMB

Item	Notes	First half of 2012		First half of 2011	
		Consolidated	The Company	Consolidated	The Company
<b>1. Total Operating Income</b>		<b>1,537,930,023.23</b>	<b>908,225,960.78</b>	1,522,811,524.54	957,937,694.81
Operating Income	8.37	1,537,930,023.23	908,225,960.78	1,522,811,524.54	957,937,694.81
<b>2. Total Operating Costs</b>		<b>1,516,606,553.73</b>	<b>873,375,989.93</b>	1,448,271,735.29	928,194,170.01
Including: Operating Costs	8.37	1,264,175,647.52	752,763,409.61	1,254,708,252.89	831,515,794.47
Business taxes and surcharges	8.38	8,253,025.71	5,078,863.76	5,697,453.84	3,781,025.98
Selling expenses	8.39	117,149,652.76	10,309,344.33	91,559,028.36	12,187,415.31
Administrative expenses	8.40	99,584,460.23	77,135,903.56	78,262,015.08	64,859,815.91
Financial expenses	8.41	27,443,767.51	28,088,468.67	16,245,648.32	15,850,118.34
Impairment loss of assets	8.42	—	—	1,799,336.80	—
Add: Gain or Loss from changes in fair value		—	—	—	—
Investment gain or loss	8.43	4,201,289.54	4,187,410.09	4,956,897.33	4,950,963.06
Including: Gain or loss from investment in associates and joint ventures		1,615,490.09	1,615,490.09	3,200,963.06	3,200,963.06
Exchange gain		—	—	—	—
<b>3. Operating profit</b>		<b>25,524,759.04</b>	<b>39,037,380.94</b>	79,496,686.58	34,694,487.86
Add: Non-operating income	8.44	24,632,607.10	10,172,180.36	778,974.27	756,432.66
Less: Non-operating expense	8.45	10,154,892.49	8,777,307.26	2,757,720.09	2,220,925.97
Including: Gain or loss on disposal of non-current assets		6,559,471.22	6,559,471.22	539,620.93	539,620.93
<b>4. Total profit</b>		<b>40,002,473.65</b>	<b>40,432,254.04</b>	77,517,940.76	33,229,994.55
Less: Income tax expenses	8.46	6,967,721.57	5,523,789.22	15,417,765.13	4,476,899.96
<b>5. Net profit</b>		<b>33,034,752.08</b>	<b>34,908,464.82</b>	62,100,175.63	28,753,094.59
Net profit attributable to equity holder of the company		31,195,182.82	34,908,464.82	60,702,135.83	28,753,094.59
Net profit attributable to minority shareholder		1,839,569.26	—	1,398,039.80	—
<b>6. Earnings per share</b>	8.47				
(1) Basic earning per share		0.07	0.08	0.13	0.06
(2) Diluted earning per share		0.07	0.08	0.13	0.06
<b>7. Other comprehensive income</b>	8.48	<b>13,318,667.82</b>	<b>13,776,885.60</b>	(1,101,638.62)	(1,786,428.00)
<b>8. Total of comprehensive incomes</b>		<b>46,353,419.90</b>	<b>48,685,350.42</b>	60,998,537.01	26,966,666.59
Total of comprehensive incomes attributable to the owners of the parent company		44,674,226.86	48,685,350.42	59,360,820.93	26,966,666.59
Total comprehensive income attributable to the minority shareholders		1,679,193.04	—	1,637,716.08	—

# Financial Report

(Prepared under PRC Accounting Standards)

## Consolidated and the Company's Cash Flow Statement

Unit: RMB

Item	Notes	First half of 2012		First half of 2011	
		Consolidated	The Company	Consolidated	The Company
<b>1. CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts from the sale of goods or rendering of services		1,040,158,128.84	604,274,401.18	960,152,235.93	669,991,099.71
Receipts of tax refunds		9,116,258.80	3,831,948.97	12,913,067.31	9,088,439.93
Other cash receipts relating to operating activities	8.49	55,891,108.65	44,005,354.44	33,400,147.66	38,342,139.02
<b>SUB-TOTAL OF CASH INFLOWS FROM OPERATING</b>		<b>1,105,165,496.29</b>	<b>652,111,704.59</b>	<b>1,006,465,450.90</b>	<b>717,421,678.66</b>
Cash payments for goods purchased and services received		761,074,859.04	458,497,114.74	672,258,020.82	482,451,396.43
Cash paid to and on behalf of employees		169,070,556.46	125,603,052.83	143,562,616.80	116,669,255.56
Payments of all types of taxes		53,138,156.72	25,662,116.03	54,380,700.37	32,401,672.67
Other cash payments relating to operating activities	8.49	164,068,758.39	79,196,351.87	108,751,815.33	72,152,738.32
<b>SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES</b>		<b>1,147,352,330.61</b>	<b>688,958,635.47</b>	<b>978,953,153.32</b>	<b>703,675,062.98</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>(42,186,834.32)</b>	<b>(36,846,930.88)</b>	<b>27,512,297.58</b>	<b>13,746,615.68</b>
<b>2. CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Cash receipts from disposals of investments		—	—	—	—
Cash receipts from returns on investments		2,585,799.45	4,074,920.00	1,755,934.27	1,750,000.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		108,557.69	108,557.69	436,942.30	436,942.30
Net cash receipts from disposals of subsidiaries and other business units		—	—	—	—
Other cash receipts relating to investing activities		—	—	—	—
<b>SUB-TOTAL OF CASH INFLOWS FROM INVESTMENT ACTIVITIES</b>		<b>2,694,357.14</b>	<b>4,183,477.69</b>	<b>2,192,876.57</b>	<b>2,186,942.30</b>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		141,995,362.33	95,249,493.85	137,040,203.04	85,755,933.43
Cash payments to acquire investments		22,000,000.00	35,000,000.00	—	—
Net cash payments for acquisition of subsidiaries and other business units		—	—	—	—
Other cash payments relating to investing activities		—	60,000,000.00	—	—
<b>SUB-TOTAL OF CASH OUTFLOWS FROM INVESTMENT ACTIVITIES</b>		<b>163,995,362.33</b>	<b>190,249,493.85</b>	<b>137,040,203.04</b>	<b>85,755,933.43</b>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(161,301,005.19)</b>	<b>(186,066,016.16)</b>	<b>(134,847,326.47)</b>	<b>(83,568,991.13)</b>

# Financial Report

(Prepared under PRC Accounting Standards)



## Consolidated and the Company's Cash Flow Statement (Continued)

Unit: RMB

Item	Notes	First half of 2012		First half of 2011	
		Consolidated	The Company	Consolidated	The Company
<b>3. CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Cash receipts from investors		—	—	—	—
Including: Cash receipts from the shareholders of subsidiaries		—	—	—	—
Cash receipts from borrowings		<b>683,682,010.00</b>	<b>683,682,010.00</b>	170,000,000.00	170,000,000.00
Proceeds from issue of corporate bonds		—	—	—	—
Other cash receipts relating to financing activities		—	—	—	—
<b>SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES</b>		<b>683,682,010.00</b>	<b>683,682,010.00</b>	<b>170,000,000.00</b>	<b>170,000,000.00</b>
Cash repayments of amounts borrowed		<b>355,215,823.14</b>	<b>355,215,823.14</b>	50,000,000.00	50,000,000.00
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		<b>24,232,566.08</b>	<b>22,889,723.17</b>	20,636,310.87	20,636,310.87
Including: Cash payments to the minority shareholders for distribution of dividends or profits		<b>1,497,000.00</b>	—	—	—
Other cash payments relating to financing activities		—	—	—	—
<b>SUB-TOTAL OF CASH OUTFLOWS</b>		<b>379,448,389.22</b>	<b>378,105,546.31</b>	<b>70,636,310.87</b>	<b>70,636,310.87</b>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>304,233,620.78</b>	<b>305,576,463.69</b>	<b>99,363,689.13</b>	<b>99,363,689.13</b>
<b>4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>353,575.67</b>	<b>282,001.37</b>	(1,724,769.70)	(1,570,512.35)
<b>5. NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>101,099,356.94</b>	<b>82,945,518.02</b>	(9,696,109.46)	27,970,801.33
Add: Beginning balance of cash and cash equivalents		<b>267,965,349.32</b>	<b>178,748,741.62</b>	<b>368,070,284.24</b>	<b>245,720,947.52</b>
<b>6. ENDING BALANCE OF CASH AND CASH EQUIVALENTS</b>		<b>369,064,706.26</b>	<b>261,694,259.64</b>	<b>358,374,174.78</b>	<b>273,691,748.85</b>

# Financial Report

(Prepared under PRC Accounting Standards)

## Consolidated Statement of Changes in Shareholder's Equity in the First Half of 2012

Unit: RMB

Item	Equity attributable to the company									Total Shareholder's Equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Others	Minority Interests	
<b>1. Ending balance of last year</b>	457,312,830.00	659,499,501.22	—	—	191,170,376.99	—	402,772,516.20	(822,894.34)	39,806,691.24	1,749,739,021.31
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
<b>2. Beginning balance of the year</b>	457,312,830.00	659,499,501.22	—	—	191,170,376.99	—	402,772,516.20	(822,894.34)	39,806,691.24	1,749,739,021.31
<b>3. Increase/decreased in the year</b>	—	13,776,885.60	—	—	—	—	17,475,797.92	(297,841.56)	1,679,193.04	32,634,035.00
I Net profit	—	—	—	—	—	—	31,195,182.82	—	1,839,569.26	33,034,752.08
II Other comprehensive income	—	13,776,885.60	—	—	—	—	—	(297,841.56)	(160,376.22)	13,318,667.82
Subtotal of I and II	—	13,776,885.60	—	—	—	—	31,195,182.82	(297,841.56)	1,679,193.04	46,353,419.90
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	—	—	(13,719,384.90)	—	—	(13,719,384.90)
a. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(13,719,384.90)	—	—	(13,719,384.90)
d. Others	—	—	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—	—	—
VII others	—	—	—	—	—	—	—	—	—	—
<b>4. Ending balance of the year</b>	457,312,830.00	673,276,386.82	—	—	191,170,376.99	—	420,248,314.12	(1,120,735.90)	41,485,884.28	1,782,373,056.31

# Financial Report

(Prepared under PRC Accounting Standards)

## Consolidated Statement of Changes in Shareholder's Equity in 2011

Unit: RMB

Item	Equity attributable to the company									Total Shareholder's Equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Others	Minority Interests	
<b>1. Ending balance of last year</b>	457,312,830.00	678,687,863.62			183,747,267.43		357,037,601.69	(262,016.55)	38,010,427.19	1,714,533,973.38
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—
<b>2. Beginning balance of the year</b>	457,312,830.00	678,687,863.62	—	—	183,747,267.43	—	357,037,601.69	(262,016.55)	38,010,427.19	1,714,533,973.38
<b>3. Increase/decreased in the year</b>	—	(19,188,362.40)	—	—	7,423,109.56	—	45,734,914.51	(560,877.79)	1,796,264.05	35,205,047.93
I Net profit	—	—	—	—	—	—	76,023,665.57	—	3,595,275.18	79,618,940.75
II Other comprehensive income	—	(19,188,362.40)	—	—	—	—	—	(560,877.79)	(302,011.13)	(20,051,251.32)
Subtotal of I and II	—	(19,188,362.40)	—	—	—	—	76,023,665.57	(560,877.79)	3,293,264.05	59,567,689.43
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	7,423,109.56	—	(30,288,751.06)	—	(1,497,000.00)	(24,362,641.50)
a. Transfer to surplus reserves	—	—	—	—	7,423,109.56	—	(7,423,109.56)	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(22,865,641.50)	—	(1,497,000.00)	(24,362,641.50)
d. Others	—	—	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—	—	—
VII Others	—	—	—	—	—	—	—	—	—	—
<b>4. Ending balance of the year</b>	457,312,830.00	659,499,501.22	—	—	191,170,376.99	—	402,772,516.20	(822,894.34)	39,806,691.24	1,749,739,021.31

# Financial Report

(Prepared under PRC Accounting Standards)

## The Company's Statement of Changes in Shareholder's Equity in the First Half of 2012

Unit: RMB

Item	Share capital	Capital reserves	Less: treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Total shareholders' equity
<b>1. Ending balance of last year</b>	457,312,830.00	659,018,770.45	—	—	190,507,835.68	—	371,389,924.17	1,678,229,360.30
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting error	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
<b>2. Beginning balance of the year</b>	457,312,830.00	659,018,770.45	—	—	190,507,835.68	—	371,389,924.17	1,678,229,360.30
<b>3. Increase/decreased in the year</b>	—	13,776,885.60	—	—	—	—	21,189,079.92	34,965,965.52
I Net profit	—	—	—	—	—	—	34,908,464.82	34,908,464.82
II Other comprehensive income	—	13,776,885.60	—	—	—	—	—	13,776,885.60
Subtotal of I and II	—	13,776,885.60	—	—	—	—	34,908,464.82	48,685,350.42
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	—	—	(13,719,384.90)	(13,719,384.90)
a. Transfer to surplus reserves	—	—	—	—	—	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(13,719,384.90)	(13,719,384.90)
d. Others	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—
VII Others	—	—	—	—	—	—	—	—
<b>4. Ending balance of the year</b>	457,312,830.00	672,795,656.05	—	—	190,507,835.68	—	392,579,004.09	1,713,195,325.82

# Financial Report

(Prepared under PRC Accounting Standards)

## The Company's Statement of Changes in Shareholder's Equity in 2011

Unit: RMB

Item	Share capital	Capital reserves	Less: treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Total shareholders' equity
<b>1. Ending balance of last year</b>	457,312,830.00	678,207,132.85	—	—	183,084,726.12	—	327,447,579.61	1,646,052,268.58
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—
<b>2. Beginning balance of the year</b>	457,312,830.00	678,207,132.85	—	—	183,084,726.12	—	327,447,579.61	1,646,052,268.58
<b>3. Increase/decreased in the year</b>	—	(19,188,362.40)	—	—	7,423,109.56	—	43,942,344.56	32,177,091.72
I Net profit	—	—	—	—	—	—	74,231,095.62	74,231,095.62
II Other comprehensive income	—	(19,188,362.40)	—	—	—	—	—	(19,188,362.40)
Subtotal of I and II	—	(19,188,362.40)	—	—	—	—	74,231,095.62	55,042,733.22
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	7,423,109.56	—	(30,288,751.06)	(22,865,641.50)
a. Transfer to surplus reserves	—	—	—	—	7,423,109.56	—	(7,423,109.56)	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(22,865,641.50)	(22,865,641.50)
d. Others	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—
VII Others	—	—	—	—	—	—	—	—
<b>4. Ending balance of the year</b>	457,312,830.00	659,018,770.45	—	—	190,507,835.68	—	371,389,924.17	1,678,229,360.30



# Financial Report

(Prepared under PRC Accounting Standards)

## NOTES TO THE FINANCIAL STATEMENTS

### 1. BACKGROUND OF THE COMPANY

Shandong Xinhua Pharmaceutical Company Limited (here-in-after referred to the “Company”) was established in 1993, through the reorganisation of Shandong Xinhua Pharmaceutical Factory. The Company was listed in Hong Kong and issued its H Shares at Hong Kong Stock Exchange in December 1996 .The Company also listed in Shenzhen and issued its A Shares at Shenzhen Stock Exchange in July 1997. The Company became a foreign invested joint stock company in November 1998, with approval from Ministry of Foreign Trade and Economic Cooperation of the People’s Republic China. As approval, the Company issued additional 30 million ordinary A shares and decreased 3 million state-owned shares on September 2001.

The Company’s registered capital at 30 June 2012 is RMB457.313 million, the capital structure is as follow:

<b>Class of shares</b>	<b>Quantity of Shares</b>	<b>The proportion of the total share capital (%)</b>
I. Subtotal of restricted tradable outstanding shares	1	0.0002
A share restricted tradable Senior management-held shares	1	0.0002
II. Subtotal of no restricted tradable outstanding shares	457,312	99.9998
RMB ordinary shares (A share)	307,312	67.1995
Overseas foreign shares (H share)	150,000	32.8003
III. Total shares	<u>457,313</u>	<u>100.0000</u>

The Company is mainly engaged in developing, manufacturing and selling of bulk pharmaceuticals, preparations and chemicals products.

The Company’s controlling shareholder is Shandong Xinhua Pharmaceutical Group Co., Ltd. (hereinafter referred to as Shandong Xinhua Group). The ultimate control company is Hualu Holdings Co., Ltd. (hereinafter referred to as Hualu Holdings). The Company’s authority is controlled by the general meeting of shareholders. It exercises voting rights of company’s policy, financing, investment, profit distribution and other significant matters. The board of directors take responsibility for the general meeting of shareholders, and execute company’s business decision-making right. Managers takes charge of organization and implementation of issue approved by the general meeting of shareholders and the board of directors, also company’s production, operation and management.

According to the Circular “Lu Ke Gao Zi (2012) No. 19” issued by Shandong Province Science & Technology Bureau, Shandong Province Financial Bureau, Shandong Province State Tax Bureau, and Shandong Province Local Tax Bureau, the Company was accredited as a new and high-tech company .

The Company’s registered address is Chemical Area of Zibo New and High Technology Industrial Development Zone, Zibo, Shandong Province.

### 2. BASIS OF THE PREPARATION FOR FINANCIAL STATEMENTS

The financial statements have been prepared on the basis of going concern. According to the actually incurred business transactions and matters, in accordance with the Accounting Standards for Business Enterprises (“ASBEs”) and other related requirements issued by the Ministry of Finance, the financial statement have been prepared based on the Significant Accounting Policies Accountings, Estimates and preparation of consolidated financial statements.



## Notes to the Financial Statements (Continued)

### 3. THE STATEMENT OF COMPLIANCE WITH THE ASBES

The financial statements of the Company have been prepared in accordance with the requirements of the ASBES, and present truly and completely, in all material respects, the consolidated and the Company's financial position, the operations results as well as the cash flows.

### 4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT CONSOLIDATION

#### 1. Accounting Year

The fiscal year of the Company is from 1 January to 31 December of each calendar year.

#### 2. Functional currency

The Company's functional currency is Renminbi ("RMB").

#### 3. Basis of accounting and principle of measurement

The financial statements have been prepared on an accrual basis. Except for the held-for-trading financial assets and available-for-sale financial assets which measured at their fair value, the principle of measurement of the Financial Statements is historical cost.

#### 4. Cash and Cash Equivalents

The cash in the Cash Flow Statement refers to the cash-on-hand and those deposits, which are available for payment at any time. The cash equivalents refer to short-term (due within 3 months since the date of purchase) and highly liquidated investments that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

#### 5. Foreign Currency Transactions

##### 5.1 Foreign Currency Transactions

Foreign currency transactions shall be translated into RMB according with the spot exchange rate on the first day of the month, in which the transactions occurred. At the balance sheet date, foreign currency monetary items shall be translated into RMB using the spot exchange rate on the balance sheet date. Exchange differences arising from the differences between the spot exchange rate prevailing at the balance sheet date and those spot rates used on initial recognition or at the previous balance sheet date are recognized in profit or loss for the current period, except for those arising from borrowing in foreign currencies or production of qualified assets that are eligible for capitalisation, difference related to the principal and interest on a specific-purpose borrowing denominated in foreign currency for acquisitions, constructions or production of the qualified assets, which capitalised as cost of the related assets. Foreign currency non-momentary items measured in fair value are translated using the spot exchange rate at the date when the fair value was determined. Differences between the translated amount and the original amount are accounted for as changes in fair value and included in profit or loss for the current period. Foreign currency non-monetary items measured in historic cost using the spot exchange rate when the transaction occurred.

##### 5.2 Translation of Financial Statements Denominated in Foreign Currencies

Assets and liabilities in the balance sheet denominated in foreign currencies are translated at the spot rate prevailing at the balance sheet date. The equity items, except for undistributed profits, are translated at the spot exchange rate when they occurred. Income and expenses in the income statement denominated in foreign currencies are translated at the spot exchange rate at the date of the transactions. The resulting differences are presented as a separated component of shareholders' equity in the balance sheet. Cash flow dominated in foreign currency or from the foreign subsidiaries are translated at the spot rate when occurs. Effects on cash arising from the change of exchange rate are presented as separate item in the cash flow statement.

## Notes to the Financial Statements (Continued)

### 6. Financial Assets and Financial Liabilities

#### 6.1 Classification of financial assets

Financial assets are classified into the following 4 categories: financial assets at fair value through profit or loss, available-for-sale financial assets, receivables and held-to-maturity investments, the classification depends on the intention and economic substance to hold the financial assets.

- (1) Financial assets at fair value through profit or loss are with the financial assets held for short time, and presented in the balance sheet as held-for-trading financial assets.
- (2) Available-for-sale financial assets are non-derivative financial assets that are either designated in this category upon initial recognition or not classified under other categories.
- (3) Receivable refers to non-derivative financial assets for which there is no quotation in the active market with fixed or determinable amount. They include Notes receivable, Accounts receivable, Interests receivable, Dividends receivable and other accounts receivables.
- (4) Held-to-maturity investments refer to the non-derivate financial assets with fixed or determinable recoverable amount and fixed maturity that the management has the positive institution and ability to hold to maturity.

#### 6.2 Recognition and measurement of financial assets

The financial assets are initially recognised at their fair value. Transaction cost related to the acquisitions of financial assets at fair value through profit or loss is expensed to the profit or loss as incurred. Transaction costs are included in the carrying amount of assets at initial recognition. Financial asset are decongested when the contractual rights to receive cash flows from the financial assets expired, or all the risks and rewards related to the ownership of a financial assets have been substantively transferred to the transferee.

After initial recognition, the Company shall measure the financial assets at fair value through profit or loss and available-for-sale financial assets at their fair values.

Changes in fair value of financial assets at fair value through profit or loss are recorded in the gain or loss from changes in fair value. Interests or cash dividends received during the holding period are recognised as investment income. On disposal, the difference between fair value and initial recognised amount are recognised as investment income and adjust the gain or loss from changes in fair value accordingly.

Changes in fair value of available-for-sale financial assets are recognised in shareholders' equity. Interests calculated using the effective interest method during the holding period is recognised as investment income. Dividends from available-for-sale equity instruments are recognised as investment income when these financial assets are decongested; the differences between the disposal proceeds and the carrying amount of assets after deducting the accumulated fair value adjustments are recognised as investment income.

#### 6.3 Impairment of financial assets

Except for financial assets at fair value through profit or loss, the Company shall assess the book value of financial assets on the balance sheet date. Provision for impairment loss is made if there is objective evidence showing that a financial asset is impaired.

If financial assets measured by amortized cost decline, provision for impairment will be made according to the difference between the lower present value and the book value of the estimated cash flow (excluding future credit losses that have not yet occurred). If there is objective evidence that the value of financial assets has been restored, and objectively relates to the matters following the recognition of such loss, the previously recognized impairment loss will be recognized as profit or loss for the period.



## Notes to the Financial Statements (Continued)

If available for sale financial assets at fair value has a significant or prolonged decline, the cumulative loss due to the decline at fair value and originally recorded in the shareholders equity will be included in impairment loss. If impairment of available for sale financial assets has been recognized, and thereafter the fair value increases where such increase objectively relates to matters following the recognition of the originally impairment loss, the previously recognized impairment loss will be accounted as profit or loss for the period. For the recognized impairment loss of available for sale financial assets, the fair value increase thereafter is directly accounted into shareholders' equity.

### 6.4 Transfer of financial assets

If financial assets meet one of the following conditions, it is derecognized: (1) The contractual rights to receive cash flows of the financial assets terminate; (2) The financial assets have been transferred and major risk and rewards of the Company's financial assets ownership transferred to the transferee; (3) The financial assets have been transferred, and the Company gives up the control of the financial assets, neither transfer nor retain the risk and rewards of financial assets ownership.

If the Company neither transfer nor retain risk and rewards of ownership, and does not give up the control of the financial asset, financial asset and liability is recognized in accordance with its continuing involvement in transferred financial asset. Continuing involvement in transferred financial assets means the risk level caused by financial assets changes.

If the entire transfer of financial asset qualifies for derecognition, the difference between the book value of transferred financial assets and the sum of accumulated fair value changes due to other comprehensive income and transfer price are recognized as profit or loss for the period.

If part of the transfer of financial asset qualifies for derecognition, the book value is amortized based on the fair value of recognized and derecognized part. The difference between the amortized book value of transferred financial assets and the sum of accumulated fair value changes due to other comprehensive income and transfer price are recognized as profit or loss for the period.

### 6.5 Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities upon initial recognition.

Financial liabilities at fair value through profit and loss include those held-for-trading financial liabilities and those designated as financial liabilities at fair value through profit or loss upon initial recognition. These financial liabilities are subsequently measured at fair value. The gains or losses from the change of fair value and the dividends or interests expenses relating to these financial liabilities are recognized as profit or loss for the period.

Other financial liabilities are measurement at adopt method of actually rate, subsequent measured in using effective interest method amortized cost.

When financial liabilities of current obligations relieve as whole or a part, it is derecognized. The difference between its book value and payment are recognized as profit or loss for the period.

### 6.6 Determination method about fair value of Financial assets and Financial liabilities

For the active financial assets or financial liabilities in the market, the quotations will be used for determination of their fair value. In an active market, the company has held financial assets or financial liabilities to be assumed by the current bid price for the corresponding assets or liabilities at fair value; The Company intends to acquire financial assets or financial liabilities have been assumed by the current asking price for the corresponding assets or liabilities at fair value. The economic environment has major change recently after trade day. Refer to interest rate or current price of financial assets or liabilities, adjust recent trade market price to ensure the fair value of financial assets or liabilities. The Company has sufficient evidences to prove recent market price of transaction is not fair value, and it makes appropriate adjustments to market price to determine fair value of financial assets or liabilities.

## Notes to the Financial Statements (Continued)

For the inactive financial instruments, the company will adopt the evaluation technology to determine their fair value. Evaluation technology reference to the transaction between knowledgeable, willing parties to recent market prices used in transactions and the same current other financial assets at fair value, discounted cash flow analysis and option pricing models.

### 7. Accounting for provision of bad debt loss

The Company sets the following to be the standards for recognising certain receivables as bad debt losses: when a debtor goes into liquidation or bankruptcy; or the debtor has insufficient assets to distinguish its liabilities; or the debtor has a short fall of cash; or there is a severe natural disaster that leads the debtor to suspend their operations and means they are unable to settle the debts in the foreseeable period; or the debtor allows the debt settlement payments fall overdue; or other evidence showing that the amount will not or probably not be able to be recovered.

Bad debt losses are accounted for using the allowance method, and at the end of the year an impairment test is carried out on the individual bad debt or in combination with other factors. Provisions accounted for bad debts are recognised in current gains or losses. When there is evidence showing that the amount is made to be recovered, it is written off against the allowance accounted for in receivables after the Company's approval procedures has been completed.

- (1) Accounts receivable for individually significant and individual provision for bad debts

Determine standard basis amount for individual significant	Individual accounts receivable amount more than RMB5 million seen as a significant receivable
Provision method for amount individually significant and individual provision for bad debt	According to whether the future cash flow is lower than the difference between its book value

- (2) Accounts receivable provision for bad debts according to combination

#### Determine the basis of combination

Combination with aging	Dividing combination on the basis of aging for the credit risk characteristics
Combination with the relationship between trading partners	Dividing combination on the basis of related party transaction
Combination with special accounts	Mainly including taxes to be deductible, amounts receivable from export tax rebates and other special circumstances

#### Provision method of provision of bad debts according to combination

Combination with aging	Provision of bad debts according to the aging analysis
Combination with the relationship between trading partners	Provision of bad debts according to other methods
Combination with special accounts	Provision of bad debts according to other methods



## Notes to the Financial Statements (Continued)

- 1) The preparation for provision of bad debts by adopting the aging analysis as following:

<b>Aging</b>	<b>Withdrawal percentage of Accounts receivable (%)</b>	<b>Withdrawal percentage of Other receivable (%)</b>
Within one year	0.5	0.5
1-2 years	20	20
2-3 years	60	60
More than 3 years	100	100

- 2) Other method for provision of bad debts for accounts receivable

Relationship with trading partner	No provision for bad debts for related parties
Combination with special accounts	No provision for bad debts for taxes to be deductible, amounts receivable from export tax rebates and other special circumstances

- (3) Individual accounts receivable amount is not significant but is an individual provision for bad debts

The reason for individual provision of bad debts	Individual accounts receivable amount is not significant, and in accordance with the provision for bad debts the combination does not reflect the risk characteristics
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Method for provision of bad debts	Provision of bad debts according to future cash flow being lower than the differences in book value
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## 8. Inventories

Inventories mainly include raw materials, packaging materials, low-value consumables work-in-process, finished products and goods in stock.

The company adopts perpetual inventory methods, the purchased inventories shall be accrued at the actual cost; the purchase of warehousing of various inventories in the company are priced based on the actual cost; the low-value consumable products and packing material will be accrued to the cost at on time.

At the end of the period, provision for the decline in the value of inventories is made if the inventories are damaged, become partially or completely obsolete or are sold at a price lower than cost. The provisions for finished goods and large-amount of raw materials are made on the excess of their costs over their lower net realisable values on an item-by-item basis. Other inventories items are assessed on a collective basis.

Net realisable value of goods-in-stock, work-in-progress or held-for-sale raw materials are determined by their estimated sales less the related selling expenses and taxes. Net realisable value for raw material held for production are determined by the estimated selling price of the finished goods less the estimated cost of completion, selling expenses and taxes.

## Notes to the Financial Statements (Continued)

### 9. Long-term equity Investments

#### 9.1 Classification of Long-term Investments

Long-term Investments mainly include equity investments in investees over which the Company can exercise control, joint control or can exercise significant influence as well as those that do not have quoted prices in an active market and whose fair value can not be reliably determined and over which the Company cannot exercise control, joint control or exercise significant influence.

The term “Joint control” refers to the control over an economic activity in accordance with the contracts and agreements. The determination of joint control is based on the fact that there is no unilateral control over the operating activities of the entity. The decision relating to the operations must be made by all parties’ unanimous agreement.

Significant influences refers to the right to participate in making decisions on the financial and operating policies of an investee, but not to control or exercise joint control together with other parties over the formulation of these policies. The existence of significant influence is mainly based on the fact that directly, or indirectly through subsidiaries the Group held more than 20% (including 20%) and less than 50% in the investee’s voting shares. If there is evidence showing that the Company has no rights to take part in the decision of the investee’s operating decision, it will not constitute significant influence.

#### 9.2 Initial Measurement of Long-term Equity Investment

The initial investment cost of a long-term equity investment acquired through a business combination involving an enterprise under common control is the carrying amount of the owners’ equity of the party being absorbed at the combination date. The initial investment cost of the long-term equity investment acquired through a business combination but not involving an enterprise under common control shall be the aggregate cost of assets given.

Apart from the long-term equity investment acquired through a business combination as mentioned above, the initial investment cost of long-term equity investment acquired by payment of cash shall be the actual purchase price that has been paid, that includes those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; For a long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the securities issued; For a long-term equity investment invested by an investor, the initial investment cost shall be the value stipulated in the investment contract or agreement; For a long-term equity investment acquired through an exchange of non-monetary assets or debt restricting transaction, the initial investment cost shall be determined in accordance with relevant accounting standards.

#### 9.3 Subsequent Measurement of Long-term Equity Investment

Investments in subsidiaries are accounted for using the cost method and adjusted by the equity method with the preparation of the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method. Investments, where the Company does not have control, joint control or significant influence over the investee and the investment is not quoted in an active market and its fair value cannot be reliably measured, shall be accounted for using the cost method. Long-term equity investment where the Company does not have control, joint control or significant influence, but the investment is quoted in an active market and its fair value can be reliably measured are accounted as available-for-sale financial assets.



## Notes to the Financial Statements (Continued)

When the company adopts the cost method, the long-term equity investment valuation as its initial investment cost, and when the additional investment or recovers, adjusting the cost of long term equity investment. When applying the equity method, the investment gain or loss for the period represents the Group's share of the net profits or losses made by the investee for the current period. The Company recognises its share of the investee's net profits or losses based on the fair value of the investee's individual separately identifiable assets at the acquisition date, the adjustments to align the accounting policies and accounting period of the Company, unrealised profit or loss resulting from the Company and the associates and joint venture are eliminated for those attributable to the Company based on its share in the investee. If the first time is held prior to the implementation date of associates and joint ventures in the long-term equity investments, if their existence of an equity investment in the investment-related debit balances, it will be deducted from the original straight-line amortisation of the remaining period of the equity investment debit balance confirmation Investment income.

### 9.4 Switching of cost method and equity method

The company will convert to use the cost method for long-term investment measured using the equity method when the share of equity in the investee decreases so that the Company has no longer joint control or significant influence over the investee and there is no quoted prices in an active market for the investments and whose fair value can not be measured reliably when the Company has ability to exercise control over the investee due to such reason as increase in investment, the measurement of the investment is charged to apply cost method. For the long-term equity investments over which the Company has gained joint control, but not control, due to such reason as increase in investment or when the Company no longer has the ability to exercise control but has the ability to exercise joint control or significant influence over the investee due to such reasons as disposal of investment, the measurement will change from cost method to equity method.

### 9.5 Disposal of Long-term Investments

On disposal of long-term investment, the difference between the carrying value of the investments is recorded as investment gain or loss. For the long-term investments using the equity method, the share of owners' equity other than profit or loss, of the investee included in the owner's equity of the Company will be transferred to reckon into owners' equity as a result of other change of investee owners' equity except net profit. If the company deals the investment, investment gain or loss is reckoned into the period.



# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 10. Investment properties

Investment properties for the period including rented land use right and rented buildings.

Investment properties are initially measured at initial cost. The cost of Investment properties purchased includes purchasing price, tax, and other expenses directly related to the assets. The cost of Investment properties constructed by the Company itself is the cost of construction incurred to bring the assets to its intended usage condition.

Investment properties are subsequently measured by cost model. Depreciation is provided to investment properties over their estimated useful lives and after taking into account of their estimate residual value, using straight-line basis. The expected usage life of the investment properties, the net residual value rate and the annual depreciation (amortisation) rates of the investment properties are as follows:

<b>Types</b>	<b>Depreciable life</b> (year)	<b>Estimated residual value rate</b> (%)	<b>Annual depreciation rate</b> (%)
Land use right	Benefit from the transfer of life	0	—
Building & house	20 years	5	4.75

When the usage of the investment properties is changed to own-used, they will be accounted for as fixed assets or intangible assets from the date of change. When the usage of own-used properties change to held for rental income or for capital appreciation, the properties will be accounted for from fixed assets or intangible assets to investment properties from the date of change. The carrying amount of the assets immediately before the change will be adopted as the cost immediately after the change.

Investment properties are derecognised on disposal or retirement that these shall be no economic benefit after disposal. When the investment properties are sold, transferred, scrapped or changed, the proceeds received after deducting their carrying amount and related taxes are recognised in profit or loss for the period.

### 11. Fixed Assets

#### 11.1 Recognition of Fixed assets

Fixed assets are tangible assets with useful lives for more than one accounting year, and held for use in the production goods, rendering of services, for rental, or for administrative purposes and it is probable that economic benefits associated with the assets will flow to the Company; and the cost of the asset can be measured reliably.

#### 11.2 Classification of Fixed assets

Fixed assets include house & buildings, machinery & equipment, transportation equipment, electronic instrument, office equipment and other equipment.

#### 11.3 Measurement of Fixed assets

Fixed assets are initially measured at actual cost of acquisition, among which, the cost of a purchased fixed asset comprises the purchase price VAT, import, related taxes and any directly attributable expenditure for bringing the assets to working condition for its intended use. The cost of self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use. The cost of a fixed asset invested by an investor are determined in accordance with the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair in this case fair value issued. The cost of a fixed assets acquired by finance lease are the lower of the fair value of the leased asset and the present value of the minimum lease payments at the commencement of the lease term.



## Notes to the Financial Statements (Continued)

### 11.4 Depreciation of Fixed assets

Fixed assets (excluding those fully depreciated yet still used in operation) are depreciated on a straight-line basis. The estimated net residual value at 5%. Depreciation of a fixed asset shall be provided for monthly and, depending on the purpose for which the fixed asset is used, shall either be included as part of the cost of the related assets or recognised in profit or loss for the current period. The useful life and rate of depreciation are as follows:

Items	Depreciation period (year)	Annual Depreciation rate (%)
House & Buildings	20	4.75
Machinery & equipment	10	9.50
Electronic instrument	5	19.00
Office equipment and vehicles	5	19.00

### 11.5 Subsequent expenditure of fixed assets

The subsequent expenditures related to a fixed asset, mainly include expenses for repair, renovation and mending, improvement which shall be included in the cost of the fixed asset if it meets the recognition condition of a fixed assets. The carrying amount of the replaced parts is derecognised. Expenditure not quantified for recognition as a fixed asset, once it happens, it will be recognised into current gain or loss.

11.6 The company reviews the estimated useful life, estimated net residual value, and the depreciation method of the fixed assets at the end of each year. Any change happened shall be treated as changes of accounting estimates.

11.7 When fixed assets are disposed, or through the use or disposal of can not be expected to produce economic benefits, the fixed asset is derecognised. The income of fixed assets sold, transferred, scrapped or destroyed deducts net book value and related taxes reckoning in current profit or loss.

## 12. Construction-in-progress

### 12.1 Measurement of construction progress

Construction-in-progress measured at the expenditure actually incurred. The cost of construction work undertaken by the Company itself includes direct materials cost, direct labour cost, and direct construction expenses. The cost of constructing construction work is determined according to the amount paid to the contractor. The cost of equipment installation is determined according to the cost of equipment, installation charges and test run expenses. Cost of construction-in-progress also includes capitalised borrowing costs and gain or loss from currency exchange.

### 12.2 Timing for transfer of construction-in-progress to fixed assets

Construction-in-progress is transferred to fixed assets at the date of reaching its usable conditions at an estimated amount based on the construction budget, construction price, or actual cost of construction. Depreciation is charged from the next month after it is put into use. The value of the asset will be adjusted when the resolution procedures are completed

## Notes to the Financial Statements (Continued)

### 13. Borrowing Cost

Borrowing costs include interest, amortisation of discount or premium related to borrowings, ancillary costs incurred in connection with the borrowings, and exchange difference arising from foreign currency borrowings. Borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalisation of borrowing costs can commence only when all of the following conditions are satisfied; expenditure for the asset are being incurred, borrowing costs are being incurred; and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. The amount of other borrowing costs incurred shall be recognised as an expense in the period in which they are incurred.

When funds are borrowed under a specific-purpose borrowing the amount of interest to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; when funds are borrowed under general-purpose borrowings the amount of interest to be capitalised is determinate by applying the weighted average of the interest rate applicable to the general purpose borrowing to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. Capitalisation rate confirmed as general borrowing weighted average rate.

Qualifying assets are assets (fixed assets, investment property, inventories) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months. Capitalisation of borrowing costs shall cease when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale.

### 14. Intangible Assets

#### 14.1 The pricing method of intangible assets

The Company's intangible assets mainly include land use right, software use right, non-patented technology, etc. The cost of a purchased intangible asset is determined by the expenditures actually incurred and other costs. The cost of an intangible asset invested by an investor is determined in accordance with the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair, fair value will be used.

#### 14.2 Amortisation of intangible assets

The cost of land use right is amortised evenly over the whole period of the right. The cost of software use right and non-patented technology of the Company is amortised evenly over the shorter period of the expected useful life, the contractual beneficial period and the useful life specified in the law, the rights, software use rights are amortised over 5 years. The amortisation charge shall be recognised as cost of an intangible asset or profit or loss for the current period by the object of benefit derives from the assets.

14.3 For an intangible asset with a finite useful life, the Company reviews the useful life and amortisation method at each financial year-end. If there are changes, adjustments will be made. For an intangible asset with an indefinite useful life, the Company reassesses the useful life of the asset in each accounting period. If there is evidence indicating that the useful life of that intangible asset is finite, the Company shall estimate the useful life of that asset and amortised accordingly.



### 15. Research and Development

According to the nature of expenditure and the uncertainty of the final achievement, expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase of an internal research and development project is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is recognised as an intangible asset when all of the following conditions are satisfied: (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (b) the intention to complete the intangible asset and use or sell it; (c) there is a market for the output of the intangible asset or the intangible asset itself; (d) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; (e) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure on the development phase which does not meet all above the conditions is included in the profit or loss in the period in which it is incurred. Expenditure in the development phase which has been included in the profit or loss in the prior period will not be recognised as intangible asset in subsequent period. The capitalised expenditure in the development phase shall be recognised as an intangible asset when the asset is ready to its intended use.

### 16. Impairment for Non-financial Assets

The Company assesses at each balance sheet date whether there is any indication of impairment in relation to long-term equity investments, fixed assets, construction-in-progress, intangible assets of finite useful life. If there is any of the following indications, this indicates that an asset might have been impaired, the Company will then carry out an impairment test. Goodwill and any intangible asset with an indefinite useful life shall be tested for impairment annually, irrespective of whether there is any indication that the asset may be impaired. If it is not possible to estimate the recoverable amount of an individual asset, the Company carries out tests on basis of the asset group or set of asset group to which the asset belongs.

If the recoverable amount of an asset is less than its carrying amount, the difference shall be recognized as an impairment loss. Once the impairment loss is recognised, it shall not be reversed in subsequent periods. The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flow expected to be derived from the asset.

The following are indications that an asset may be impaired: (a) during the period, the market value of the asset has declined significantly more than that would be expected as a result of the passage of time or normal use; (b) there are significant changes with an adverse effect on the Company have taken place during the period, or will be taken place in the near future, in technology, economic or legal environment. in which the Company operates; (c) the market interest rates or other market rates of return on investments have increased during the period, and these increase are likely to affect the discount rate used in calculating the present value of an asset's expected future cash flows and decrease the assets recoverable amount materially; (d) evidence is available of obsolescence or physical damage of an asset; (e) an asset has become or is becoming idle, the Company discontinues using an asset or plans to dispose of an asset before the previously expected date; (f) evidence is available from internal reports that indicates that the economic performance of an asset is, or will be, worse than expected, for example, the net cash flows generated or operating profit realised (or operating loss arising) from the asset are much less (or more) than the budgeted amounts.; (g) other indications that an asset may be impaired.

### 17. Goodwill

Goodwill is the amount at the acquisition date or purchasing date, of the investment cost or cost of business combination not involving enterprises under common control, that exceeds the acquirer's interest in the fair value of the investees' or acquirer's identifiable net assets.

Goodwill related to subsidiaries is presented in consolidated financial statements as a separate item. Goodwill related to joint ventures and associates are included in the carrying amount of long-term equity investment.

## Notes to the Financial Statements (Continued)

### 18. Employee Benefits

In the accounting period in which an employee has rendered service to the Company, employee benefits payable are recognised as a liability. Employee benefits are accounted as cost of related assets or charged to profit or loss for the current period according to the benefits derived from the employee service. Compensation for the termination of an employment relationship with employees is included in the profit or loss in the current period.

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, social security contributions, housing funds, union running costs and employee education costs, and other expenditures incurred in exchange for service rendered by employees.

### 19. Provision

#### 19.1 Recognition of provision

A provision is recognised as a liability when an obligation related to a contingency, such as guarantees provided to outsiders, pending litigations or arbitrations, product warranties, redundancy plan, onerous contract, reconstructing, expected disposal of fixed assets, satisfied all of the following conditions: (a) the obligation is a present obligation of the Company; (b) it is probable that an outflow of economic benefits will be required to settle the obligation; (c) the amount of the obligation can be measured reliably.

#### 19.2 Measurement of provision

A provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation. Considering the factors, such as risk, uncertainties, and time value of money related to the contingencies. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflows. The Company reviews the carrying amount of a provision at the balance sheet date. Where there is a charge, clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount shall be adjusted to the current best estimate.

### 20. Revenue

The Company's revenue is mainly from sale of goods, rendering of services and alienating the rights to use assets. Revenue is recognised when the amount of revenue can be measured reliably and associated economic benefit will flow into the Company when the following conditions are satisfied, for more details as follows:

#### 20.1 Revenue from the sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied (1)the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Company retains neither continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow into the Company; and (5) the associated costs incurred or to be incurred can be measured reliably.

#### 20.2 Revenue from rendering of services

Revenue from the rendering of services is recognised only when all of the following conditions are satisfied: (a) the amount of revenue and costs for the transaction involving the rendering of services can be measured reliably; (b) the associated economic benefits can flow into the Company; and (c) the stage of completion of the service can be measured reliably. When the provision of service is commenced and completed in the same year, revenue is recognised at the completion; where in different accounting years the revenue is recognised as a percentage of completion at the balance sheet date if the outcome of the transaction can be estimated reliably. The percentage of completion shall be determined by the cost incurred and the estimated whole cost.



## Notes to the Financial Statements (Continued)

### 20.3 Revenue from alienating the rights to use assets

Revenue from alienating the rights to use assets is recognised only when the associated economic benefit can flow into the Company, and the amount of revenue can be measured reliably.

## 21. Government grants

Only the governmental allowance meeting the following conditions will be confirmed: If the government grant is the form of a transfer of monetary assets, measured at the received amounts. If the government grant is in a form of a non-monetary asset, it is measured at the fair values; if the fair values are not reliably given, they will be calculated at the nominal amounts of RMB1.

Government grant related to assets is recognised as the deferred income and every amortised over the usage life of relevant assets, to profit and loss for a government grant related to income, if the grant is a compensation in related expenses or losses to the incurred in subsequent periods, the grant is recognised as deferred income and recognised in profit or loss over the periods. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period.

## 22. Deferred Tax Assets and Deferred Tax Liabilities

A deferred tax asset and deferred tax liability is recognised based on the difference (temporary difference) between the carrying amount of an asset or liability and its tax base. The deferred tax asset is recognised for the carry forward of unused deductible losses and tax credits to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised. At the balance sheet date, deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

The Company recognises the corresponding deferred tax asset for deductible temporary differences to the extent of the amount of taxable profits that will be available in the future and which can be deducted from the temporary difference. For the recognised deferred tax assets, if it is unlikely to obtain sufficient taxable profits to offset against the benefit of the deferred tax asset. Any such reduction in amount shall be subsequently reversed where it becomes probable that sufficient taxable profits will be available.

## 23. Accounting Processing Method of Income Tax

The Company accounted for the income tax method. Income tax expenses include income tax and deferred income tax expenses. The income tax associated with the events and transactions directly included in the owners' equity is included in the owners' equity. Deferred income taxes derived from business combination are included in the carrying amount of goodwill, except for that above; the income tax expense is included in the profit or loss in the current period.

The current income tax expense refers to the tax payable, which is calculated according to the tax laws on the events and transactions incurred in the current period. The deferred income tax refers to the difference between the carrying amount and the deferred tax assets and deferred tax liabilities at the year-end recognised in the method of debit in using balance sheet liability method.

## Notes to the Financial Statements (Continued)

### 24. Business Combination

Business combination refers to the event or transaction where the Company combines two or more separate enterprises as one reporting entity. The Company shall recognise the assets and liabilities derived from business combination at the combination date or acquisition date. A combination date or acquisition date is the date on which the Company effectively obtains control of the company being absorbed.

#### 24.1 Business combination involving enterprises under common contract

The assets and liabilities acquired through a business combination involving an enterprise under common control is measured by the acquirer according to the carrying amount recorded by the acquirer's at the combination date. The difference between the consideration of combination and the carrying amount of the acquired net assets is included in capital reserve; if the capital reserve is not sufficient, it is adjusted in retained earnings.

#### 24.2 Business Combination not involving enterprises under common control

The cost of business combinations not involving an enterprise under common control is the aggregate of the fair value, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquire. When the costs of business combinations exceed the acquirer's identifiable net assets, the difference is recognised as goodwill. When the costs of business combination less than the acquirer's identifiable net assets, after reassessment, the difference is included in the profit or loss in the current period.

### 25. Basis of Preparation of Consolidated Financial Statements

#### 25.1 Scope of Consolidation

The consolidated financial statements include subsidiaries and special purpose entities effectively controlled by the Company.

#### 25.2 Preparation of consolidated financial statements

Consolidated financial statements have been prepared in accordance with the ASBEs No. 33 — "Consolidated Financial Statements" and relevant supplementary regulations. All significant transactions and balances between the Company and its subsidiaries are eliminated for the purpose of consolidation. The equity of subsidiaries not held by the parent company shall be presented separately as minority shareholders' equity in consolidated shareholders' equity.

Any difference arising from the inconformity of accounting year or accounting policies between the subsidiaries and the Company shall be adjusted in the consolidated financial statements.

When preparing the consolidated financial statements, if the Company acquired the subsidiary through business combination not involving enterprise under common control, the separate financial statements shall be adjusted based on the fair value of identifiable net asset at the acquisition date. If the subsidiary is acquired through business combination involving enterprise under common control, the consolidated financial statements shall included the carrying amount of assets, liabilities, operating result and cash flow of the subsidiary at the beginning of the current period.



## Notes to the Financial Statements (Continued)

### 5. CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS OF PRIOR PERIOD'S

The company has no change in accounting policies, alteration of accounting estimates and rectification for significant errors during January to June 2012.

### 6. TAXES

Major taxes and tax rates applicable to the Company are as follows:

#### 1. Income tax

The Company is a high-tech enterprise. According to "The People's Republic of China Enterprise Income Tax Law", the Company enjoys the enterprise income tax preferential policies at the rate of 15% for three years from the date of accreditation with a high-tech enterprise. The applicable income tax is 15%.

Zibo Xinhua - Perrigo Pharmaceutical Co., Ltd., the Company's subsidiary, is a foreign-invested enterprise and enjoys the income tax 'two exemptions and three half' tax incentives. 2012 falls in the 50% tax-free period. Except for the aforementioned subsidiary, the applicable tax rate for the Company's other subsidiaries is 25%.

#### 2. Value added tax

The Company is subject to value added tax for its sales revenues at a VAT rate of 17% or 13% for domestic sales and 0% for export sales.

In purchasing raw materials, the input VAT is deductible against output VAT at the rate of 17%.

The VAT payable for the period is the net amount of output VAT after deducting input VAT.

#### 3. Business tax

Business tax is based on the design revenue, at a rate of 5%.

#### 4. Urban maintenance & construction tax and educational surcharges

Urban maintenance & construction tax and educational surcharges are based on the amount of VAT payable and sales tax payable, at the rates of 7%, 3% and 2% respectively.

#### 5. Property tax

Property tax is levied based on 70% of the original cost of the building property of the Company at the tax rate of 1.2%. The rental income from leasing its building property of the Company is charged at a rate of 12%.



# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 7. BUSINESS COMBINATION & CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Details of Subsidiaries

Name of company	Type of Subsidiaries	Place of registration	Nature of business	Registered capital	Business Scope	Investment at the end of the year	Other amount substantively constituted as net investment	Percentage of shareholding	Percentage of voting rights	Included in Consolidated Financial Statements	Minority Interests	Amounts of profit or loss for the year attributable to minority shareholders' equity	The exceed amount taken up by the equity of the Company's shareholders for the loss for the year attributable to minority shareholders over beginning balance of minority shareholders' equity
Shandong Xinhua Pharmaceutical Trade Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB48,498.9 million	Drug sales	RMB48.58 million	—	100	100	YES	—	—	—
Shandong Xinhua Pharmaceutical Export & Import Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB5 million	Engaged in goods, and technology Import and export and conducting counter trade, entrepot trade	RMB5.5 million	—	100	100	YES	—	—	—
Zibo Xinhua Pharmaceutical Design Institute Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB3 million	Medical Engineering design	RMB3.04 million	—	100	100	YES	—	—	—
Zibo Xinhua Drug Store Chain Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB2 million	Retailing of medicines	RMB2.16 million	—	100	100	YES	—	—	—
Shandong Xinhua Pharmaceutical (European) GmbH	Control subsidiary	Hamburg, Germany	Sale of Medical Chemicals	789,000 EUR	Pharmaceutical raw materials and work in process	500,000 EUR	—	65	65	YES	RMB4.66 million	—	—
Zibo Xinhua-Eastwest Pharmaceutical Company Limited	Control subsidiary	Zibo, Shandong	Tuning of Medical Chemical Manufac	1.5 million us dollars	Production and sales of non-calcium poly Kaposi APIs	1.125 million us dollars	—	75	75	YES	RMB3.65 million	—	—
Zibo Xinhua-Perigo Pharmaceutical Company Limited	Control subsidiary	Zibo, Shandong	Tuning of Medical Chemical Manufac	6million us dollars	Production and sales of bulk drugs Ibuprofen	3,006 million us dollars	—	50.1	50.1	YES	RMB33.18 millions	—	—
Xinhua Pharmaceutical (Shouguang) Company Limited	Wholly-owned subsidiary	Shouguang, Shandong	Tuning of Medical Chemical Manufac	230 million	Production and sales of chemical products	230.71 million	—	100	100	Yes	—	—	—
Xinhua Zibo Properties Company Limited	wholly-owned subsidiary	Zibo, Shandong	Developing of real estate	20millions	Developing of real estate	20 million	—	100	100	YES	—	—	—
Xinhua Pharmaceutical (Gaomi) Company Limited	wholly-owned subsidiary	Gaomi, Shandong	Tuning of Medical Chemical Manufac	19millions	Production and sales of chemical equipment and accessories	37.15 million	—	100	100	YES	—	—	—

- 1) Shandong Xinhua Pharmaceutical Trade Company Limited (hereafter referred to as “Pharm. Trade”) was established on 30 August 2004 with a registered capital of RMB5 million by the Company and Zibo Xinhua Drug Store Chain Company Limited (subsidiary of the Company, hereafter referred to as “Zibo Drug Store”), they held 98% and 2% of the registered capital in Pharm Trade, respectively. In March 2005, the registered capital of Pharm Trade increased by RMB43,498,900, among which, RMB42,628,900 was contributed by the Company in tangible assets, and RMB870,000 was contributed by Zibo Drug Store in cash. There has been no change in proportion of shareholding in Pharm Trade of each shareholder’s equity

On 9 November, 2009, the Company entered into an equity transfer contract with Zibo Drug Store whereby the 2% equity interests held by Zibo Drug Store was transferred to the Company at a consideration of RMB1,053,614. Pharm Trade is a wholly owned subsidiary of the Company.



## Notes to the Financial Statements (Continued)

- 2) Shandong Xinhua Pharmaceutical Export & Import Company Limited (hereafter referred to as “Xinhua Export & Import”) was established on 15 May 2006 with a registered capital of RMB3 million by Pharm Trade and Zibo Xinhua Drug Store Chain Company Limited, and carrying on held 98% and 2% of the equity interests in Xinhua Export and Import respectively. The principle operation of Xinhua Export & Import is exporting & importing of goods and technology, entrepot & counter trade business.

On April 30, 2009 Xinhua Export & Import the meeting of the Board of Directors, the registered capital changes from 3 million to 5 million is approved. Also, it is verified by Audit Report Lu Xin Hui Yan Zi (2009) No.21 issued by Shandong Xin Cheng CPA Co., Ltd.

On 5 November, 2009, the Company entered into a contract with Zibo Xinhua Drug Store Chain Company Limited whereby the 2% equity interests in Xinhua Export and Import held by Zibo Xinhua Drug Store Chain Company Limited was transferred to the Company at a consideration of RMB149,880.

On 4 January, 2010, the Company entered into an equity transfer contract with Shandong Xinhua Pharmaceutical Trade Company Limited whereby the 98% equity interests in Xinhua Export and Import held by Shandong Xinhua Pharmaceutical Trade Company Limited was transferred to the Company at a consideration of RMB5,350,000.

- 3) Zibo Xinhua Pharmaceutical Design Institute Company Limited (hereinafter referred to as the “Design Institute”) was formed in March 2002 with a registered capital of RMB2,000,000, by the Company and Xinhua Pharmaceutical Group Company Limited (hereinafter referred to as Shandong Xinhua Group). They hold 90% and 10% of the registered capital of Design Institute respectively.

On 30 July, 2009, the Company signed a property rights transaction contract with Shandong Xinhua Group transactions of property rights whereby Shandong Xinhua Group transferred its 10% equity interests to Design Institute at a consideration of RMB233,700 and paid the related tax of RMB4,000.

On 7 August, 2009, the Company contributed additional capital of RMB1 million Yuan to Design Institute. The increase of capital have been verified by PricewaterhouseCoopers Limited, verification report and issued the “Price Waterhouse inspection Zi [2009] No. 098,”. Thereafter registered capital of Design Institute was increased to RMB3 million. Design Institute is a wholly owned subsidiary of the Company.

- 4) Zibo Drug Store (originally known as Zibo Xinhua Drug Store Company Limited and was changed to the present name in December 2003) was incorporated in July, 1999. Its registered capital was RMB1,000,000 contributed as of 88% and 12% by the Company and Shandong Xinhua Group. The registered capital was increased to RMB2,000,000 in September 2002.

On 30 July, 2009, the Company signed a property rights transaction contract with Shandong Xinhua Pharmaceutical Group Co., Ltd; whereby Shandong Xinhua Group transferred its 12% equity interests in Zibo Drug Store to the Company of RMB394,900 and paid related tax RMB4,000. Zibo Drug Store is the wholly owned subsidiary of the Company.

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

- 5) Shandong Xinhua Pharmaceutical (European) GmbH (hereinafter referred to as the “Xinhua European”) was established on 25 November 2003. It was jointly invested by the Company and Mr. Lipeng of Germany. The registered capital was EUR1 million. The Company holds 70% of equity interests, while Mr. LIPENG owns 30%. Xinhua European was incorporated in Hamburg, Germany. Its reporting currency is Euro. In July 2006, the registered capital of the Company was changed to EUR650,000 according to the resolution of the Board of Directors’ meeting, and the share of equity interest held by the Company and Mr. LI PENG was changed to 76.90% and 23.10% respectively.

On 24 June, 2009, the LK & K Trading Co., Ltd. signed a corporation agreement with Mr. Lipeng, that Lipeng transferred all holding shares in Xinhua European to LK & K Trading Co. Ltd. After the transfer, the shares of Xinhua European held by the Company and LK & K Trading Co. Ltd are 76.90% and 23.10% respectively.

On 8 September, 2009, the first general meeting of Xinhua European passed the resolution that LK & K Trading Co, Ltd increases its contribution of EUR 119,000 to Xinhua (European). The fund was received on 20 October, 2009. The verification report was obtained on 10 November, 2009. After the increase in the capital the registered capital of Xinhua European was EUR769,000. The Company paid EUR 500,000 accounting for 65%; LK & K Trading Co., Ltd. invested EUR269,000, accounting for 35%.

- 6) Zibo Xinhua-Eastwest Pharmaceutical Company Limited (hereafter referred to as “Xinhua-West”) was established on 15 November 2005 with a registered capital of USD 1.5 million, by the Company and West United Group, Inc., which hold 75% and 25% of the equity interests respectively, On 26 June 2006, the Company and West United Group, Inc. injected USD 1.125 million and USD 0.375 million in cash respectively. The paid up capital of Xinhua-West is US1.5 million. The principle operation of Xinhua-West is production and sales of Calcium Polycarboxyl materials.
- 7) Zibo Xinhua-Perrigo Pharmaceutical Company Limited (hereinafter referred to as the “Xinhua-Perrigo”) was established by the Company and Perrigo International Inc. on 11 September 2003 with a registered capital of USD 6 million. Each party holds 50% of equity interests in Xinhua-Perrigo. On 3 April 2006, Perrigo International Inc. transferred 0.1% shares of Xinhua-Perrigo to the Company at pursuant to the amendment Joint Venture. The Company held 50.1% shares of Xinhua-Perrigo.
- 8) Shandong Xinhua Pharmaceutical (Shouguang) Company Limited, originally named as Shandong Dadi Xinhua Chemical & Industrial Company Limited (hereinafter referred to as “Dadi Xinhua”), was established with the registered capital of RMB26,000,000 by the Company and Shandong Dadi Salinisation Group Limited on 12 September 2006. The Company contributed RMB12,740,000, accounting for 49% of the registered capital of Dadi Xinhua. The Company injected additionally RMB6,000,000 in Dadi Xinhua and increased its registered capital to RMB32,000,000 in November 2007. As a result, the Company invested a total of RMB18.74 million in Dadi Xinhua and held 58.5625% of Dadi Xinhua’s shares. In 2008, the Company purchased all the shares of Dadi Xinhua held by Shandong Dadi Salinisation Group Limited at a consideration of RMB13,972,368 and renamed Dadi Xinhua as Shandong Xinhua Pharmaceutical (Shouguang) Company Limited (“Xinhua Shouguang”). The Company then injected an additional capital of RMB48 million in Xinhua Shouguang. After the injection, the registered capital of Xinhua Shouguang was RMB80 million and it became a wholly owned subsidiary of the Company.

The Company increased the capital of Xinhua Shouguang by RMB6 million in December 2008 and RMB44 million in April 2009. The capital increase was verified by Shandong Shencheng certificated public accountants with verification report (Shencheng CPA2009 No.21).



## Notes to the Financial Statements (Continued)

In 2010 the company added capital of RMB100 million to Shouguang company. The capital increase has been recognised by Shouguang shengcheng Certified Public Accountants by the document of “Shousheng CPA Yan Zi (2010) No. 010” verification report dated 3 March, 2010, and on 26 August, 2010 Shouguang company get the Enterprise legal person business license after the alternative. After the capital increase, Xinhua Shouguang has registered capital of RMB230 million.

Main business of Xinhua Shouguang is mainly engaged in production and sales of chemical products (excluded dangerous and poisonous chemical).

- 9) Xinhua (Zibo) Properties Company Limited (hereinafter referred to as the “Xinhua Properties”) was established in December 2010, the registered capital of RMB20 million, all of the Xinhua Properties invest in cash by the Company, a wholly owned subsidiary of the Company. Xinhua properties established according to Shandong PuHua Accounting firm capital verification report which issued by the “Price Waterhouse Yan Zi [2010] No. 191” on 14 December 2010. For the month ended 30 June, 2012, Xinhua Properties has not yet officially open for business.
- 10) The Company invested RMB22,000,000 to purchase all the equity of Shandong Tianda Biology Pharmaceutical Company Limited ( “Tianda Biological”). As at the time of acquisition, Tianda Biological’s registered capital was RMB6,000,000. Its name was changed to Xinhua Pharmaceutical (Gaomi) Company Limited ( “Xinhua Gaomi”) in April 2012 after the completion of the acquisition. The Company increased its capital in Xinhua Gaomi by RMB13,000,000 in May 2012 and Xinhua Gaomi’s registered capital was changed to RMB19,000,000.

## 2. Changes in the Scope of Consolidation

Information of the new company in the Scope of Consolidation

Unit: RMB'000

Name of company	Reasons	Percentage of shareholding (%)	Net assets as at 30 June 2012	Net profit
Xinhua Pharmaceutical (Gaomi) Company Limited	Newly acquired	100	26,821	(2,281)

## 3. Translation of Financial Statements denominated in Foreign Currencies

Name of Company	Balance sheet		Income Statement and Cash Flow Statement
	Exchange rate at the end of the year	Exchange rate at the beginning of the year	
Shandong Xinhua Pharmaceutical (Europe) Ltd.	1 EUR=7.8710 RMB	1 EUR=8.1625 RMB	Exchange rate in occurred date

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 8. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise indicated the terms of, 'beginning of the year' refers to 1 January, 2012, 'end of the year' refers to 30 June 2012. 'This year' refers to period from 1 January to 30 June 2012. 'Previous year' refers to period from 1 January to 30 June 2011. In the following notes the financial statements all figures are stated in RMB'000.

#### 1. Cash & Cash equivalents

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
Cash on Hand	—	—	280	—	—	205
Including: USD	5	6.3249	33	5	6.3009	33
EUR	8	7.8710	64	11	8.1625	91
HKD	18	0.8152	14	18	0.8107	14
JPY	66	0.07965	5	66	0.081103	5
Cash in Bank	—	—	367,213	—	—	260,761
Including: USD	6,038	6.3249	38,192	3,332	6.3009	20,994
EUR	1,330	7.8710	10,466	2,079	8.1625	16,970
HKD	2	0.8152	2	2	0.8107	2
GBP	95	9.8169	936	—	—	—
Other Fund	—	—	26,853	—	—	38,263
Total	—	—	394,346	—	—	299,229

At the end of the year, the balance of other fund included bank acceptance security deposit of RMB22,281,000, freely-drawn notifying deposit of RMB2,000,000.



## Notes to the Financial Statements (Continued)

### 2. Notes Receivable

Nature of notes	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance	<b>77,233</b>	83,972

- (1) At the end of the year, the balances of notes receivable are unsecured, and no collateral, no overdue.
- (2) In the end of 30 June 2012, notes which were endorsed to the other party but not yet expire is RMB446,965,000, the details of the largest top five balance are as follows:

Drawer	Date of issue	Date of maturity	Amount
Jinan Hengfeng Weiye Pharmaceutical Company Limited	2012-03-16	2012-09-16	3,325
Baoding Guangyang Natural Gas Company Limited	2012-01-31	2012-07-31	2,000
Zigong Jinlong Cement Company Limited	2012-02-10	2012-08-10	2,000
Zhejiang Haisen Pharmaceutical Company Limited	2012-05-28	2012-11-27	2,000
Xingtai Xinkanghong Pharmaceutical Company Limited	2012-02-10	2012-08-10	1,500
Total	—	—	<b>10,825</b>

- (3) As at 30 June 2012, the discounted bank acceptance bills which have not yet expired is RMB27,098,000.

### 3. Accounts Receivable

- (1) Risk Classification of Accounts Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Amount	Proportion (%)	Bad debts Provision	Proportion (%)	Amount	Proportion (%)	Bad debts Provision	Proportion (%)
Accounts receivable of individual amount is significant, individually provision for bad debts	50,401	12.98	40,321	80.00	50,401	15.88	40,321	80.00
Combination of aging	306,590	78.94	2,604	0.85	241,672	76.15	2,665	1.10
Combination with the relationship between trading partners	7,703	1.98	—	0.00	11,094	3.50	—	—
Combination for special accounts	10,106	2.60	—	0.00	623	0.20	—	—
Subtotal	<b>324,399</b>	<b>83.53</b>	<b>2,604</b>	<b>0.80</b>	253,389	79.85	2,665	1.05
Accounts receivable of individual amount is not significant, but individually provision for bad debts	13,559	3.49	11,492	84.76	13,559	4.27	11,492	84.76
Total	<b>388,359</b>	—	<b>54,417</b>	—	317,349	—	54,478	—

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

- 1) Account receivable of individual amount is significant, and individually provision for bad debts

Clients	Book balance	Amount for bad debts	Ratio(%)	Reason
Shandong Xin Kang Qi Pharmaceutical Co., Ltd.	40,606	32,485	80%	Consider the solvency and full provision
Zibo Hua Bang Pharmaceutical Co., Ltd.	9,795	7,836	80%	Consider the solvency and full provision
Total	<u>50,401</u>	<u>40,321</u>	<u>—</u>	<u>—</u>

- 2) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion (%)	Bad debts Provision	Amount	Proportion (%)	Bad debts Provision
Within one year	303,566	0.39	1,193	238,587	0.5	1,193
1 to 2 years	1,792	20	358	1,792	20	358
2 to 3 years	448	60	269	448	60	269
More than 3 years	784	100	784	845	100	845
Total	<u>306,590</u>	<u>—</u>	<u>2,604</u>	<u>241,672</u>	<u>—</u>	<u>2,665</u>

- 3) Other method for provision bad debts of accounts receivable

Name of combination	Book balance	Amount for bad debts
Combination with the relationship between trading partners	7,703	—
Combination for special account	<u>10,106</u>	<u>—</u>
Total	<u>17,809</u>	<u>—</u>



## Notes to the Financial Statements (Continued)

- 4) Accounts receivable of individual amount is not significant, but individually provision for bad debts

Clients	Book balance	Amount for bad debts	Ratio (%)	Reason
Shandong Bai Yi Mei Pharmaceutical Co., Ltd. *	3,997	3,197	80	Consider the solvency and provision
Shandong Herbs Co., Ltd. Gaoxin Branch *	3,343	2,674	80	Consider the solvency and provision
Shandong Xin Bao Pharmaceutical Co., Ltd. *	2,991	2,393	80	Consider the solvency and provision
Shandong Xinhua Industry & Trade Company Limited	1,150	1,150	100.00	Consider the solvency and full provision
Shangqiu Bai Chuan Pharmaceutical Co., Ltd.	795	795	100.00	Relatively long period of time, unreceivable
Jiangsu Enhua He run Pharmaceutical Co., Ltd.	308	308	100.00	Relatively long period of time, unreceivable
Shandong Haiwang Yinhe Pharmaceutical Co., Ltd.	213	213	100.00	Relatively long period of time, unreceivable
Xinjiang Shen Zhou Pharmaceutical Co., Ltd.	186	186	100.00	Relatively long period of time, unreceivable
Shandong Kang Yuan Pharmaceutical Co., Ltd.	164	164	100.00	Relatively long period of time, unreceivable
Jiangsu Lianyungang Kang Yuan Pharmaceutical Co., Ltd. (Medical Station)	116	116	100.00	Relatively long period of time, unreceivable
Linyi Ren Hua Pharmaceutical Co., Ltd.	95	95	100.00	Relatively long period of time, unreceivable
Heze Peony Pharmaceutical Co., Ltd.	68	68	100.00	Relatively long period of time, unreceivable
Anhui Hua Shi Pharmaceutical Co., Ltd.	52	52	100.00	Relatively long period of time, unreceivable
Pingyuan Pharmaceutical Co., Ltd.	52	52	100.00	Relatively long period of time, unreceivable
Shandong Yiyuan Pharmaceutical Co., Ltd.	25	25	100.00	Relatively long period of time, unreceivable
Shandong Guo Ying Pharmaceutical Co., Ltd.	4	4	100.00	Relatively long period of time, unreceivable
<b>Total</b>	<b>13,559</b>	<b>11,492</b>	<b>—</b>	<b>—</b>

- (2) Please refers to Notes 4.7 for the policy of bad debts.
- (3) RMB61,000 of accounts receivable aged over 3 years has been written off in this year according to the Company's accounting policy, detail as follows
- (4) At the end of the year, accounts receivable balance do not include receivable due from shareholders holding 5% inclusive or more of the Company's voting capital.



# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

- (5) At the end of the year, the balance of accounts receivable due from the top five debtors is RMB104,516,000 accounting for 26.91% of the total balance of accounts receivable.

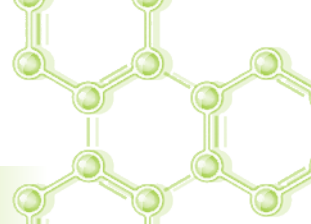
Name of equity	Relationship	Amount	Aging	Proportion (%)
Shandong Xin Kang Qi Pharmaceutical Company Limited	Non-related parties	40,606	Less than one year, 1-2 years	10.46
Mitsubishi Corporation	Non-related parties	34,960	Less than one year	9.00
Zibo Central Hospital	Non-related parties	10,603	Less than one year	2.73
Zibo Huabang Pharmaceutical Company Limited	Non-related parties	9,796	Less than one year	2.52
THE CONCENTRATE MANUFACTURING COMPANY OF IRELAND	Non-related parties	8,551	Less than one year	2.20
Total		<u>104,516</u>		<u>26.91</u>

- (6) At the end of the year, the balance of accounts receivables due from the related parties of RMB8,853,000, accounting for 2.28% of the total balance of accounts receivable, details as follows:

Name of equity	Relationship	Amount	Proportion (%)
China Shandong Group Ltd.	Control of the same parent company	7,412	1.91
Shandong Xinhua Industry & Trade Co., Ltd.	Other-related parties	1,150	0.30
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	Joint venture	291	0.07
Total		<u>8,853</u>	<u>2.28</u>

- (7) The ending balance of accounts receivable denominated in the foreign currencies is as follows:

Name of currency	At the ending of the year			At the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	25,176	6.3249	159,237	17,134	6.3009	107,959
EUR	2,544	7.8710	20,020	2,233	8.1625	18,230
GBP	193	9.8169	1,891	188	9.7116	1,826
Total	<u>—</u>	<u>—</u>	<u>181,148</u>	<u>—</u>	<u>—</u>	<u>128,015</u>



## Notes to the Financial Statements (Continued)

### 4. Advances to Suppliers

(1) Aging of advances to suppliers

Item	Balance at the end of the year		Balance at the beginning of the year	
	Amount	Proportion %	Amount	Proportion %
Less than 1 year	33,935	89.32	34,863	78.26
1 to 2 years	4,058	10.68	9,685	21.74
2 to 3 years	—	—	—	—
More than 3 years	—	—	—	—
Total	37,993	100.00	44,548	100.00

(2) At the end of year, the top five balances of advances to suppliers is RMB27,758,000. details as follow:

Name of equity	Relationship	Amount	Aging	Reason for not being settled
Prepaid land premiums	Non-related party	22,028	Less than one year, 1-2 years	Land certificate application in progress
Nanjing Huadong Pharmaceutical Co., Ltd.	Non-related party	2,078	Less than one year	Goods not yet reached
Xizang Shenwei Pharmaceutical Company Limited	Non-related party	1,481	Less than one year	Goods not yet reached
Wuxi Lingjie Purifying Equipment Company Limited	Non-related party	1,126	Less than one year	Goods not yet reached
Shandong Zizi Electrical Company Limited	Non-related party	1,045	Less than one year	Goods not yet reached
Total		27,758		

(3) At the end of the year, the balances of advance payments do not include advances to shareholders holding 5% or more of the Company's voting capital.

(4) The ending balance of advance payments denominated in the foreign currency is as follows:

Name of currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EUR	32	7.8710	250	20	8.1625	162

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 5. Other Receivables

#### (1) Risk Classification of Other Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Amount	Proportion (%)	Bad debts		Amount	Proportion (%)	Bad debts	
			Provision	Proportion (%)			Provision	Proportion (%)
Other receivable of individual amount is significant, and individually provision for bad debts	11,324	17.48	11,324	100.00	11,324	25.91	11,324	100.00
Combination of aging	38,468	59.40	8,499	22.09	14,289	32.70	8,499	59.48
Combination for transaction partner	8	0.01	—	—	8	0.02	—	—
Combination for special amounts	14,228	21.96	—	—	17,333	39.66	—	—
Subtotal	52,704	81.37	8,499	16.12	31,630	72.38	8,499	26.87
Other receivable of individual amount is not significant, but individually provision for bad debts	745	1.15	745	100.00	745	1.71	745	100.00
Total	64,773	—	20,568	100.00	43,699	—	20,568	—

- 1) Other receivables of individually significant amount, and individual provision for bad debts

Clients	Book amount	Amounts of bad debts	Ratio (%)	Reason
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324	100.00	Consider of solvency and full provision for bad debts

- 2) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion (%)	Bad debts Provision	Amount	Proportion (%)	Bad debts Provision
Less than 1 year	29,423	0.09	26	5,244	0.5	26
1 to 2 years	352	20	71	352	20	71
2 to 3 years	728	60	437	728	60	437
More than 3 years	7,965	100	7,965	7,965	100	7,965
Total	38,468	—	8,499	14,289	—	8,499



## Notes to the Financial Statements (Continued)

- 3) Other method for provision bad debts of accounts receivable

Name of combination	Book balance	Amounts of bad debts
Combination with the relationship between trading partners	8	—
Combination for special accounts	14,228	—
Total	14,236	—

- 4) Other receivables where individual amount is not significant, but individual provision for bad debts

Clients	Book balance	Amount of bad debts	Ratio (%)	Reason
Linyi yaoming chemical Co.,Ltd.	652	652	100.00	Judgment can not recover, full provision
Haerbin Zhenbaodao Pharmaceutical Co., Ltd.	28	28	100.00	No transaction, full provision
Hainan Hai Ling Pharmaceutical Co., Ltd.	20	20	100.00	No transaction, full provision
Jiangxi Hui Ren Pharmaceutical Co., Ltd.	20	20	100.00	No transaction, full provision
Jiangxi Jiang Zhong Pharmaceutical Trade Co., Ltd.	8	8	100.00	No transaction, full provision
Linyi zhongrui pharmaceutical Co.,Ltd.	7	7	100.00	No transaction, full provision
Jiangxi Zhongxing Hanfang Pharmaceutical Co., Ltd.	4	4	100.00	No transaction, full provision
Jiangxi Ren He Pharmaceutical Co., Ltd.	3	3	100.00	No transaction, full provision
Shandong Kangda Pharmaceutical Co., Ltd.	2	2	100.00	No transaction, full provision
Zhangye zhongxing Pharmaceutical Co., Ltd.	1	1	100.00	No transaction, full provision
Total	745	745	—	—

- (2) At the ending of the year, other receivables do not include receivable shareholders holding 5% or more of the Company's voting capital.

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(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

- (3) At the end of the year, the top five balances of other receivables are RMB42,944,000 accounting for 66.30% of the total balance of other receivable, details as follows:

Name of equity	Relationships	Amount	Aging	Proportion (%)	Nature or Content
Pending deduction of VAT on purchase	Non-related party	11,424	Less than one year	17.64	Pending deduction of VAT on purchase
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	11,324	1-2 years	17.48	Current amounts
Houzhen project area	Non-related party	8,000	Less than one year	12.35	Current amounts
Rebate of income tax	Non-related party	6,196	Over 3 years	9.57	Rebate of income tax
Zibo custom house	Non-related party	6,000	Less than one year	9.26	Security deposit
Total		42,944		66.30	

- (4) At the end of the year, the balance of other receivables due from the related parties is RMB11,332,000 accounting for 17.49% of the total balance of other receivables, details as follows:

Name of Company	Relationships	Amount	Proportion (%)
Shandong Xinhua Industry & Trade Co., Ltd.	Other related parties	8	0.01
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related parties	11,324	17.48
Total		11,332	17.49

- (5) The ending balance of other receivables denominated in foreign currency is as follows:

Name of currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EUR	29	7.8710	227	19	8.1625	159

## 6. Inventories and Provision for decline in value of inventories

- (1) Classification of Inventories

Item	Balance at the end of the year			Balance at the beginning of the year		
	Book value	Provision for decline in value	Carrying value	Book value	Provision for decline in value	Carrying value
Raw material	65,843	405	65,438	44,657	405	44,252
Work-in-progress	112,639	1,573	111,066	108,397	1,573	106,824
Goods-in-stock	264,944	10,228	254,716	267,199	10,228	256,971
Low-value consumables	12,874	—	12,874	13,902	—	13,902
Special materials for Government	1,840	—	1,840	1,840	—	1,840
Total	458,140	12,206	445,934	435,995	12,206	423,789

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(Prepared under PRC Accounting Standards)



## Notes to the Financial Statements (Continued)

### (2) Provision for decline in value of inventories

Items	Balance at the beginning of the year	Provision made	Reduction		Balance at the end of the year
			Written back	Written off	
Raw material	405	—	—	—	405
Work-in-progress	1,573	—	—	—	1,573
Goods-in-stock	10,228	—	—	—	10,228
<b>Total</b>	<b>12,206</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>12,206</b>

Please refer to Notes 4.8, for the policies for provision for decline in value of inventories.

### (3) Making of provision for decline in value of inventories

Items	Basis for making of provision for decline in value of inventories	Reasons for reversal of provision for decline in value of inventories	Provision of reversal to the ending balance of inventories
Raw material	Book value is less than net realisable value	—	—
Work-in-progress	Book value is less than net realisable value	—	—
Goods-in-stock	Book value is less than net realisable value	—	—

## 7. Other current assets

Items	Balance at the end of the year	Balance at the beginning of the year	Nature
Prepayment income tax of parent company	1,101	3,504	Prepayment income tax

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 8. Available-for-sale Financial Assets

Item	Balance at the end of the year	Balance at the beginning of the year
Shares of Ruiheng Pharmaceutical & Technology Investment Company Limited	3,200	3,200
Legal-person share of Bank of Communications	37,315	36,822
Shares of Pacific insurance Company Limited	110,900	96,050
Shares of Tiantong Securities Company Limited	30,000	30,000
Shandong Xinhua Changxing Chemical Equipment Company Limited	3,987	3,987
<b>Total</b>	<b>185,402</b>	<b>170,059</b>
Impairment of available-for-sale financial assets	33,987	33,987
Including: Impairment on shares		
of Tiantong Securities Company Limited	30,000	30,000
Shandong Xinhua Changxing Chemical Equipment Company Limited	3,987	3,987
<b>Net value of available-for-sale financial assets</b>	<b>151,415</b>	<b>136,072</b>

### 9. Long-term Equity Investment

#### (1) Long-term Equity Investment

Item	Balance at the end of the year	Balance at the beginning of the year
Using the equity method	24,926	23,355
Total long-term equity investment	24,926	23,355
Less: Impairment loss of Long-term equity investment	—	—
<b>Net amount of Long-term equity investment</b>	<b>24,926</b>	<b>23,355</b>

#### (2) Using in Equity Method

Name of investee	Proportion of shareholding %	Proportion of voting rights %	Original Cost	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year	Cash Dividends received in the year
<b>Using in equity method</b>								
Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	10,179	23,355	1,571	—	24,926	—

# Financial Report

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## Notes to the Financial Statements (Continued)



### (3) Investment in Joint Ventures and Associates

Name of investee	Proportion of shareholding %	Proportion of voting rights %	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total operating income during this year	Net profit of this year
<b>Joint Ventures</b>							
Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	166,173	62,948	103,225	150,098	8,551

(4) No provision for impairment has been made and no evidence indicates any impairment of long-term equity investment of the Company.

(5) There is no significant restriction on the Company of the disposal of the long-term equity investments.

## 10. Investment properties

### (1) Measured investment properties by cost model

Items	Balance at the beginning of the year	Additions of the year	Reductions of the year	Balance at the end of the year
Original price	49,011	—	—	49,011
Buildings	40,235	—	—	40,235
Land	8,776	—	—	8,776
Accumulated depreciation & amortization	11,869	1,629	—	13,498
Buildings	11,650	1,519	—	13,169
Land	219	110	—	329
Book value	37,142	—	—	35,513
Buildings	28,585	—	—	27,066
Land	8,557	—	—	8,447
Provision for Impairment	—	—	—	—
Buildings	—	—	—	—
Land	—	—	—	—
Book value	37,142	—	—	35,513
Buildings	28,585	—	—	27,066
Land	8,557	—	—	8,447

The depreciation and amortisation charge for the year was RMB1,629,000.



# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 11. Fixed Assets

(1) Details of fixed assets

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
<b>Original book value</b>				
Including: Buildings	725,137	65,382	30,432	760,087
Machinery & Equipment	1,389,221	64,243	33,744	1,419,720
Vehicles	21,035	1,292	394	21,933
Office equipment and others	40,123	1,205	297	41,031
Subtotal	2,175,516	132,122	64,867	2,242,771
<b>Accumulated depreciation</b>				
Including: Buildings	286,405	15,002	18,619	282,788
Machinery & Equipment	786,513	60,784	31,681	815,616
Vehicles	12,151	1,339	375	13,115
Office equipment and others	27,291	2,017	160	29,148
Subtotal	1,112,360	79,142	50,835	1,140,667
<b>Net value of fixed assets</b>				
Including: Buildings	438,732	—	—	477,299
Machinery & Equipment	602,708	—	—	604,104
Vehicles	8,884	—	—	8,818
Office equipment and others	12,832	—	—	11,883
Subtotal	1,063,156	—	—	1,102,104
<b>Provision for impairment</b>				
Including: Buildings	—	—	—	—
Machinery & Equipment	—	—	—	—
Vehicles	—	—	—	—
Office equipment and others	—	—	—	—
Subtotal	—	—	—	—
<b>Net currency value of fixed assets</b>				
Including: Buildings	438,732	—	—	477,299
Machinery & Equipment	602,708	—	—	604,104
Vehicles	8,884	—	—	8,818
Office equipment and others	12,832	—	—	11,883
Subtotal	1,063,156	—	—	1,102,104

During this year, fixed assets transferred from construction in progress was RMB86,588,000. The depreciation charge for the year was RMB75,532,000.

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)



(2) Temporary idle fixed assets

Item	Original Cost	Accumulated depreciation	Provision for impairment	Net value
House & Building	3,864	291	—	3,573
Equipment	9,951	4,123	—	5,828
Subtotal	13,815	4,414	—	9,401

Idle fixed assets is the formaldehyde warehouse in Shouguang.

(3) Fixed assets leased through operating lease

Items	Original Cost	Net value
House & Building	13,560	8,480

(4) Fixed assets has not been issued with title documents as follows:

Name of properties	Original Cost	Net value	The time expected to complete the title documents
Warehouse of Xinhua Pharmaceutical Trade Ltd	1,802	1,416	At the end of 2012
Warehouse of Xinhua Pharmaceutical Trade Ltd	10,696	6,973	At the end of 2012
Warehouse of Xinhua Pharmaceutical Trade Ltd	1,500	1,088	At the end of 2012
Xinhua commercial centre	9,500	7,808	At the end of 2012
Warehouse of 3000 ton Bunuofen	26,046	21,940	At the end of 2012
Western Gongqingtuan road Tiandu operating centre	2,189	2,033	At the end of 2012
Comprehensive Office Building (block B)	12,930	7,612	At the end of 2012
Warehouse of western park	1,394	1,301	At the end of 2012
Staff quarter	1,775	1,439	At the end of 2012
Civil engineering of Pyrazolone	8,382	7,382	At the end of 2012
Warehouse of DK	8,759	7,889	At the end of 2012
Warehouse of Violuric acid	6,609	5,615	At the end of 2012
Civil engineering of Pyrazolone phase II	6,107	5,508	At the end of 2012
Dining hall	2,255	2,081	At the end of 2012
2# Apartment	3,202	2,932	At the end of 2012
5# Single Staff quarter	3,390	3,118	At the end of 2012
6# Single Staff quarter	2,770	2,507	At the end of 2012
3# Warehouse	4,500	4,322	At the end of 2012
Civil engineering of high concentration of sewage treatment phase II	4,000	3,842	At the end of 2012
Civil Engineering of Cetoactanilide	5,000	4,802	At the end of 2012
Civil Engineering of Southern District Power	3,330	3,198	At the end of 2012
Warehouse of Sulphuric acid	3,346	3,076	At the end of 2012
Warehouse of Ammonium Sulfit	2,600	2,446	At the end of 2012
Analysis Laboratory	1,074	974	At the end of 2012
1# Warehouse	2,405	2,211	At the end of 2012
2# Warehouse	1,533	1,379	At the end of 2012
Warehouse of Formaldehyde	2,044	1,890	At the end of 2012
House of Chloro-propionyl chloride	2,433	2,216	At the end of 2012
Warehouse of Chloroacetic acid	2,810	2,523	At the end of 2012
Warehouse of water treatment	3,668	3,135	At the end of 2012
Frozen plant	2,344	2,005	At the end of 2012
Warehouse of Diester	1,247	1,176	At the end of 2012
Warehouse of Cyanoacetate	2,121	1,847	At the end of 2012
Workshop of calcium polycarbophil	1,784	1,402	At the end of 2012
Total	155,545	131,086	

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(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 12. Construction-in-progress

(1) Detailed list of construction in progress

Projects	Balance at the end of the year			Balance at the beginning of the year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Innovation Park - Xinhua Building	7,456	—	7,456	61,587	—	61,587
Innovation Park - Annex Building	—	—	—	10,101	—	10,101
Innovation Park - R & D centre <sup>1#</sup>	9,710	—	9,710	8,901	—	8,901
Innovation Park - R & D centre <sup>2#</sup>	8,688	—	8,688	7,539	—	7,539
Xinhua Shouguang III east industrial park project	168,332	—	168,332	75,164	—	75,164
Project of Hutian	128,358	—	128,358	97,332	—	97,332
Hutian chemical pharmaceutical industry center (Tribendimidine Project)	28,023	—	28,023	12,124	—	12,124
Public project of Hutian	19,438	—	19,438	10,718	—	10,718
Barbitone, TMP, CPC product relocation	31,630	—	31,630	16,184	—	16,184
Others	87,258	—	87,258	63,680	—	63,680
<b>Total</b>	<b>488,893</b>	<b>—</b>	<b>488,893</b>	<b>363,330</b>	<b>—</b>	<b>363,330</b>

(2) Major changes in construction projects

Projects	Balance at the beginning of the year	Deduction			Balance at the end of the year
		Addition	Transfer to fixed assets	Other deductions	
Innovation Park - Xinhua Building	61,587	11,869	66,000	—	7,456
Innovation Park - Annex Building	10,101	—	10,101	—	—
Innovation Park - R & D centre <sup>1#</sup>	8,901	809	—	—	9,710
Innovation Park - R & D centre <sup>2#</sup>	7,539	1,149	—	—	8,688
Xinhua Shouguang III east industrial park project	75,164	96,303	3,135	—	168,332
Project of Hutian	97,332	31,026	—	—	128,358
Hutian chemical pharmaceutical industry center (Tribendimidine Project)	12,124	15,899	—	—	28,023
Public project of Hutian	10,718	8,720	—	—	19,438
Barbitone, TMP, CPC product relocation	16,184	15,446	—	—	31,630
Others	63,680	30,930	7,352	—	87,258
	363,330	212,151	86,588	—	488,893

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## Notes to the Financial Statements (Continued)

Projects	Budget	Proportion of construction investment to budget	Progress of project	Acumination amounts of Capitalization interest	Including: Capitalization interest of this year	Capitalization interest ratio (%)	Source of funds
Innovation Park — Xinhua Building	79,700	92.17	Completed	—	—	—	Funds-own
Innovation Park — Annex Building	16,160	62.51	Completed	—	—	—	Funds-own
Innovation Park — R & D <sup>1#</sup>	16,850	57.62	Ongoing	—	—	—	Funds-own
Innovation Park — R & D <sup>2#</sup>	12,900	67.35	Ongoing	—	—	—	Funds-own
Xinhua Shouguang III East Industrial Park Project	352,280	48.67	Ongoing	—	—	—	Funds-own Outside-financing
Project of Hutian Hutian chemical pharmaceutical industry center (Tribendimidine Project)	473,000	27.14	Ongoing	6,249	2,323	3.67	Funds -own
Public project of Hutian Barbitone, TMP, CPC product relocation	20,000	140.12	Ongoing	—	—	—	Funds -own
Others	9,000	215.97	Ongoing	—	—	—	Funds -own
	26,000	121.65	Ongoing	—	—	—	Funds -own
	—	—	Ongoing	—	—	—	Funds -own
Total	—	—		6,249	2,323	—	

- (3) No provision for impairment has been made and no evidence indicates any impairment of construction-in-progress of the Company in the end of the year.

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 13. Intangible Assets

#### (1) Details of Intangible Assets

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the ending of the year
Total original value	271,322	51,099	1,913	320,508
Including: Land use rights	260,445	8,651	1,913	267,183
Software use rights	4,319	101	—	4,420
Non-patented technology	6,558	42,347	—	48,905
Total accumulated amortization	47,818	29,278	207	76,889
Including: Land use rights	37,972	2,852	207	40,617
Software use rights	3,288	205	—	3,493
Non-patented technology	6,558	26,221	—	32,779
Total net book value of intangible assets	223,504	—	—	243,619
Including: Land use rights	222,473	—	—	226,566
Software use rights	1,031	—	—	927
Non-patented technology	—	—	—	16,126
Total provision for impairment	—	—	—	—
Including: Land use rights	—	—	—	—
Software use rights	—	—	—	—
Non-patented technology	—	—	—	—
Total intangible net carrying value	223,504	—	—	243,619
Including: Land use rights	222,473	—	—	226,566
Software use rights	1,031	—	—	927
Non-patented technology	—	—	—	16,126

The amortisation charge for the year was RMB29,278,000.

(2) The increase in the ending balance of intangible assets is mainly due to: two plots of land in Zhangdian District Hutian Town are mortgaged to the Construction bank of China Zibo Branch for loan of RMB 50,000,000. The Property Right Certificates are Zi Guo Yong (2009) A15409 and Zi Guo Yong (2009) A15408. The total area is 187,030m<sup>2</sup>. The original value is 73,109,000 and the net value is 68,844,000. See details in notes 8 (27) Long-term Loans.

(3) The processing of the following land use right title documents are in progress:

Address	Net value
Land of Xinhua Shouguang (East)	9,914
Land use rights of Xinhua Industrial Park, Development Zone (East Park)	5,773
Total	15,687

(4) No provision for impairment has been made and no evidence indicates any impairment of intangible assets of the Company in the end of the year.



## Notes to the Financial Statements (Continued)

### 14. Deferred Tax Assets

(1) Recognised deferred tax assets

Items	Balance at the end of the year	Balance at the beginning of the year
Bad debts of subsidiaries	13,392	13,407
Provision for decline in value of inventories of subsidiaries	1,026	1,026
Unrealised internal profits on sales and purchase with subsidiaries	2,820	2,155
Total	<u>17,238</u>	<u>16,588</u>

(2) Deductible temporary difference of deferred tax assets at the ending balance

Items of deductible temporary difference	Balance at the end of the year	Balance at the beginning of the year
Bad debts of subsidiary	53,568	53,628
Provision for decline in value of inventories of subsidiaries	4,106	4,106
Unrealised internal profits on sales and purchase with subsidiaries	7,225	12,974
Total	<u>64,899</u>	<u>70,708</u>

### 15. Statement of provision for impairment loss of Assets

	Balance at the beginning of the year	Addition		Reduced		Balance at the end of the year
		Provision for the year	Recovery of years bad debts written off in previous years	Written back	Written off	
Provision for bad debts	75,046	—	—	—	61	74,985
Provision for decline in value of inventories	12,205	—	—	—	—	12,205
Provision for impairment loss of available-for-sale financial assets	33,986	—	—	—	—	33,986
Total	<u>121,237</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>61</u>	<u>121,176</u>

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 16. Short-term Loans

Types of loans	Balance at the end of the year	Balance at the beginning of the year
Credit loan	40,000	87,310
Mortgage loan	—	58,837
Guarantee loan	150,000	150,000
Total	190,000	296,147

Guarantee Loan is guaranteed by Hualu Holdings Co., Ltd., the ultimate control company. See note 9 (2) 4 Acceptance of guarantee.

### 17. Note Payable

Item	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bill	108,610	113,522

The ending balance of notes payable will all get matured on 29 November, 2012.

### 18. Accounts Payable

- (1) Accounts payable

	Balance at the end of the year	Balance at the beginning of the year
Accounts payable	306,102	244,633
Including: More than one year	6,153	8,396

Accounts payable aged over one year were unsettled because of purchase of raw materials.

- (2) The ending balance of accounts payable does not include any amount due to the shareholders holding 5% inclusive or more of the Company's voting capital.
- (3) The ending balance of accounts payable denominated in foreign currencies is as follows:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	79	6.3249	497	—	—	—
EUR	2,509	7.8710	19,745	3,031	8.1625	24,737



## Notes to the Financial Statements (Continued)

### 19. Advances from Customers

(1) Advances from Customers

	<b>Balance at the end of the year</b>	Balance at the beginning of the year
Advances from customers	<b>18,028</b>	18,507
Including: More than one year	<b>1,180</b>	1,150

(2) The ending balance of advances from customers does not include any amount due to the shareholders holding 5% inclusive or more of the Company's voting capital.

(3) The ending balance of accounts payable denominated in foreign currencies is as follows:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	<b>429</b>	<b>6.3249</b>	<b>2,712</b>	913	6.3009	5,751

### 20. Employees' wage Payable

Item	Balance at the beginning of the year	Additions	Payment	Balance at the end of the year
Salaries (including bonuses, allowance and subsidies)	—	120,028	120,028	—
Staff welfare	—	6,689	6,689	—
Social securities	—	27,745	27,679	<b>66</b>
Including: 1. Medical insurance	—	6,282	6,267	<b>15</b>
2. Basic pension insurance	—	18,203	18,160	<b>43</b>
3. Unemployment insurance	—	1,771	1,766	<b>5</b>
4. Work injury insurance	—	864	862	<b>2</b>
5. Maternity insurance	—	625	624	<b>1</b>
Housing funds	267	4,414	4,250	<b>431</b>
Union running costs and employee education costs	10,260	2,019	2,893	<b>9,386</b>
Directors' and Supervisors' remuneration	4,186	—	1,205	<b>2,981</b>
Compensation to employee for termination of employment relationship	—	342	342	—
Other	10,141	1,211	11,112	<b>240</b>
Total	<b>24,854</b>	<b>162,448</b>	<b>174,198</b>	<b>13,104</b>



# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 21. Tax Payables

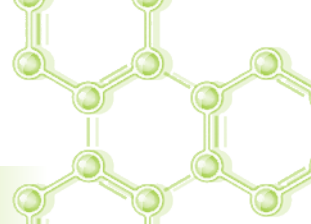
<b>Categories of tax</b>	<b>Balance at the end of the year</b>	Balance at the beginning of the year
Value added tax	<b>(7,234)</b>	(13,270)
Business tax	<b>85</b>	42
Urban maintenance & construction tax	<b>888</b>	434
Income tax	<b>(1,003)</b>	608
Corporation individual income tax	<b>200</b>	122
Property tax	<b>1,542</b>	1,376
Land use tax	<b>2,128</b>	2,117
Stamp tax	<b>99</b>	219
Educational surcharges	<b>634</b>	310
Local water conservancy construction fund	<b>127</b>	63
Total	<b>(2,534)</b>	(7,979)

### 22. Interest payable

<b>Items</b>	<b>Balance at the end of the year</b>	Balance at the beginning of the year
Interest on long term loan repayable by instalments	<b>15,222</b>	740

### 23. Dividends Payable

<b>Item</b>	<b>Balance at the end of the year</b>	Balance at the beginning of the year
Dividends for State owned legal person shares	<b>4,983</b>	—
Dividends for other demotic shares		
Others	<b>14,047</b>	15,111
Total	<b>19,030</b>	15,111



## Notes to the Financial Statements (Continued)

### 24. Other Payables

- (1) Other payables

Item	Balance at the end of the year	Balance at the beginning of the year
Other payable	76,916	87,032
More than one year	7,718	12,240

At the end of the year, the balance of other payables mainly consists of the payment of constructions. Other payable aged over one year in the ending balance was mainly unsettled payment of constructions

- (2) At the end of year, the balance of other payables does not have any amount due to the shareholders holding 5% inclusive or more of the Company's voting capital.
- (3) Individually significant other payable balances are as follows:

Item	Amount	Ageing	Content
Weifang Yongquan Machinery Manufacturing Company Limited	5,173	Less than one year	Unsettled construction cost
Jingjiang Shenju Vessel Manufacturing Company Limited	3,401	Less than one year	Unsettled construction cost
Wuxi Huanyu Equipment Technology Company Limited	2,940	Less than one year	Unsettled construction cost
Jiangsu Leke Thermal Technology Company Limited	2,070	Less than one year	Unsettled construction cost
Security deposit	2,058	Less than one year	Security deposit
Total	15,642		

- (4) The ending balance of other payables denominated in foreign currencies is as follows:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EUR	92	7.8710	722	14	8.1625	111

### 25. Non-current liabilities within one year

Non-current liabilities within one year

Items	Balance at the end of the year	Balance at the beginning of the year
Long-term loan within one year	—	179,000

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 26. Other current liabilities

Items	Balance at the end of the year	Balance at the beginning of the year
Deferred income carried over in one year	<b>590</b>	590

Deferred income carried over in one year refers to 3,000 ton Bunuofen project grants will be carried over within one year.

### 27. Long -term borrowings

- (1) Classification of long- term borrowings

Types of loan	Balance at the end of the year	Balance at the beginning of the year
Guarantee loans	<b>80,000</b>	—
Pledge loans	<b>162,049</b>	163,321
Credit loans	<b>48,049</b>	50,000
Total	<b>290,098</b>	213,321

- (2) The guaranteed loans were guaranteed by Shandong Hualu Holding Group Company Limited, the ultimate shareholder of the Company. The details are in notes 9(2)4. "Acceptance of guarantee"
- (3) The mortgage loan is issued by China Construction Bank Zibo Branch for the Company. The mortgage is land use right. See notes 8 (13) Intangible Assets.
- (4) The Company charged the land use rights in Hutianzhen, Zhangdian, to a bank for loans.

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)



### (5) Details of the long-term loans

Lender	Date of inception	Date of maturity	Currency	Interest rate	Balance at the end of the year	Balance at the beginning of the year
The Export-Import Bank of China	2012-02-29	2014-02-28	RMB	Export Seller's credit rate	80,000	—
Agricultural Bank of China, Zibo Branch	2011-04-21	2014-04-20	RMB	Benchmark lending rate	20,000	20,000
Key project constructions loans	2009-06-30	2017-06-29	RMB	Benchmark lending rate to float downward 10%	20,000	20,000
Nanyang Commercial Bank (China) Co., Ltd. Qingdao Branch	2010-05-11	2013-05-10	HKD	HIBOR (3 Months)+1.8	24,049	24,321
Bank of China, Zibo Branch	2011-03-30	2014-03-29	RMB	Benchmark lending rate	48,000	49,000
Bank of China, Zibo Branch	2010-09-27	2013-09-26	RMB	Benchmark lending rate to float downward 10%	50,000	50,000
Construction Bank of China, Zibo Branch	2011-03-04	2016-03-03	RMB	Benchmark lending rate	48,049	50,000
Total					<u>290,098</u>	<u>213,321</u>

### 28. Long-term payables

Items	Balance at the end of the year	Balance at the beginning of the year
Hualu Holding Group Company Limited	<u>500,000</u>	<u>—</u>

The Company's long-term payables amounted to RMB500,000,000 as at the end of the Reporting Period, which was arising from the funds provided by part of the medium term notes issued by Hualu Holdings Group Company Limited, the controlling shareholder of the Company's parent company. The duration of the notes is five years, and the maturity date is December 30, 2016, with an annual interest rate of 5.83%.

### 29. Specific payables

Items	Balance at the end of the year	Balance at the beginning of the year
Special fund for tribendimidine high-tech Industrialization research	<u>13,500</u>	<u>—</u>

In accordance with the document (Lu Cai Qi Zhi [2011] No. 107) issued by the Shandong Province Finance Bureau on 26 December 2011 and the requirements from the documents issued by Hualu Holdings Group Co., Ltd., the controlling shareholder of the Company's parent company, the allocation of RMB13,500,000 received shall be accounted for as specific payables, and then transferred into capital reserve after being recognized as assets.

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 30. Deferred Tax Liabilities

(1) Components of deferred tax liabilities after netting off

Items	Balance at the end of the year		Balance at the beginning of the year	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Changes in fair value Held-for-sale financial assets	<b>38,099</b>	<b>5,715</b>	27,657	4,149

(2) Deferred tax assets and deferred income tax liabilities netting Details

Items	Temporary differences	Deferred income tax amount for the year
<b>Deferred income tax assets</b>		
Bad debts provision of the Company	21,229	3,184
Provision for decline in value of inventories of the Company	8,094	1,214
Provision for impairment loss of the Company's held-for-sale financial assets	33,987	5,098
Loses on the Company's investment in associates	21,085	3,162
Unpaid wages and salaries of the parent company	2,965	445
The change in fair value of the Company's held-for-sale financial assets	1,531	230
Subtotal	88,891	13,333
<b>Deferred income tax liabilities</b>		
The change in fair value of the Company's held-for-sale financial assets	126,990	19,048
Subtotal	126,990	19,048
<b>Net amount</b>	<b>38,099</b>	<b>5,715</b>



### 31. Other non-current liabilities

(1) Details of other non-current liabilities

Items	<b>Balance at the end of the year</b>	Balance at the beginning of the year
Asset-related government subsidies	<b>58,147</b>	61,262
Authorized reserve fund	<b>3,562</b>	3,562
Total	<b>61,709</b>	64,824

(2) Government subsidies

Types of government subsidiaries	Balance in the end of the year		Credited to the profit and loss for the year	Reversal for the year	Reason for reversal
	Amount to other non-current liabilities	Amounts to other current liabilities			
Compensation for relocation *1	<b>48,560</b>	—	6,709	—	—
3000 tons Ibuprofen Project	<b>3,688</b>	<b>590</b>	295	—	—
Tribendimidine High-tech industrialization project *2	<b>5,900</b>	—	—	—	—
Total	<b>58,148</b>	<b>590</b>	7,004	—	—

\*1 In accorded with Shandong Province Zibo City Eastern Chemical Area Relocation Plan issued in September 2008, parts of production of the Company were listed in this relocation plan. In this respect, pursuant to Zibo Financial Bureau grants relocation Zi-Cai Qi(2009) No.29 Zi-Cai-Qi(2009) No.33 Zi-Cai-Qi (2009) No.55 & Zi-Cai-Qi (2010) No.71 issued by Finance Bureau of Zibo City, the Company was granted with relocation compensation. During this year, the Company received compensation totally of RMB 3,889,000.

\*2 Also, based on the document Zi-Cai-Qi(2011) No.323 issued by Shandong Development and Innovation Committee, the Company received RMB 5,900,000 for Tribendimidine High-tech industrialization project.

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 32. Share Capital

Name of shareholders	Balance at the beginning of the year	Issue of new share	Change			Balance at the ending of the year	Proportion (%)	
			Bonus issue	Capitalisation of reserve	Transfer			
<b>1. Conditional tradable shares</b>								
State-owned shares	—	—	—	—	—	—	—	
State-owned legal-person shares	—	—	—	—	—	—	—	
Domestic shares	5	—	—	—	(4)	(4)	1	
Including: Domestic legal-person held shares	—	—	—	—	—	—	—	
Domestic natural person shares	5	—	—	—	(4)	(4)	1	
Foreign-funded shares	—	—	—	—	—	—	—	
Including: Foreign legal-person shares	—	—	—	—	—	—	—	
Foreign natural person shares	—	—	—	—	—	—	—	
<b>Sub-total</b>	<b>5</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(4)</b>	<b>(4)</b>	<b>1</b>	
<b>2. Unconditional tradable shares</b>								
Domestically listed RMB A shares	307,308	—	—	—	4	4	307,312	67.1995
Domestically listed foreign invested shares	—	—	—	—	—	—	—	—
Overseas listed foreign invested H shares	150,000	—	—	—	—	—	150,000	32.8003
Others	—	—	—	—	—	—	—	—
<b>Subtotal</b>	<b>457,308</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4</b>	<b>4</b>	<b>457,312</b>	<b>100.00</b>
<b>Total share</b>	<b>457,313</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>457,313</b>	<b>100.00</b>

### 33. Capital reserve

Item	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year
Revaluation of assets surplus	60,910	—	—	<b>60,910</b>
Premium share	496,492	—	—	<b>496,492</b>
Receipt of donation	1,158	—	—	<b>1,158</b>
Other capital reserve	100,940	13,776	—	<b>114,716</b>
<b>Total</b>	<b>659,500</b>	<b>13,776</b>	<b>—</b>	<b>673,276</b>

# Financial Report

(Prepared under PRC Accounting Standards)



## Notes to the Financial Statements (Continued)

### 34. Surplus Reserves

Item	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year
Statutory surplus reserves	126,373	—	—	<b>126,373</b>
Discretionary surplus reserve	64,797	—	—	<b>64,797</b>
Total	191,170	—	—	<b>191,170</b>

### 35. Undistributed Profits

Item	Balance	Balance at the beginning of the year
Undistributed profit at the end of last year	402,773	—
Add: adjustment to the undistributed profit at beginning of the year	—	—
Undistributed profit at beginning of the year	—	—
Add: Net profit of the year	31,195	—
Less: Appropriation of statutory surplus reserve	—	—
Less: Appropriation of other surplus reserve	—	—
Dividends payable on common stock	13,720	—
Dividends transferred to capital stock	—	—
Undistributed profit at the end of the year	420,248	—

On 26 June, 2012, the Company's 2011 Annual General Meeting passed the 2011 annual profit distribution plan, that after deduction of 10% from the profit to the statutory surplus reserve fund, the Company with its total share capital of 457,312,830 shares as a base, distributes cash dividend to all shareholders of RMB0.03 per share (including tax).

### 36. Minority Interests

Name of minority shareholder	Proportion of minority interests (%)	Balance at the end of the year	Balance at the beginning of the year
LK&K Trading Co., Ltd	35	<b>4,657</b>	4,438
East west United Group, Inc.	25	<b>3,652</b>	3,676
Perrigo Asia Holding Company	49.9	<b>33,177</b>	31,693
Total		<b>41,486</b>	39,807



# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 37. Operating Income and Operating Cost

#### (1) Operating Income and Operating Cost

Item	Amount of the year	Amount of last year
Income from main operation	1,516,741	1,501,561
Income from other operation	21,189	21,251
Sub-total of operation income	1,537,930	1,522,812
Cost for main operation	1,239,572	1,231,683
Cost for other operation	24,604	23,025
Sub-total of operation cost	1,264,176	1,254,708

#### (2) Income and Costs from Main Operation-Classified by Products

Category of products	Amount of this year		Amount of last year	
	income	costs	income	costs
Bulk Pharmaceuticals	744,897	603,001	805,140	666,022
Including: Export sales	557,868	478,508	566,424	496,870
Preparations	290,644	161,785	270,361	167,838
Commerce circulations	385,869	372,171	358,687	342,084
Chemical and others	95,331	102,615	67,373	55,739
Total	1,516,741	1,239,572	1,501,561	1,231,683

#### (3) Operating Income from top five customers

Name of customers	Amount of this year	Proportion (%)
Mitsubishi corporation	93,580	6.08
PERRIGO COMPANY	67,718	4.41
Shandong Ruizhong Pharmaceutical Company Limited	31,553	2.05
CHINA SHANDONG GROUP LIMITED	31,963	2.08
Shandong Kanghui Pharmaceutical Company Limited	21,830	1.42
Total	246,646	16.04

# Financial Report

(Prepared under PRC Accounting Standards)



## Notes to the Financial Statements (Continued)

### 38. Business Taxes and Surcharges

Item	Tax rate	Amount of this year	Amount of last year
Business tax	5%	293	203
Urban maintenance & construction tax	7%	4,290	3,216
Educational surcharges	5%	3,064	2,278
Local water conservancy construction funds	1%	606	
Total		<u>8,253</u>	<u>5,697</u>

### 39. Selling Expense

Item	Amount of this year	Amount of last year
Salary	25,751	20,852
Market Development Expense	5,123	4,803
Transport Expense	8,920	10,690
Travel Expense	5,888	4,887
Office Expense	724	798
Export Commission	1,767	980
Publicity Expense	56,802	35,298
Terminal Selling Expense	7,402	6,749
Other	4,773	6,502
Total	<u>117,150</u>	<u>91,559</u>

### 40. Management Expense

Item	Amount of this year	Amount of last year
Salary Expense	29,761	23,032
Insurance Expense	2,823	2,094
Depreciation	7,325	6,386
Repair Expense	654	482
Intangible Assets Amortization	3,227	2,941
Low Cost Consumables Amortization	1,283	985
Entertainment Expense	3,122	2,422
Travel Expense	1,160	921
Office Expense	2,671	2,350
Tax	8,677	5,957
Litigation Expense	713	672
Employment Intermediaries Expense	392	141
Research and Development Expense	13,768	10,042
Sewage Expense	2,011	2,003
Other	21,998	17,834
Total	<u>99,585</u>	<u>78,262</u>

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 41. Financial Expenses

Item	Amount of this year	Amount of last year
Interest expenses	27,855	11,640
Less: interest income	1,471	976
Add: exchange loss	(1,080)	5,369
Add: others	2,140	213
Total	<u>27,444</u>	<u>16,246</u>

### 42. Impairment Loss of Assets

Item	Amount of this year	Amount of last year
Provision bad debts	—	1,799
Total	<u>—</u>	<u>1,799</u>

### 43. Investment Gain

(1) The source of income investment gain

Sources of income on investment	Amount of this year	Amount of last year
Income from long-term equity investment accounted for using equity method	1,615	3,201
Investment income from Available for sale financial assets during the period of ownership	2,572	1,750
Others	14	6
Total	<u>4,201</u>	<u>4,957</u>

(2) Income from Long-term equity investment accounted for using equity method

Items	Amount of this year	Amount of last year	The reason for change
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	<u>1,615</u>	<u>3,201</u>	Net profit changes of the investee
Total	<u>1,615</u>	<u>3,201</u>	

There is no significant restriction on the returns of investment income.



## Notes to the Financial Statements (Continued)

### 44. Non-operating Income

(1) Details of non-operating income

Item	Amount of this year	Amount of last year	The amount of non-recurring gains and losses reckon into this year
Proceeds from disposal of non-current assets	260	483	260
Including: Proceeds from disposal of fixed assets	260	483	260
Government Subsidies	22,104	166	22,104
Others	2,269	130	2,269
Total	<b>24,633</b>	779	24,633

(2) Details of Government subsidies

Type of subsidiaries	Amount of this year	Amount of last year	Approval document
Recycling economy and the financial support of sewage treatment	12,261	—	Hou Qu Fa (2010) No.3
East park sewage treatment system The pool acid hydrolysis funds	500	—	Lu Choi Kin means (2011) No.413
State grants	130	—	Zibo Municipal Bureau of Finance issued
Paracetamol technological transformation funds	385	—	Significant special funds of the National Science and Technology
Subsidiaries for disposal of old vehicle	—	18	Zibo rectify administrative units issued
Total	<b>13,276</b>	18	
Government subsidiaries amortized this year			
3000 tons of Ibuprofen project transferred from deferred income	295	148	Lu Choi Kin means (2009)157 issued by Finance Bureau of Zibo City
Relocation compensation amortization	6,530	—	Zizheng Zi No. (2009)10
Aspirin bulk drugs technological transformation projects financial allocation	2,003	—	Wei Ke Yao (2011) No.85-203-001
Subtotal	<b>8,828</b>	148	
Total	<b>22,104</b>	166	

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 45. Non-operating Expense

Item	Amount of this year	Amount of last year	The amount of non-recurring gains and losses reckon into this year
Loss on disposal of non-current assets	6,559	540	6,559
Including: loss on disposal of fixed assets	6,559	540	6,559
Overdue fines and penalties	682	650	682
Others	2,914	1,568	2,914
Total	<u>10,155</u>	<u>2,758</u>	<u>10,155</u>

### 46. Income Tax Expenses

Item	Amount of this year	Amount of last year
Income tax expenses for current period	6,968	15,350
Deferred income tax expenses	—	68
Total	<u>6,968</u>	<u>15,418</u>



### 47. Basic earnings per share and diluted earnings per share calculation

Items	No.	Amount of this year	Amount of last year
Net profit attributable to shareholders of the Company	1	<b>31,195</b>	60,702
Non-recurring gains and losses attributable to the Company	2	<b>11,092</b>	(143)
The net profit after attributable shareholders of the Company, excluding non-recurring gains and losses	3=1-2	<b>20,103</b>	60,845
The total number of shares in the beginning of the year	4	<b>457,313</b>	457,313
The number of shares of capitalisation of reserve or business (I)	5	—	—
The number of shares increase in Issuing new shares or debt to equity (II)	6	—	—
The accumulated number of months of Increase share (II) from next month to the end of the year	7	—	—
Reduction due to the shares repurchased	8	—	—
The accumulated number of reduction share from next month to the end of the year	9	—	—
The number of shares reduced	10	—	—
No. of Month of the reporting period	11	—	—
Weighted average number of ordinary shares public outstanding	$12=4+5+6 \times 7 \div 11-8 \times 9 \div 11-10$	<b>457,313</b>	457,313
<b>Basic earnings per share (I)</b>	$13=1 \div 12$	<b>0.07</b>	0.13
<b>Basic earnings per share (II)</b>	$14=3 \div 12$	<b>0.04</b>	0.13
Dilution potential ordinary shares interest recognized as an expense	15	—	—
Conversion expresses	16	—	—
Income tax rate	17	<b>15%</b>	15%
The increase in number of shares weighted average number of Warrants and options exercisable, convertible bonds, etc	18	—	—
<b>Diluted earnings per share (I)</b>	$19=[1+(15-16) \times (1-17)] \div (12+18)$	<b>0.07</b>	0.13
<b>Diluted earnings per share (II)</b>	$20=[3+(15-16) \times (1-17)] \div (12+18)$	<b>0.04</b>	0.13

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 48. Other comprehensive Income

Items	Amount of this year	Amount of last year
1. The profits generated by Available-for-sale financial assets	16,208	(2,102)
less: Income tax impact on Available-for-sale financial assets	2,431	(315)
Amount recovered in other comprehensive income in previous period transfer for the year	—	—
Subtotal	13,777	(1,787)
2. Translation differences of financial statements denominated in foreign currencies	(458)	685
3. Others	—	—
Total	<u>13,319</u>	<u>(1,102)</u>

### 49. Cash Flow Statement

(1) Other receipts/payments relating to cash of operating / investing/ financing activities

1) Other Cash Receipt Relating to Operating Activities

Item	Amount of this year	Amount of last year
Subsidies income	26,775	18
Interest income	1,333	757
Bank acceptance security deposit	5,982	22,980
Other	21,801	9,645
Total	<u>55,891</u>	<u>33,400</u>

2) Other Cash Payments Relating to Operating Activities

Item	Amount of this year	Amount of last year
Office expenses	2,530	1,541
Travel expenses	4,994	6,673
Annual listing fee, audit fee and Board's fee	1,889	1,517
Sewage discharge fees	613	712
Advertising and marketing expenses	61,816	48,273
Freight charges	16,499	16,404
Entertainment expenses	3,172	2,239
Research and development expenses	13,621	10,036
Security Deposit	6,000	—
China port technology significant funds	15,634	—
Others	37,301	21,357
Total	<u>164,069</u>	<u>108,752</u>



## Notes to the Financial Statements (Continued)

(2) Additional information for consolidated cash flow statement

Item	Amount of this year	Amount of last year
<b>1. Reconciliation of net income to cash flows from operating activities</b>		
Net profit	33,035	62,100
Add: Provisions for impairment loss of assets	—	1,799
Depreciation of fixed assets	67,424	61,400
Amortisation of intangible assets	3,057	2,953
Losses on disposal of fixed assets, intangible assets and other long-term assets	6,300	540
Profit or loss from changes in fair value	—	—
Financial expense	27,444	11,640
Investment loss	(4,201)	(4,957)
Decrease in deferred tax assets	(650)	68
Increase in deferred tax liabilities	1,566	(315)
Decrease in inventories	(22,145)	31,300
Decrease in operating receivables	(78,792)	(69,384)
Increase in operating payables	(75,225)	(69,632)
Net cash flows from operating activities	(42,187)	27,512
<b>2. Significant investing and financing activities not involving cash receipt or payment:</b>		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired on Finance lease	—	—
<b>3. Changes in cash and cash equivalents:</b>		
Ending balance of cash	369,065	358,374
Less: beginning balance of cash	267,965	368,070
Add: ending balance of cash equivalents	—	—
Less: beginning balance of cash equivalents	—	—
<b>Net increase in cash and cash equivalents</b>	<b>101,100</b>	<b>(9,696)</b>

(3) Cash and Cash equivalents presented in cash flow statement

Item	Balance at the end of the year	Balance at the beginning of the year
Cash	369,065	267,965
Including: Cash in hand	280	205
Bank deposit available for payments at any moment	364,213	260,760
Other funds available for payments at any moment	4,572	7,000
Cash equivalents	—	—
Ending balance of cash and equivalents	369,065	267,965
Including: Restricted cash and equivalents of the Company or subsidiaries in the Group.	—	—



# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 9. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

#### (1) Related Party Relationships

##### 1. Parent company and the ultimate control

##### (1) Parent company and the ultimate control

Name of Related Party	Relation ships with the Company			Registered address	Principal activities	Legal person	Code of Organization
	Nature						
Shandong Xinhua Pharmaceutical Group Company Limited	Parent company of the Company	State-owned	No. 14, East 1st Road, Zhangdian Dist., Zibo, Shandong Province.	Investment in the design of construction projects, property development and food and beverage, etc.	Zhang Daiming	164132472	
Hualu Holding Group Company Limited	The ultimate holding company	State-owned	No. 1, Bangpeng Street, Jinan, Shandong Province.	Investment and management in fertilizer and petrochemicals, etc.	Cheng Guanghui	771039712	

##### (2) Registered capital of the Company held by parent company and its changes

Name of Related Party	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year
Shandong Xinhua Pharmaceutical Group Company Limited	298,500	—	—	298,500

##### (3) Parent company's shareholding in the Company and its changes

Name of related party	Holding amounts		Holding proportion	
	Balance at the end of the year	Balance at the beginning of the year	This year	Last year
Shandong Xinhua Pharmaceutical Group Company Limited	166,116	166,072	36.32%	36.31%



## Notes to the Financial Statements (Continued)

### 2. Subsidiaries

#### (1) Subsidiaries

Name of subsidiaries	Type of organisation	Place of registration	Principal activities	Legal person	Code of Organization
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Limited company	Zibo Shandong	Sales of Pharmaceutical Chemical	Zhang Daiming	766662729
2. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	Limited company	Zibo Shandon	Sales of Pharmaceutical Chemical	Zhang Daiming	788496661
3. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	Limited company	Zibo Shandon	Engineering Design of Pharmaceutical Chemical	Du Deping	737227162
4. Zibo Xinhua drug store chain Co., Ltd.	Limited company	Zibo Shandon	Sales of Pharmaceutical Chemical	He Tongqing	267196268
5. Shandong Xinhua Pharmaceutical (Europe) GmbH.	Limited company	Germany hamburger	Sales of Pharmaceutical Chemical	Zhang Daiming	—
6. Zibo Xinhua — Eastwest Pharmaceutical Co., Ltd.	Limited company	Zibo Shandon	Manufacturing of Pharmaceutical Chemical	Zhang Daiming	779742314
7. Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	Limited company	Zibo Shandong	Manufacturing of Pharmaceutical Chemical	Zhang Daiming	746569703
8. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Limited company	Shouguang Shandong	Manufacturing of Pharmaceutical Chemical	Du Deping	793907875
9. Xinhua (Zibo) Property Development Co., Ltd.	Limited company	Zibo Shandong	Development of real estate	Zhang Daiming	567705933
10. Xinhua Pharmaceutical (Gaomi) Co., Ltd.	Limited company	Gaomi Shandong	Manufacturing of Pharmaceutical Chemical	He Tongqing	72623228-1

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

(2) registered capital of the subsidiaries and their changes

Name of subsidiaries	currency	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	RMB	48,499	—	—	48,499
2. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	RMB	5,000	—	—	5,000
3. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	RMB	3,000	—	—	3,000
4. Zibo Xinhua drug store chain Co., Ltd.	RMB	2,000	—	—	2,000
5. Shandong Xinhua Pharmaceutical (Europe) GmbH.	EUR	769	—	—	769
6. Zibo Xinhua — Eastwest Pharmaceutical Co., Ltd.	USD	1,500	—	—	1,500
7. Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	USD	6,000	—	—	6,000
8. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	RMB	230,000	—	—	230,000
9. Xinhua (Zibo) Property Development Co., Ltd.	RMB	20,000	—	—	20,000
10. Xinhua Pharmaceutical (Gaomi) Co., Ltd.	RMB	6,000	13,000	—	19,000

(3) Proportion of shareholding in subsidiaries and the changes

Name of subsidiaries	Amount of shareholding holding share		Proportion of shareholding (%)	
	Balance at the end of the year	Balance at the beginning of the year	Balance at the end of the year	Balance at the beginning of the year
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	48,499	48,499	100.00	100.00
2. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	5,000	5,000	100.00	100.00
3. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	3,000	3,000	100.00	100.00
4. Zibo Xinhua drug store chain Co., Ltd.	2,000	2,000	100.00	100.00
5. Shandong Xinhua Pharmaceutical (Europe) GmbH.	500	500	65.00	65.00
6. Zibo Xinhua — Eastwest Pharmaceutical Co., Ltd.	1,125	1,125	75.00	75.00
7. Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	3,006	3,006	50.10	50.10
8. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,000	230,000	100.00	100.00
9. Xinhua (Zibo) Property Development Co., Ltd.	20,000	20,000	100.00	100.00
10. Xinhua Pharmaceutical (Gaomi) Co., Ltd.	19,000	—	100.00	—



## Notes to the Financial Statements (Continued)

### 3. Associates

Name	Type of organisation	Place of registration	Principal activities	Legal person	Registered capital	Proportion of shareholding (%)	Proportion of voting (%)	Code of organisation
Shandong Zibo Xincat Pharmaceutical Company Limited	Limited company	Zibo Shandong	Manufacturing	Li Tianzhong	84,930	20%	20%	61328152X

### 4. Other related parties

Name of related party	Relationship	Related transactions with the company	Code of organization
Shandong Xinhua Industry & Trade Company Limited	Under common control of parent company	Sale of power and waste materials, and purchase of raw materials	164113351
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Under common control of parent company	Purchase of materials	720705295
Shandong Zibo Xincat Pharmaceutical Company Limited	Under common control of parent company	Sale of power and lease properties	61328152X
Zibo DSM Pharmaceutical Company Limited	Partially held by parent company	Sale of power and Purchase of materials	613291664
China Shandong Group Ltd.	Subsidiary of ultimate control company	Sale of Raw Material	—
USA Perrigo International Co., Ltd.	Subsidiary shareholder	Sale of bulk drug	—

## (2) Related Party Transactions

### 1. Pricing Policy

The price of sales of products to and purchases of the materials from related parties is determined based on the market price.

### 2. Purchase of materials

Name of Related Party	Nature of Transaction	Amount of this year		Amount of last year	
		Amount	Proportion (%)	Amount	Proportion (%)
Shandong Xinhua Industry & Trade Company Limited	Chemical materials and others	—	—	241	0.05
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Chemical materials	15,987	3.16	17,180	3.62
Zibo DSM Pharmaceutical Company Limited	Preparation materials	13,836	2.73	7,626	1.61
Shandong Xincat Chemical & Industrial Company Limited	Pharmaceutical	410	—	90	—
<b>Total</b>		<b>30,233</b>	<b>—</b>	<b>25,137</b>	<b>—</b>

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 3. Sale of goods

Name of Related Party	Transaction contents	Amount of this year		Amount of last year	
		Amount	Proportion (%)	Amount	Proportion (%)
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of power	1,169	7.94	884	6.49
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of wastes (water, gas, solid)	2,381	—	1,890	—
Zibo DSM Pharmaceutical Company Limited	Sale of power	2,757	18.73	2,306	16.92
Shandong Zibo XinCat Pharmaceutical Company Limited	Sale of power	271	1.84	299	2.20
China Shandong Group Ltd.	Sale of bulk drug	31,963	4.29	—	—
USA Perrigo International Co., Ltd.	Sale of bulk drug	67,718	—	71,090	—

### 4. Acceptance of guarantee

#### (1) Loan guarantee

The Company entered into a loan contract with, Qingdao Branch of Export-Import Bank of China with a contracted amount of RMB150,000,000 for a period from 21 October 2011 to 20 October 2012. The loan was guaranteed by the holding Company of the Company's parent Company, Hualu Holding Group Company Limited.

The Company entered into a loan contract with, Qingdao Branch of Export-Import Bank of China with a contracted amount of RMB80,000,000 for a period from 29 February 2012 to 28 February 2014. The loan was guaranteed by the holding Company of the Company's parent Company, Shandong Hualu Holding Group Company Limited.

#### (2) Providing guarantee

The Company provided a guarantee of bank accepted bills of exchange of RMB14,000,000 in favour of Xinhua Pharmaceutical (Shouguang) Company Limited, the wholly-owned subsidiary of the Company. The term of guarantee was from 11 May 2012 to 10 November 2012.

### 5. Lease of Assets

#### Lease-in assets

Name of Related Party	Nature of Transaction	Transaction period	Amount of current year	Amount of last year
Shandong Xinhua Pharmaceutical Group Company Limited	Rent of house	Whole year	<u>500</u>	<u>500</u>



## Notes to the Financial Statements (Continued)

### 6. Other Transactions

#### (1) Trademark Using Fee and Land using Rights

Name of Related Party	Nature of Transaction	Amount of current the year	Amount of last year
Shandong Xinhua Pharmaceutical Group Company Limited	Trademark using fee	3,750	1,100
Shandong Xinhua Pharmaceutical Group Company Limited	Land using rights	8,399	—

Pursuant to a trademark license agreement dated 7 December 1996 (“Agreement”), the Group was granted the exclusive right to use the trademark “Xinhua” (“Trademark”) by SXPGC for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at the rate of an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000, which shall stay as such until the Agreement is terminated. The terms of the Agreement shall continue to have effect during the validity period of the Trademark, being until 28 February 2013, subject to further renewal of the registration of the Trademark. On 23 March 2012, in order to amend and supplement the Agreement, the Company and SXPGC entered into a supplemental trademark license agreement, pursuant to which the Group was required to pay SXPGC an annual fee of RMB10,000,000 from 1 April 2012 to 31 December 2014. Other terms of the Agreement remain unchanged. During the six months ended 30 June 2012, the annual fee paid by the Group was RMB3,750,000 (2011 : RMB1,100,000).

Pursuant to the requirements of the Land Transfer Agreement signed by the Company and Shandong Xinhua Pharmaceutical Group Company Limited on 27 April 2010, the Company should acquire two parcels of land of Shandong Xinhua Pharmaceutical Group Company Limited, which were divided into three parcels for evaluation purpose, at a price determined in the evaluation report and approved by SASAC. With reference to Lu Zheng Ping (2011) (Gu) Zi No. 4158 (魯正評(2011)(估)字第4158號), Lu Zheng Ping (2011) (Gu) Zi No. 4159 (魯正評(2011)(估)字第4159號) and Lu Zheng Ping (2011) (Gu) No. 4160 (魯正評(2011)(估)字第4160號), all dated 20 December 2011, the aggregate evaluated prices of the three parcels of land is RMB8,398,800 and the parties entered into a transaction in accordance with such evaluated prices on 15 February 2012.

#### (2) Service of rendering

Name of Related Party	Nature of Transaction	Amount of current the year	Amount of last year
Zibo DSM Pharmaceutical Company Limited	Design	6	102

### 7. Important Management Personnel Salaries

	Amount of this year	Amount of last year
Important Management Personnel Salaries*	706	1,018

\* The salaries of important management personnel are the wages of the directors, the supervisors and the senior officers of the Company.

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### (3) Current Account Balances with Related Party

1. Related party transactions balance of assets classes

Name of Related Party	Balance at the end of the year		Balance at the beginning of the year	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
<b>Accounts receivable</b>				
Shandong Xinhua Industry & Trade Company Limited	1,150	1,150	1,150	1,150
Shandong Zibo XinCat Pharmaceutical Company Limited	291	—	40	—
China Shandong Group Ltd.	7,412	—	6,600	—
USA Perrigo International Co., Ltd.	—	—	12,265	—
<b>Total</b>	<b>8,853</b>	<b>1,150</b>	<b>20,055</b>	<b>1,150</b>
<b>Advances to Suppliers</b>				
Shandong Xinhua Industry & Trade Company Limited	36	—	12	—
Zibo DSM Pharmaceutical Company Limited	33	—	—	—
<b>Total</b>	<b>69</b>	<b>—</b>	<b>12</b>	<b>—</b>
<b>Other Receivable</b>				
Shandong Xinhua Industry & Trade Company Limited	8	—	8	—
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324	11,324	11,324
<b>Total</b>	<b>11,332</b>	<b>11,324</b>	<b>11,332</b>	<b>11,324</b>

# Financial Report

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## Notes to the Financial Statements (Continued)

### 2. Related party transactions balance of liabilities classes

Name of Related Party	Balance at the end of the year	Balance at the beginning of the year
<b>Accounts Payable</b>		
Shandong Xinhua industrial & trading Co., Ltd.	51	62
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	1,324	2,052
Zibo DSM Pharmaceutical Company Limited	—	729
Shandong Zibo XinCat Pharmaceutical Company Limited	228	101
Total	<u>1,603</u>	<u>2,944</u>
<b>Advances to Customers</b>		
USA Perrigo International Co., Ltd.	<u>196</u>	<u>—</u>

## 10. CONTINGENCIES

The Company has no significant contingencies as at 30 June 2012.

## 11. COMMITMENT

### 1. Contracted for or Agreed-upon large-sum arrangement

Items	Contract Amount	Amount Unpaid
Barbitone, TMP, CPC product relocation	14,392	8,152
Innovation Park	83,219	30,990
Waste Water Treatment Center Project	4,860	1,944
Hutian Park	146,532	55,597
Perrigo Expansion Project	6,041	4,229
Neopentyl Glycol Project	16,424	5,513
DK Project	80,604	22,321
Sulfuric Acid Project	72,981	27,526
Pyrazolone Project	18,618	2,530
Ammonium Sulfate	12,752	3,371
Waste Water Treatment Project	4,370	785
Southern District Project	20,940	6,110
Others	109,887	42,160
Total	<u>591,620</u>	<u>211,228</u>

### 2. Other than as disclosed above, the Company has no other capital commitments as at 30 June 2012.



# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 12. POST BALANCE SHEET DATE EVENTS

The Company has no significant subsequent events to be disclosed at 30 June 2012.

### 13. OTHER IMPORTANT EVENTS

The Company has no significant other events to be disclosed at 30 June 2012.

### 14. MAIN ITEMS' NOTES OF THE COMPANY'S FINANCIAL STATEMENTS

#### 1. Accounts Receivable

##### (1) Classification of Accounts Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Amount	Proportion%	Bad debts Provision	Proportion%	Amount	Proportion%	Bad debts Provision	Proportion%
Accounts receivable of individual amount is significant, individually provision for bad debts	—	—	—	—	—	—	—	—
Combination of aging	180,723	53.80	1,131	0.63	122,526	47.44	1,131	0.92
Combination with the relationship between trading partners	154,084	45.86	—	—	134,610	52.11	—	—
Combination for special accounts	—	—	—	—	—	—	—	—
Subtotal	334,807	99.66	1,131	0.34	257,136	99.55	1,131	0.44
Accounts receivable of individual amount is not significant, but individually provision for bad debts	1,150	0.34	1,150	100.00	1,150	0.45	1,150	100.00
Total	335,957	—	2,281	—	258,286	—	2,281	—

##### 1) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion (%)	Bad debts Provision	Amount	Proportion (%)	Bad debts Provision
Within one year	179,821	0.34	608	121,624	0.5	608
1 to 2 years	362	20	72	362	20	72
2 to 3 years	223	60	134	223	60	134
More than 3 years	317	100	317	317	100	317
Total	180,723	—	1,131	122,526	—	1,131



## Notes to the Financial Statements (Continued)

- 2) Accounts receivable adopt other method for provision for bad debts

Clients	Book balance	Amount for bad debts	Ratio (%)	Reason
Combination with the relationship between trading partners	154,084	—	—	—

- (2) Please refers to Notes 4.7 for the policy of bad debts.
- (3) At the end of the year, accounts receivable balance do not include receivable due from shareholders holding 5% inclusive or more of the Company's voting capital.
- (4) At the end of the year, the balance of accounts receivable due from the top five debtors is RMB198,057,000 accounting for 58.97% of the total balance of accounts receivable.

Name of equity	Relationship	Amount	Aging	Proportion (%)
Shandong Xinhua Pharmaceutical Trade Company Limited	Wholly-owned subsidiary	137,230	Within one year	40.85
Mitsubishi Corporation	Non-related parties	34,960	Within one year	10.41
Xinhua Pharmaceutical (Shouguang) Company Limited	Wholly-owned subsidiary	8,897	2 to 3 years	2.65
THE CONCENTRATE MANUFACTURING COMPANY IRELAND	Non-related parties	8,551	Within one year	2.55
Atlantic Industries Ltd.	Non-related parties	8,419	Within one year	2.51
Total		<u>198,057</u>		<u>58.97</u>

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(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

- (5) At the end of the year, the balance of accounts receivables due from the related parties of RMB155,248,000 accounting for 46.21% of the total balance of accounts receivable, details as follows:

Name of equity	Relationship	Amount	Proportion (%)
Shandong Xinhua Pharmaceutical Trade Company Limited	Wholly-owned subsidiary	137,230	40.85
Xinhua Pharmaceutical (Shouguang ) Company Limited	Wholly-owned subsidiary	8,897	2.65
Zibo Xinhua Drag Store Chain Company Limited	Wholly-owned subsidiary	13	—
Shandong Xinhua Industry & Trade Company Limited	Other related parties	1,150	0.34
China Shandong Group Ltd.	Subsidiary of ultimate control company	7,412	2.21
Zibo Xinhua-Eastwest Pharmaceutical Company Limited	Control subsidiary	6	—
Shandong Zibo XinCat Pharmaceutical Company Limited	Associates	291	0.09
Shandong Xinhua Pharmaceutical (Europa) GmbH	Control subsidiary	249	0.07
Total		<u>155,248</u>	<u>46.21</u>

- (6) The ending balance of accounts receivable denominated in the foreign currencies is as follows:

Name of currency	At the end of the year			At the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	25,176	6.3249	159,237	16,427	6.3009	103,505
GBP	193	9.8169	1,891	188	9.7116	1,826

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)



### 2. Other Receivables

#### (1) Classification of Other Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Amount	Proportion (%)	Bad debts Provision	Proportion (%)	Amount	Proportion (%)	Bad debts Provision	Proportion (%)
Other receivable of individual amount is significant, and individually provision for bad debts	11,324	3.39	11,324	100.00	11,324	4.63	11,324	100.00
Combination of aging	19,458	5.82	7,624	39.18	9,345	3.82	7,624	81.58
Combination for transaction partner	294,124	88.01	—	—	215,929	88.32	—	—
Combination for special amounts	9,283	2.78	—	—	7,891	3.23	—	—
Subtotal	322,865	96.61	7,624	2.36	233,165	95.37	7,624	3.27
Accounts receivable of individual amount is not significant, but individually provision for bad debts	—	—	—	—	—	—	—	—
<b>Total</b>	<b>334,189</b>	<b>—</b>	<b>18,948</b>	<b>—</b>	<b>244,489</b>	<b>—</b>	<b>18,948</b>	<b>—</b>

- 1) Other receivables where of individual amount is significant, and individual provision for bad debts

Clients	Book amount	Amounts of bad debts	Ratio (%)	Reason
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324	100.00	Consider of solvency and full provision for bad debts

- 2) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion (%)	Bad debts Provision	Amount	Proportion (%)	Bad debts Provision
Less than 1 year	11,339	0.05	6	1,226	0.5	6
1 to 2 years	324	20	65	324	20	65
2 to 3 years	605	60	363	605	60	363
More than 3 years	7,190	100	7,190	7,190	100	7,190
<b>Total</b>	<b>19,458</b>	<b>—</b>	<b>7,624</b>	<b>9,345</b>	<b>—</b>	<b>7,624</b>

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

- 3) Other method for provision bad debts of accounts receivable

Name of combination	Book balance	Amounts of bad debts
Combination with the relationship between trading partners	294,124	—
Combination for special accounts	9,283	—
Total	<u>303,407</u>	<u>—</u>

- (2) At the end of the year, other receivables do not include receivable shareholders holding 5% or more of the Company's voting capital.
- (3) At the end of the year, the top five balances of other receivables are RMB312,662,000 accounting for 93.56% of the total balance of other receivable, details as follows:

Name of equity	Relationships	Amount	Aging	Proportion (%)	Nature or Content
Xinhua Pharmaceutical (Shouguang) Company Limited	Wholly-owned subsidiary	230,000	Within one year, 1-2 years	68.82%	Current amounts
Shandong Xinhua Pharmaceutical Trade Company Limited	Wholly-owned subsidiary	61,183	Within one year, more than three years	18.31%	Current amounts
Pending deduction of VAT on purchase	Non-related party	9,283	Within one year	2.78%	Pending deduction of VAT on Purchase
Rebate of income tax	Non-related party	6,196	More than three years	1.85%	Rebate of income tax
Zibo custom house	Non-related party	6,000	Within one year	1.80%	Security deposit
Total		<u>312,662</u>		<u>93.56%</u>	

- (4) At the end of the year, the balance of other receivable due from the related parties is RMB305,370 accounting for 91.38% of the total balance of other receivable, details as follows:

Name of Company	Relationships	Amount	Proportion (%)
Xinhua Pharmaceutical (Shouguang) Company Limited	Wholly-owned subsidiary	230,000	68.83
Shandong Xinhua Pharmaceutical Trade Company Limited	Wholly-owned subsidiary	61,183	18.31
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Controlled by the same control shareholders	11,324	3.39
Zibo Xinhua Drag Store Chain Company Limited	Wholly-owned subsidiary	2,778	0.83
Zibo Xinhua-Eastwest Pharmaceutical Company Limited	Control subsidiary	46	0.01
Shandong Xinhua Pharmaceutical Export & Import Company Limited	Wholly-owned subsidiary	39	0.01
Total		<u>305,370</u>	<u>91.38</u>

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)



### 3. Long-term equity investment

#### (1) Long-term equity investment

Items	Balance at the end of the term	Balance at the beginning of year
Using cost method	385,627	348,475
Using equity method	23,376	21,761
<b>Total long-term equity investment</b>	<b>409,003</b>	<b>370,236</b>
Less: provision for impairment loss of Long-term equity investment	—	—
<b>Net amount of Long-term equity investment</b>	<b>409,003</b>	<b>370,236</b>

#### (2) Using cost method and Equity Method

Name of investee	Proportion of shareholding (%)	Proportion of voting (%)	Original amount	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year	Cash Dividends received in the year
<b>Using cost method</b>								
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	100%	100%	48,582	48,582	—	—	48,582	—
2. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	100%	100%	3,038	3,038	—	—	3,038	—
3. Zibo Xinhua drug store chain Co., Ltd.	100%	100%	2,159	2,159	—	—	2,159	—
4. Shandong Xinhua Pharmaceutical (Europe) GmbH.	65%	65%	4,597	4,597	—	—	4,597	—
5. Zibo Xinhua - Eastwest Pharmaceutical Co., Ltd.	75%	75%	9,008	9,008	—	—	9,008	—
6. Zibo Xinhua — Perrigo Pharmaceutical Co., Ltd.	50.10%	50.10%	24,877	24,877	—	—	24,877	1,503
7. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	100%	100%	230,713	230,713	—	—	230,713	—
8. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	100%	100%	5,501	5,501	—	—	5,501	—
9. Xinhua (Zibo) property development Co., Ltd	100%	100%	20,000	20,000	—	—	20,000	—
10. Xinhua Pharmaceutical (Gaomi) Co., Ltd.	100%	100%	—	—	37,153	—	37,153	—
Subtotal	—	—	—	348,475	37,153	—	385,628	1,503
<b>Using equity method</b>								
Shandong Zibo XinCat Pharmaceutical Company Limited	20%	20%	10,179	21,761	1,615	—	23,376	—
Subtotal	—	—	—	21,761	1,615	—	23,376	—
Total	—	—	—	370,236	38,768	—	409,004	1,503

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### (3) Investment in Joint Ventures and Associates

Name of investee	Proportion of shareholding (%)	Proportion of voting (%)	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total operation income of the year	Net profit of the year
<b>Joint Ventures</b>							
Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	166,173	62,949	103,224	150,098	8,551

(4) No provision for impairment has been made and no evidence indicates any impairment of long-term equity investment of the company.

## 4. Operating Income and Operating Costs

### (1) Operating Income and Operating Costs

Item	Amount of this year	Amount of last year
Income for main operation	885,069	932,504
Income for other operation	23,157	25,434
Total	908,226	957,938
Cost for main operation	725,465	801,522
Cost for other operation	27,298	29,994
Total	752,763	831,516

### (2) Income and Costs from Main Operation — Classified by Products

Types	Amount of this year		Amount of last year	
	income	cost	income	cost
Bulk Pharmaceuticals	690,786	564,169	752,417	636,910
Including: Export sales	503,757	430,070	513,700	435,875
Preparations	194,206	161,219	180,087	164,612
Chemical and others	77	77	—	—
Total	885,069	725,465	932,504	801,522



## Notes to the Financial Statements (Continued)

(3) Operating Income from top five customers

Name of customers	Amount of this year	Proportion (%)
Shandong Xinhua Pharmaceutical Trade Company Limited	179,018	19.71
Mitsubishi Corporation	93,580	10.30
CHINA SHANDONG GROUP LIMITED	32,060	3.53
Bayer HealthCare LLC	17,109	1.88
WELDING GMBH & CO.	12,464	1.37
Total	<u>334,231</u>	<u>36.79</u>

## 5 Investment Gain

(1) The source of investment gain or loss

Sources of investment gain or loss	Amount of this year	Amount of last year
Long-term equity investment income accounted for using equity method	<b>1,615</b>	3,201
Investment income from Available-for-sale financial assets during the period of ownership	<b>2,572</b>	1,750
Total	<u><b>4,187</b></u>	<u>4,951</u>

(2) Income from long-term equity investments accounted for using equity method

Items	Amount of this year	Amount of last year	The reason for change
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	<b>1,615</b>	3,201	Net profit changes in the investee

There is no significant restriction on the returns of investment income.



# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 6. Supplementary information on the Company's cash flow statement

Item	Amount of this year	Amount of last year
<b>1. Reconciliation of net income to cash flows from operating activities:</b>		
Net profit	<b>34,908</b>	28,753
Add: Provisions for impairment loss of assets	—	—
Depreciation of fixed assets	<b>50,015</b>	48,370
Amortisation of intangible assets	<b>2,331</b>	2,220
Losses on disposal of fixed assets, intangible assets and other long-term assets	<b>6,300</b>	540
Profit or loss from changes in fair value	—	—
Financial expense	<b>28,088</b>	11,461
Investment loss	<b>(4,187)</b>	(4,951)
Decrease in deferred tax assets	—	—
Increase in deferred tax liabilities	<b>1,566</b>	(315)
Decrease in inventories	<b>(25,976)</b>	64,152
Decrease in operating receivables	<b>(70,835)</b>	(69,380)
Increase in operating payables	<b>(59,057)</b>	(67,103)
Net cash flows from operating activities	<b>(36,847)</b>	13,747
<b>2. Significant investing and financing activities not involving cash receipt or payment:</b>		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired on finance lease	—	—
<b>3. Changes in cash and cash equivalents:</b>		
Ending balance of cash	<b>261,694</b>	273,692
Less: beginning balance of cash	<b>178,748</b>	245,721
Add: ending balance of cash equivalents	—	—
Less: beginning balance of cash equivalents	—	—
<b>Net increase in cash and cash equivalents</b>	<b>82,946</b>	27,971



### 15. SUPPLEMENTARY INFORMATION

#### 1. Statement of Non-recurring profit and loss

According to China Securities Regulatory Commission, “public offering of securities of the Company Disclosure interpretative bulletin No. 1 — Extraordinary (2008)” requirement, the company in Jan.–Jun. 2012 non-operating gains and losses as follow:

Items	Amount of this year	Amount of last year	Notes
(1) Gains and losses, including the write-off portion of provision for impairment loss on assets	(6,300)	(57)	Loss of disposal of fixed assets
(2) Government subsidies in profit and loss of the year, but except for the subsidies that are closely related to the Company’s normal operations, in line with national policies and regulations, and subsidies in accordance with certain standards of quotas or quantity that the Company continually enjoys	22,104	166	Received government subsidies reckon into current term
(3) Except for the normal operations associated with the Company effective hedging business, gain or loss held-for-trading financial assets, held-for-trading financial liabilities, as well as incomes gains from the disposal of held-for-trading financial assets and financial liabilities and available for sale of financial assets	2,572	1,750	Disposal and dividends of available-for-sale
(4) In addition to the above ,the non-operating income and expenditure;	(1,326)	(2,088)	
Total	<u>17,050</u>	<u>(229)</u>	
Less: Income tax effect	<u>3,866</u>	<u>(85)</u>	
<b>Total non-recurring net gain or loss</b>	<u><b>13,184</b></u>	<u>(144)</u>	
Including:attributable to shareholders of the Company	<b>13,183</b>	(143)	

# Financial Report

(Prepared under PRC Accounting Standards)

## Notes to the Financial Statements (Continued)

### 2. Accounting data differences due to the accounting standards

The differences in net income and net assets in accordance with foreign accounting standards and Chinese accounting standards are details as follow:

Items	Net profit		Net assets	
	Amount of this year	Amount of last year	Amount at the end of the year	Amount at the beginning of the year
According to foreign accounting standard Adjustments	<b>30,416</b>	60,061	<b>1,748,156</b>	1,717,981
1. Reevaluation of asset on listing	—	—	<b>(21,300)</b>	(21,300)
2. Additional depreciation of revalue asset depreciation	—	—	<b>21,300</b>	21,300
3. Education provision	<b>916</b>	753	<b>(8,554)</b>	(9,469)
4. Impact on deferred income tax	<b>(137)</b>	(112)	<b>1,285</b>	1,420
Subtotal of adjustment	<b>779</b>	641	<b>(7,269)</b>	(8,049)
Amount according to 'Accounting Standard for Enterprises' attributable to the Company	<b>31,195</b>	60,702	<b>1,740,887</b>	1,709,932

### 3. Return on equity and earnings per share

According to China Securities Regulatory Commission, "public offering of securities of the company Information Disclosure Rule No. 9 — ROE and earnings per share calculation and disclosure (2010 Amendment)" requirement, the first half of 2012, the weighted average net Company Return on assets, basic earnings per share and diluted earnings per share are as follows:

Profits of the reporting period	Weighted average Return on equity	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to of the Company shareholders	1.81%	0.07	0.07
Net profit after deducting non-recurring gains and losses, attributable to shareholders of the Company	1.04%	0.04	0.04

## 16. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements have been approved to report by the Board of Directors on 23 August 2012.

# Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)



## Condensed Consolidated Income Statement

	Notes	Six months ended 30 June	
		2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Revenue	3	<b>1,525,008</b>	1,509,029
Cost of sales		<b>(1,247,825)</b>	(1,237,382)
Gross profit		<b>277,183</b>	271,647
Investment income		<b>4,057</b>	2,732
Other income		<b>46,607</b>	21,548
Distribution and selling expenses		<b>(125,417)</b>	(99,027)
Administrative expenses		<b>(103,989)</b>	(82,808)
Other expenses		<b>(32,823)</b>	(28,889)
Share of profit of an associate		<b>1,615</b>	3,201
Finance costs		<b>(28,146)</b>	(11,640)
Profit before tax	4	<b>39,087</b>	76,764
Income tax expense	5	<b>(6,831)</b>	(15,305)
Profit for the period		<b>32,256</b>	61,459
Profit for the period attributable to:			
Owners of the Company		<b>30,416</b>	60,061
Non-controlling interests		<b>1,840</b>	1,398
		<b>32,256</b>	61,459
Earnings per share - basic and diluted	6	<b>RMB0.067</b>	RMB0.131

# Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

## Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Profit for the period	<b>32,256</b>	61,459
Other comprehensive income (expenses):		
Exchange differences arising on translation	<b>(460)</b>	685
Fair value gain (loss) on available-for-sale financial assets	<b>15,343</b>	(2,101)
Income tax relating to components of other comprehensive income	<b>(1,566)</b>	314
Other comprehensive income (expenses) for the period, net of tax	<b>13,317</b>	(1,102)
Total comprehensive income for the period	<b>45,573</b>	60,357
Total comprehensive income attributable to:		
Owners of the Company	<b>43,894</b>	58,719
Non-controlling interests	<b>1,679</b>	1,638
	<b>45,573</b>	60,357

# Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)



## Condensed Consolidated Statement of Financial Position

	<i>Notes</i>	<b>30 June 2012 RMB'000 (unaudited)</b>	31 December 2011 RMB'000 (audited)
<b>Non-current assets</b>			
Technical know-how	8	16,126	—
Property, plant and equipment	8	1,103,033	1,065,521
Construction in progress	8	488,893	363,330
Prepaid lease payments on land use rights	8	220,605	217,022
Investment properties	8	35,513	37,142
Interest in an associate		24,926	21,761
Available-for-sale investments		151,415	136,072
Deferred tax assets		17,238	16,588
Prepayments for acquisition of land use rights		22,028	31,787
		<b>2,079,777</b>	1,889,223
<b>Current assets</b>			
Inventories		445,934	423,789
Trade and other receivables	9	471,900	389,356
Prepaid lease payments on land use rights	8	5,960	5,711
Amount due from an associate		63	—
Amounts due from fellow subsidiaries		7,445	6,600
Tax recoverable		1,003	3,504
Pledged bank deposits		25,281	31,263
Bank balances and cash		369,065	267,966
		<b>1,326,651</b>	1,128,189
<b>Current liabilities</b>			
Trade and other payables	10	550,591	485,119
Dividend payable		19,030	15,111
Amounts due to fellow subsidiaries		1,331	2,835
Amount due to an associate		—	61
Tax payable		—	608
Borrowings		190,000	475,147
		<b>760,952</b>	978,881
<b>Net current assets</b>		<b>565,699</b>	149,308
<b>Total assets less current liabilities</b>		<b>2,645,476</b>	2,038,531

# Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

## Condensed Consolidated Statement of Financial Position (Continued)

		<b>30 June 2012 RMB'000 (unaudited)</b>	31 December 2011 RMB'000 (audited)
<b>Capital and reserves</b>			
Share capital	11	<b>457,313</b>	457,313
Reserves		<b>1,290,843</b>	1,246,949
Proposed final dividend		—	13,719
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>1,748,156</b>	1,717,981
Non-controlling interests		<b>41,486</b>	39,807
		<hr/>	<hr/>
<b>Total equity</b>		<b>1,789,642</b>	1,757,788
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>6,999</b>	5,570
Borrowings		<b>290,098</b>	213,321
Loan from ultimate holding company		<b>500,000</b>	—
Deferred income		<b>58,737</b>	61,852
		<hr/>	<hr/>
		<b>855,834</b>	280,743
		<hr/>	<hr/>
		<b>2,645,476</b>	2,038,531
		<hr/> <hr/>	<hr/> <hr/>

# Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

## Condensed Consolidated Statement of Changes In Equity



	Attributable to owners of the Company											Non-controlling interests	Total	
	Share capital	Share premium	Capital reserve	Reserve funds	Asset revaluation reserve	Available-for-sale investment reserve	Other reserve	Exchange reserve	Retained earnings	Dividend reserve	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2012</b>	457,313	466,618	78,642	191,288	25,850	94,900	481	(823)	389,993	13,719	1,717,981	39,807	1,757,788	
Profit for the period	—	—	—	—	—	—	—	—	30,416	—	30,416	1,840	32,256	
Other comprehensive income (expenses)	—	—	—	—	—	13,777	—	(299)	—	—	13,478	(161)	13,317	
Total comprehensive income (expenses) for the period	—	—	—	—	—	13,777	—	(299)	30,416	—	43,894	1,679	45,573	
Dividends recognised as distribution	—	—	—	—	—	—	—	—	—	(13,719)	(13,719)	—	(13,719)	
<b>At 30 June 2012 (unaudited)</b>	<b>457,313</b>	<b>466,618</b>	<b>78,642</b>	<b>191,288</b>	<b>25,850</b>	<b>108,677</b>	<b>481</b>	<b>(1,122)</b>	<b>420,409</b>	<b>—</b>	<b>1,748,156</b>	<b>41,486</b>	<b>1,789,642</b>	
<b>At 1 January 2011</b>	457,313	466,618	78,642	183,865	25,850	114,088	481	(261)	336,760	22,866	1,686,222	38,010	1,724,232	
Profit for the period	—	—	—	—	—	—	—	—	60,061	—	60,061	1,398	61,459	
Other comprehensive (expenses) income	—	—	—	—	—	(1,787)	—	445	—	—	(1,342)	240	(1,102)	
Total comprehensive (expenses) income for the period	—	—	—	—	—	(1,787)	—	445	60,061	—	58,719	1,638	60,357	
Dividends recognised as distribution	—	—	—	—	—	—	—	—	—	(22,866)	(22,866)	—	(22,866)	
<b>At 30 June 2011 (unaudited)</b>	<b>457,313</b>	<b>466,618</b>	<b>78,642</b>	<b>183,865</b>	<b>25,850</b>	<b>112,301</b>	<b>481</b>	<b>184</b>	<b>396,821</b>	<b>—</b>	<b>1,722,075</b>	<b>39,648</b>	<b>1,761,723</b>	



# Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

## Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Cash (used in) generated from operations	<b>(35,193)</b>	39,500
Income tax paid	<b>(6,994)</b>	(11,988)
Net cash (used in) from operating activities	<b>(42,187)</b>	27,512
Net cash used in investing activities	<b>(161,301)</b>	(134,847)
Net cash from financing activities	<b>304,587</b>	97,639
Net increase (decrease) in cash and cash equivalents	<b>101,099</b>	(9,696)
Cash and cash equivalents at 1 January	<b>267,966</b>	368,070
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>369,065</b>	358,374



## Notes to The Condensed Interim Financial Information

### 1. BASIS OF PREPARATION

The Group's unaudited condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis except for property, plant and equipments and certain financial instruments, which are measured at revalued amounts or fair values, as appropriate. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies used in the consolidated condensed interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except as described below.

In the current interim period, the Group has applied the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle <sup>2</sup>
Amendments to HKFRS 1	Government Loans <sup>2</sup>
Amendments to HKFRS 7	Disclosure – offsetting Financial Assets and Financial Liabilities <sup>2</sup>
HKFRS 9	Mandatory effective date of HKFRS 9 and Transition Disclosures <sup>4</sup>
HKFRS 10	Financial Instruments <sup>4</sup>
HKFRS 11	Consolidated Financial Statements <sup>2</sup>
HKFRS 12	Joint Arrangements <sup>2</sup>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in other Entities: Transition Guidance <sup>2</sup>
Amendments to HKAS 1	Fair Value Measurement <sup>2</sup>
HKAS 19 (as revised in 2011)	Presentation of Items of Other Comprehensive Income <sup>1</sup>
HKAS 27 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 28 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
Amendments to HKAS 32	Investments in Associates and Joint Ventures <sup>2</sup>
HK(IFRIC) – INT 20	Offsetting Financial Assets and Financial Liabilities <sup>3</sup>
	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2015.

# Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

## Notes to The Condensed Interim Financial Information (Continued)

The five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of the five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements; (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

The amendments to HKAS 1 have been issued to improve the presentation of other comprehensive income. The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future by presenting them separately from those that would never be reclassified to profit or loss.

Other than disclosed above, the directors of the Company anticipate that the application of the new or revised standards and interpretations will have no material impact on the result and the financial position of the Group.

### 3. SEGMENT INFORMATION

#### (a) Description of segments

Management has determined the operating segments based on the internal reports reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The Group's operating and reportable segments are as follows:

Bulk pharmaceuticals:	Development, production and sales of bulk pharmaceuticals
Preparations:	Development, production and sales of preparations (e.g. tablets and injections)
Commerce circulations:	Trading of pharmaceutical products (including retail and wholesale)
Chemical and other products:	Production and sales of chemical and other products

Information regarding the above segments is reported below:

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## Notes to The Condensed Interim Financial Information (Continued)



### (b) Segment turnover and results

The following is an analysis of the Group's turnover and results by reportable segment.

#### For the six months ended 30 June 2012 (Unaudited)

	Bulk pharmaceuticals <i>RMB'000</i>	Preparations <i>RMB'000</i>	Commerce circulations <i>RMB'000</i>	Chemical and other products <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
<b>REVENUE</b>						
External sales	750,812	291,004	387,861	95,331	—	1,525,008
Inter-segment sales	3,758	182,753	1,301	128,972	(316,784)	—
Total	<u>754,570</u>	<u>473,757</u>	<u>389,162</u>	<u>224,303</u>	<u>(316,784)</u>	<u>1,525,008</u>
Segment profit	<u>64,592</u>	<u>4,495</u>	<u>(147)</u>	<u>(21,163)</u>		<u>47,777</u>
Investment and other income						50,664
Other expenses						(32,823)
Finance costs						(28,146)
Share of profits of an associate						1,615
Profit before tax						<u>39,087</u>

#### For the six months ended 30 June 2011 (Unaudited)

	Bulk pharmaceuticals <i>RMB'000</i>	Preparations <i>RMB'000</i>	Commerce circulations <i>RMB'000</i>	Chemical and other products <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
<b>REVENUE</b>						
External sales	812,608	270,361	358,687	67,373	—	1,509,029
Inter-segment sales	4,272	160,385	43,388	154,751	(362,796)	—
Total	<u>816,880</u>	<u>430,746</u>	<u>402,075</u>	<u>222,124</u>	<u>(362,796)</u>	<u>1,509,029</u>
Segment profit	<u>59,210</u>	<u>22,109</u>	<u>4,129</u>	<u>4,364</u>		<u>89,812</u>
Investment and other income						24,280
Other expenses						(28,889)
Finance costs						(11,640)
Share of profits of an associate						3,201
Profit before tax						<u>76,764</u>

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## Notes to The Condensed Interim Financial Information (Continued)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of investment and other income, other expenses, finance costs and share of profit of an associate. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

### (c) Segment assets

The following is an analysis of the Group's assets by reportable segment.

#### At 30 June 2012 (Unaudited)

	<b>Bulk pharmaceuticals</b> <i>RMB'000</i>	<b>Preparations</b> <i>RMB'000</i>	<b>Commerce circulations</b> <i>RMB'000</i>	<b>Chemical and other products</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Segment assets	1,471,355	527,794	176,026	606,812	2,781,987
Unallocated corporate assets					624,441
Consolidated assets					3,406,428

#### At 31 December 2011 (Audited)

	<b>Bulk pharmaceuticals</b> <i>RMB'000</i>	<b>Preparations</b> <i>RMB'000</i>	<b>Commerce circulations</b> <i>RMB'000</i>	<b>Chemical and other products</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Segment assets	1,300,312	483,372	182,817	536,615	2,503,116
Unallocated corporate assets					514,296
Consolidated assets					3,017,412

For the purposes of monitoring segment performances and allocating resources among segments: all assets are allocated to reportable segments other than deferred tax assets, interest in an associate, available-for-sale investments, investment properties, tax recoverable, pledged bank deposits and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of revenues earned by individual reportable segments.

# Financial Report

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## Notes to The Condensed Interim Financial Information (Continued)



### 4. PROFITS BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Amortisation of prepaid lease payments on land use rights	2,645	2,845
Amortisation of technical know-how	820	—
Depreciation for property, plant and equipment	82,634	61,544
Depreciation for investment properties	1,629	1,628
Cost of inventories recognised as an expense	1,247,825	1,237,382
Bargain purchase gain in acquisition of a subsidiary	(2,094)	—
Dividends and interest income	(4,057)	(2,732)
Loss on disposal of property, plant and equipment	6,300	57

### 5. INCOME TAX EXPENSE

The major components of income tax expense in the condensed income statement are:

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Current income tax – PRC Enterprise Income Tax (“EIT”)	6,968	15,350
Deferred income tax	(137)	(45)
Income tax expense	6,831	15,305

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% for both periods.

Pursuant to the relevant laws and regulations in the PRC, the Company was accredited as a high-tech enterprise. The accreditation is valid for three years. The Company is entitled to the preferential tax rate of 15% for a period of three years commencing from 1 January 2011 to 31 December 2013.

Pursuant to the relevant laws and regulations in the PRC, two subsidiaries operating in the PRC are entitled to exemption from the PRC income tax in the first two years from the first profit-making year, followed by a 50% reduction of the PRC income tax for the next three years. During the six months ended 30 June 2012, only one subsidiary operating in the PRC is entitled to exemption from the PRC income tax in the first two years from the first profit-making year, followed by a 50% reduction of the PRC income tax for the next three years.

### 6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to the owners of the Company of RMB30,416,000 (2011: RMB60,061,000) and based on the weighted average of 457,312,830 shares (2011 : 457,312,830 shares) in issue during the period.

Basic earnings per share and diluted earnings per share for the six months ended 30 June 2012 and 2011 are the same as there were no dilutive events existed during both periods.

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## Notes to The Condensed Interim Financial Information (Continued)

### 7. DIVIDENDS

- (a) The board of the directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).
- (b) Dividends attributable to the previous financial year, approved during the interim period.

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Final dividend in respect of the financial year ended 31 December 2011, approved during the following interim period, of RMB0.03 per share (year ended 31 December 2010: RMB0.05 per share)	<b>13,719</b>	22,866

### 8. CAPITAL EXPENDITURES

	<b>Prepaid lease payments on land use rights</b>	<b>Technical know-how</b>	<b>Property, plant and equipment</b>	<b>Construction in progress</b>	<b>Investment properties</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net carrying values at 1 January 2012	222,733	—	1,065,521	363,330	37,142	1,688,726
Additions	6,477	—	40,442	212,151	—	259,070
Acquired on acquisition of a subsidiary	—	16,946	7,148	—	—	24,094
Disposals	—	—	(14,032)	—	—	(14,032)
Transfers	—	—	86,588	(86,588)	—	—
Depreciation and amortisation	(2,645)	(820)	(82,634)	—	(1,629)	(87,728)
Net carrying values at 30 June 2012 (unaudited)	<u>226,565</u>	<u>16,126</u>	<u>1,103,033</u>	<u>488,893</u>	<u>35,513</u>	<u>1,870,130</u>
Representing:						
Non-current portion	<u>220,605</u>	<u>16,126</u>	<u>1,103,033</u>	<u>488,893</u>	<u>35,513</u>	<u>1,864,170</u>
Current portion	<u>5,960</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,960</u>
Net carrying values at 1 January 2011	228,444	—	1,007,323	120,261	35,707	1,391,735
Additions	—	—	15,347	131,149	4,692	151,188
Disposals	—	—	(1,459)	—	—	(1,459)
Transfers	—	—	28,510	(28,510)	—	—
Depreciation and amortisation	(2,845)	—	(61,544)	—	(1,628)	(66,017)
Net carrying values at 30 June 2011 (unaudited)	<u>225,599</u>	<u>—</u>	<u>988,177</u>	<u>222,900</u>	<u>38,771</u>	<u>1,475,447</u>
Representing:						
Non-current portion	<u>219,909</u>	<u>—</u>	<u>988,177</u>	<u>222,900</u>	<u>38,771</u>	<u>1,469,757</u>
Current portion	<u>5,690</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,690</u>

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## Notes to The Condensed Interim Financial Information (Continued)



### 9. TRADE AND OTHER RECEIVABLES

	<b>30 June 2012 RMB'000 (unaudited)</b>	31 December 2011 RMB'000 (audited)
Trade and bills receivables	<b>456,706</b>	393,531
Less : Allowance for doubtful debts of trade receivables	<b>(53,267)</b>	(53,328)
	<b>403,439</b>	340,203
Other receivables, deposits and prepayments	<b>77,705</b>	58,397
Less : Allowance for doubtful debts of other receivables	<b>(9,244)</b>	(9,244)
	<b>68,461</b>	49,153
Total trade and other receivables	<b>471,900</b>	389,356

Included in the trade and bills receivables are debtors and bills receivables, net of allowance for bad debt and doubtful debts, with the following ageing analysis:

	<b>30 June 2012 RMB'000 (unaudited)</b>	31 December 2011 RMB'000 (audited)
Within one year	<b>394,796</b>	335,408
More than one year but less than two years	<b>7,372</b>	3,212
More than two years but less than three years	<b>1,210</b>	1,583
Over three years	<b>61</b>	—
	<b>403,439</b>	340,203

The Group's revenue from export sales is on letter of credit or documents against payment. The credit period is agreed upon in the sales contract. Except for some particular customers where payment in advance is normally required, the Group allows an average credit period of 30 days to its local trade customers and 180 days for local hospital customers.

### 10. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payable presented based on the invoice date at the end of the reporting period.

	<b>30 June 2012 RMB'000 (unaudited)</b>	31 December 2011 RMB'000 (audited)
Within one year	<b>406,956</b>	346,815
More than one year but less than two years	<b>1,801</b>	3,986
More than two years but less than three years	<b>487</b>	601
Over three years	<b>3,865</b>	3,809
	<b>413,109</b>	355,211
Other payables and accrued charges	<b>137,482</b>	129,908
	<b>550,591</b>	485,119



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## Notes to The Condensed Interim Financial Information (Continued)

### 11. SHARE CAPITAL

	30 June 2012		31 December 2011	
	Number of shares '000 (unaudited)	RMB'000 (unaudited)	Number of shares '000 (audited)	RMB'000 (audited)
<b>Issued and fully paid:</b>				
<b>State-owned legal person shares of RMB 1 each</b>				
At the beginning of the period / year	166,116	166,116	166,072	166,072
Transfer from PRC legal person shares	—	—	44	44
At the end of period / year	166,116	166,116	166,116	166,116
<b>PRC legal person shares of RMB 1 each</b>				
At the beginning of the period / year	13,158	13,158	21,714	21,714
Transfer to ordinary shares	—	—	(8,512)	(8,512)
Transfer to state-owned shares	—	—	(44)	(44)
At the end of period / year	13,158	13,158	13,158	13,158
<b>Restricted senior management shares of RMB 1 each</b>				
At the beginning of the period / year	5	5	20	20
Transfer to ordinary shares	(4)	(4)	(15)	(15)
At the end of period / year	1	1	5	5
<b>RMB ordinary shares (A Shares) of RMB 1 each</b>				
At the beginning of the period / year	128,034	128,034	119,507	119,507
Transfer from PRC legal person shares	—	—	8,512	8,512
Transfer from restricted senior management shares	4	4	15	15
At the end of period / year	128,038	128,038	128,034	128,034
<b>Overseas listed foreign invested shares (H Shares) of RMB 1 each</b>				
At the beginning and the end of the period / year	150,000	150,000	150,000	150,000
	<b>457,313</b>	<b>457,313</b>	457,313	457,313



### 12. COMMITMENTS

#### Capital commitments

At 30 June 2012, the Group had the following capital commitments principally related to construction in progress and purchase of property, plant and equipment in respect of buildings and production facilities which were not provided for in the unaudited condensed consolidated financial statements:

	<b>30 June 2012 RMB'000 (unaudited)</b>	31 December 2011 RMB'000 (audited)
Contracted but not provided for	<b>211,227</b>	211,184
Authorised but not contracted for	<b>397,700</b>	397,700
	<b>608,927</b>	608,884

#### Commitments under operating leases

The Group as lessee

The Group leases certain of its retail shops under operating lease arrangements. Lease for properties are negotiated for a term ranging from one to five years and rentals are under fixed rate.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>30 June 2012 RMB'000 (unaudited)</b>	31 December 2011 RMB'000 (audited)
Within one year	<b>963</b>	440
In the second to fifth year inclusive	<b>2,829</b>	980
	<b>3,792</b>	1,420

The Group as lessor

The Group leases certain of its properties under operating lease arrangements. The properties are expected to generate rental yields of 3.16% (2011: 3.01%) on an ongoing basis. Lease for properties are negotiated for a term of ten years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	<b>30 June 2012 RMB'000 (unaudited)</b>	31 December 2011 RMB'000 (audited)
Within one year	<b>788</b>	772
In the second to fifth year inclusive	<b>3,288</b>	3,363
After five years	<b>1,963</b>	2,388
	<b>6,039</b>	6,523

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## Notes to The Condensed Interim Financial Information (Continued)

### 13. ACQUISITION OF A SUBSIDIARY

On 11 April 2012, the Group acquired 100% equity interests in Shandong Tianda Biopharmaceutical Limited\* (山東天達生物制藥股份有限公司) ("Shandong Tianda") from the independent third parties. Shandong Tianda is a company incorporated in the PRC principally engaged in production and sales of pharmaceutical preparation.

Consideration transferred

RMB'000

Cash	24,153
------	--------

Assets and liabilities recognised at the date of acquisition (determined on a provisional basis)

RMB'000

Technical know-how	16,946
Property, plant and equipment	7,148
Inventories	2,153
	<u>26,247</u>

\* The English name is for identification purpose only.

Goodwill arising on acquisition (determined on a provisional basis)

RMB'000

Consideration transferred	24,153
Less: recognised amount of identifiable net assets acquired	<u>(26,247)</u>

Bargain purchase gain in acquisition of a subsidiary	<u>2,094</u>
--	--------------

Impact of acquisition on the results of the Group

Included in the profit for the interim period is loss of RMB2,281,000 attributable to Shandong Tianda. Revenue for the period includes RMB2,421,000 is attributable to Shandong Tianda.

Had the acquisition of Shandong Tianda been effected on 1 January 2012, the revenue of the Group for the six months ended 30 June 2012 would been RMB1,525,008,000, and the profit for the period would have been RMB30,162,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had Shandong Tianda been acquired on 1 January 2012, the directors calculated depreciation and amortisation of plant and equipment and technical know-how based on the recognised amounts of plant and equipment and technical know-how at the date of the acquisition.



### 14. RELATED PARTY TRANSACTION

- (a) Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
<b>SXPGC</b>		
— Payment of annual trademark license fee (Note)	3,750	1,100
— Rental expense	500	500
— Acquisition of land use rights	8,399	—
<b>Fellow subsidiaries</b>		
— Sale of water, electricity, steam and waste materials	6,308	5,379
— Sale of bulk pharmaceuticals and chemical raw materials	31,963	—
— Purchase of raw materials	29,823	25,137
— Design fee income	6	110
<b>Associates</b>		
— Sale of water, electricity and steam	271	—
— Purchase of raw materials	410	—
<b>Non-controlling interest shareholders</b>		
— Sale of bulk pharmaceuticals and chemical raw materials	73,205	73,797
— Purchase of raw materials	—	309
	73,205	73,797

Note:

Pursuant to a trademark license agreement dated 7 December 1996 ("Agreement"), the Group was granted the exclusive right to use the trademark "Xinhua" ("Trademark") by SXPGC for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at the rate of an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000, which shall stay as such until the Agreement is terminated. The terms of the Agreement shall continue to have effect during the validity period of the Trademark, being until 28 February 2013, subject to further renewal of the registration of the Trademark. On 23 March 2012, in order to amend and supplement the Agreement, the Company and SXPGC entered into a supplemental trademark license agreement, pursuant to which the Group was required to pay SXPGC an annual fee of RMB10,000,000 from 1 April 2012 to 31 December 2014. Other terms of the Agreement remain unchanged. During the six months ended 30 June 2012, the annual fee paid by the Group was RMB3,750,000 (2011 : RMB1,100,000).

- (b) As at 30 June 2012, Hualu Holdings Company Limited provide guarantee to the Group amounted to RMB230,000,000 (2011: RMB230,000,000).
- (c) Compensation of key management personnel

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Short-term benefits	916	898
Post-employment benefits	126	120
	1,042	1,018

### 15. COMPARATIVES

In previous period, net exchange gain/loss, gain/loss on disposal of property, plant and equipment was presented in other gains and losses in the condensed consolidated income statement. For the six months ended 30 June 2012, the relevant gains are presented in other income and the relevant losses are presented in other expenses which in the opinion of the directors, give a better presentation of the condensed consolidated financial statements. The comparative figures of the condensed consolidated income statement have been re-presented to conform with the current period's presentation.

## Documents for Inspection and Place for Inspection

### (1) DOCUMENTS FOR INSPECTION

- (1) The original copy of the Company's 2012 Interim Report signed by the Chairman of the Board.
- (2) Financial statements for the six months ended 30 June 2012 signed by the Chairman of the Board, the financial controller and the chief of accounting department of the Company.

### (2) PLACE FOR INSPECTION

Office of the Secretary to the Board of the Company.

As at the date of this Report, the Board consists of the following executive directors:

Mr. Zhang Daiming;  
Mr. Du Deping;  
Mr. Zhao Songguo;

the following non-executive directors:

Mr. Ren Fulong;  
Mr. Xu Lie;  
Mr. Zhao Bin;

and the following independent non-executive directors:

Mr. Zhu Baoquan;  
Mr. Bai Huiliang;  
Mr. Kwong Chi Kit, Victor.

**Shandong Xinhua Pharmaceutical Company Limited**

23 August 2012