



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)



2014
INTERIM
REPORT

Chapter	Content	Page
I.	Company Information	2
II.	Summary of Financial and Operating Results	3
III.	Changes in Share Capital and Information on Shareholders	7
IV.	Directors, Supervisors, Senior Officers and Staff	11
V.	Chairman's Statement	13
VI.	Management Discussion and Analysis	17
VII.	Review of Major Events	21
VIII.	Corporate Governance	23
IX.	Financial Report (Prepared under PRC Accounting Standards)	24
X.	Financial Report (Prepared under Hong Kong Generally Accepted Accounting Principles)	113
XI.	Documents for Inspection and Place for Inspection	132

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 2014 (the "Reporting Period") has not been audited.

The chairman (Mr. Zhang Daiming), financial controller (Mr. Hou Ning) 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	:	http://www.xhzy.com
E-mail Address of the Company	:	xhzy@xhzy.com
PRC newspaper for information disclosure	:	Securities Times
Website designated by the China Securities Regulatory Commission (the “CSRC”)	:	http://www.cninfo.com.cn
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 2014 (Unaudited)	As at 31 December 2013 (The "End of Last Year") (Audited)	Change as compared to the End of Last Year (%)
Total assets	3,931,313,448.52	3,849,353,234.20	2.13
Total equity attributable to equity holders of Company	1,787,461,693.61	1,759,529,934.58	1.59
Capital	457,312,830.00	457,312,830.00	—
Net assets per share attributable to equity holders of Company	3.91	3.85	1.56
Asset-Liability ratio (%)	53.52	53.32	Increase 0.2 Points
Item	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (the "Same Period Last Year") (Unaudited)	Change as compared to the Same Period Last Year (%)
Total operating income	1,736,816,836.23	1,617,134,270.43	7.40
Operating profit	23,569,652.27	(13,046,260.32)	280.66
Profit before taxation	52,744,363.41	9,280,671.77	468.32
Profit attributable to the equity holders of Company	39,986,470.06	4,987,774.39	701.69
Profit attributable to the equity holders of Company after extraordinary items (Note)	13,068,682.63	(16,444,797.62)	179.47
Basic earnings per share	0.09	0.01	800.00
Diluted earnings per share	0.09	0.01	800.00
Basic earnings per share after extraordinary loss	0.03	(0.04)	175.00
Return on equity of weighted average (%)	2.25	0.29	Increase 1.96 points
Fully diluted return on equity (%)	2.24	0.29	Increase 1.95 points
Return on equity of weighted average after extraordinary loss (%)	0.74	(0.95)	Increase 1.69 points
Fully diluted return on equity after extraordinary loss (%)	0.73	(0.97)	Increase 1.70 points
Net cash flow from operating activities	119,711,584.97	5,378,264.18	2,125.84
Net cash flow from operating activities per share	0.26	0.01	2,500.00

Summary of Financial and Operating Results

Note:

Extraordinary items include:

Item	Amount (RMB)	Notes (if applicable)
Profit or loss from disposal of non-current assets	(446,948.98)	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)	33,214,639.11	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	2,280,000.00	Disposal profit from available-for-sale financial assets
Other non-operating income or cost except the above items	(3,592,978.99)	—
Non-controlling interests	(1,240.79)	—
Income tax expense	(4,535,682.92)	—
Total	26,917,787.43	—

Unit: RMB

Items by fair value

Items	Amount as at 1 January 2014	Change of fair value	Total change of fair value	Provision impairment	Amount as at 30 June 2014
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	124,211,728.00	—	99,615,178.00	—	120,840,496.00
Total of financial assets	124,211,728.00	—	99,615,178.00	—	120,840,496.00
Financial liabilities	—	—	—	—	—
Investment property	—	—	—	—	—
Biological assets	—	—	—	—	—
Others	—	—	—	—	—
Total	124,211,728.00	—	99,615,178.00	—	120,840,496.00

Summary of Financial and Operating Results

Unit: RMB

Other Comprehensive income Items

Items	Six months ended 30 June 2014	Six months ended 30 June 2013
1. The amount of profits (losses) on financial assets available for sale	(3,371,232.00)	(40,000,704.00)
Less: tax by financial assets available for sale	(505,684.80)	(6,000,105.60)
Net profit or loss transferred from previously recognized in other comprehensive income	—	—
Subtotal	(2,865,547.20)	(34,000,598.40)
2. Exchange difference arising from transaction of financial statements denominated in foreign currencies	(98,523.77)	(421,401.36)
Less: net profit or loss transferred from foreign operation is disposed current	—	—
Subtotal	(98,523.77)	(421,401.36)
Total	(2,964,070.97)	(34,421,999.76)

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 2014 (Unaudited)	Six months ended 30 June 2013 (Unaudited)
Revenue	1,712,012	1,600,002
Profit before taxation	52,597	8,719
Income tax expense	(10,019)	(3,086)
Profit for the period	42,578	5,633
Includes:		
Profit attributable to owners of the Company	39,861	4,510
Non-controlling interests	2,717	1,123

Condensed Consolidated Statement of Financial Position

Item	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Total assets	3,930,738	3,858,541
Total liabilities	(2,088,518)	(2,055,934)
Non-controlling interests	(39,951)	(37,290)
Equity attributable to owners of the Company	1,802,269	1,765,317

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 2014	As at 1 January 2014
Prepared under PRC accounting standards	39,986,470.06	4,987,774.39	1,787,461,693.61	1,759,529,934.58
HKGAAP adjustments:				
Provision for education fund	(147,000.00)	(562,000.00)	6,662,000.00	6,809,000.00
Deferred taxation	21,529.94	84,225.61	(1,000,693.61)	(1,021,934.58)
Dividends payable	—	—	9,146,000.00	—
Total of the difference between the PRC accounting standards and HKGAAP	(125,470.06)	(477,774.39)	14,807,306.39	5,787,065.42
Prepared under HKGAAP	39,861,000.00	4,510,000.00	1,802,269,000.00	1,765,317,000.00

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

1. Education fees are set out as per the actual expenses, without the need of provision under HKGAAP. As at 30 June 2014 provision made for the balance of education fees under the PRC accounting standards was RMB6,662,000 with an amount in education fees of RMB147,000.00 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 RMB1,000,693.61 and that in deferred income tax of the current period of RMB21,529.94.
3. Dividends payable are set out as per the actual expenses, without the need of provision under HKGAAP. As at 30 June 2014 provision made for the dividends payable under the PRC accounting standards was RMB9,146,000.

Changes in Share Capital and Information on Shareholders

1. Share Capital structure

Class of shares	30 Jun 2014		1 Jan 2014	
	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	0	0	961	0
Stated-owned shares	0	0	0	0
Domestic legal person shares	0	0	0	0
Conditional tradable senior management A Shares	0	0	961	0
Others	0	0	0	0
2. Total number of unconditional tradable shares	457,312,830	100.00%	457,311,869	100.00%
Renminbi ordinary shares (A Shares)	307,312,830	67.20%	307,311,869	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 2014, the Company had on record a total of 35,296 shareholders, including 54 holders of H Shares and 35,242 holders of A Shares.

Changes in Share Capital and Information on Shareholders

3. As at 30 June 2014, 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	148,571,998	32.49	0	0
Qingdao Haowei Investment Development Company Limited	Domestic general legal person shares	5,120,000	1.12	0	0
Zhou Jichang	Domestic person	1,005,000	0.22	0	0
China Construction Bank — Boseru Yufu CSI300 Index Fund	Fund	855,459	0.19	0	0
Dacheng Value Growth Fund	Fund	848,200	0.19	0	0
Liu Shida	Domestic person	654,200	0.14	0	0
CITIC Trust — CITIC, robust hierarchical collection of securities investment trust plan 1309C	Trust	520,000	0.11	0	0
Meng Jie	Domestic person	496,700	0.11	0	0
Taikang Life-Dividend-Personal dividend-019L-FH002	Insurance	495,719	0.11	0	0

Changes in Share Capital and Information on Shareholders

4. As at 30 June 2014, 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	148,571,998	H Shares
Qingdao Haowei Investment Development Company Limited	5,120,000	A Shares
Zhou Jichang	1,005,000	A Shares
China Construction Bank — Bosera Yufu CSI300 Index Fund	855,459	A Shares
Dacheng Value Growth Fund	848,200	A Shares
Liu Shida	654,200	A Shares
CITIC Trust — CITIC, robust hierarchical collection of securities investment trust plan 1309C	520,000	A Shares
Meng Jie	496,700	A Shares
Taikang Life-Dividend-Personal dividend-019L-FH002	495,719	A 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 2014, 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

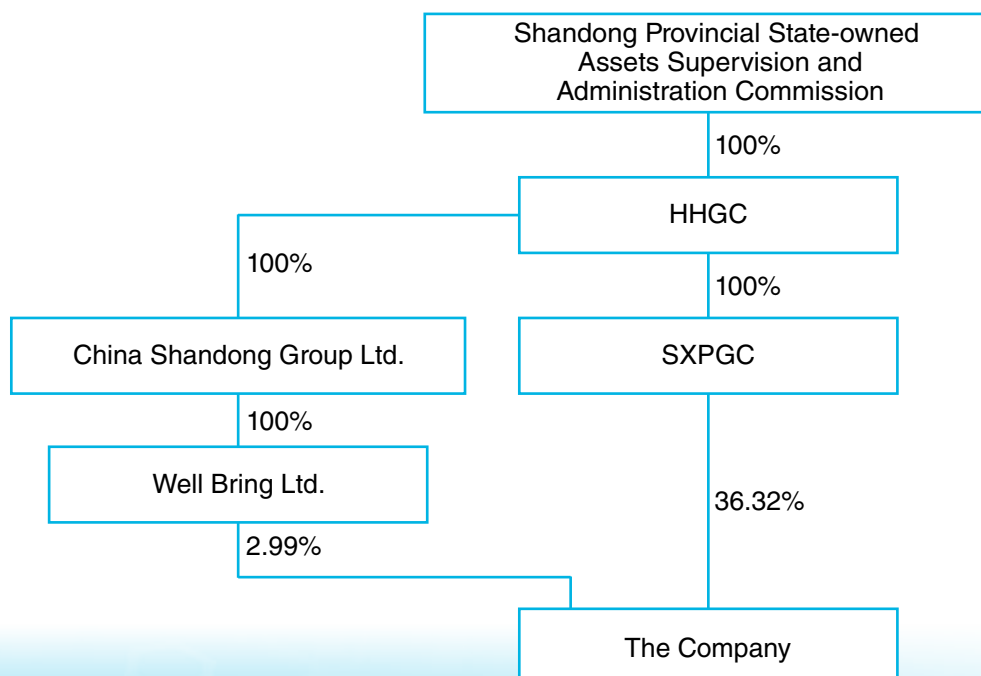
Name of ultimate controller	Shandong Provincial State-owned Assets Supervision and Administration Commission
Class of ultimate controller	Local State-owned Assets Supervision and Administration Commission

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).

In 2013, the audited operating income and the profit of SXPGC were approximately RMB3,407,000,000 and RMB70,720,000. As at the end of 2013, the total assets and the total liabilities of SXPGC were approximately RMB4,128,000,000 and RMB2,243,000,000, the asset-liability ratio was 54.30%. In 2013, net cash flow from operating activities was approximately RMB118,000,000.

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.

In 2013, the audited operating income and net profit of HHGC were approximately RMB15,332,060,000 and RMB491,250,000 respectively. As at 31 December 2013 the total assets and net assets of HHGC were approximately RMB22,912,180,000 and RMB9,671,420,000 respectively. In 2013, net cash flow from operating activities was approximately RMB148,245,000.



Directors, Supervisors, Senior Officers and Staff

As at 30 June 2014, the number of shares held by the Directors, Supervisors and the Senior Officers were as follows:

Name	Position	As at 1 January 2014 Number of Shares	As at Change Number of Shares	30 June 2014 Number of Shares
Directors:				
Mr. Zhang Daiming	Chairman	Nil	Nil	Nil
Mr. Ren Fulong	Non-executive Director	Nil	Nil	Nil
Mr. Du Deping	Executive Director, General Manager	Nil	Nil	Nil
Mr. Xu Lie	Non-executive Director	Nil	Nil	Nil
Mr. Zhao Bin	Non-executive Director	Nil	Nil	Nil
Mr. Zhu Baoquan	Independent non-executive Director	Nil	Nil	Nil
Mr. Liu Hongwei	Independent non-executive Director (has been appointed with effect from 18 March 2014)	Nil	Nil	Nil
Mr. Chan Chung Kik, Lewis	Independent non-executive Director (has been appointed with effect from 30 May 2014)	Nil	Nil	Nil
Mr. Zhao Songguo	Former Executive Director, Deputy general manager & Financial Controller (resigned with effect from 4 April 2014)	Nil	Nil	Nil
Mr. Bai Huiliang	Former independent non-executive Director (resigned with effect from 18 March 2014)	Nil	Nil	Nil
Mr. Kwong Chi Kit, Victor	Former independent non-executive Director (resigned with effect from 5 March 2014)	Nil	Nil	Nil
Supervisors:				
Mr. Li Tianzhong	Chairman of Supervisory Committee	Nil	Nil	Nil
Mr. Zhang Yueshun	Independent Supervisor	Nil	Nil	Nil
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	Nil	Nil	Nil
Senior Officers:				
Mr. Wang Xiaolong	Deputy General Manager (has been appointed with effect from 28 March 2014)	Nil	Nil	Nil
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil	Nil
Mr. Du Deqing	Deputy General Manager	Nil	Nil	Nil
Mr. He Tongqing	Deputy General Manager	Nil	Nil	Nil
Mr. Hou Ning	Financial Controller (has been appointed with effect from 4 April 2014)	Nil	Nil	Nil
Mr. Cao Changqiu	Company Secretary	961	-961	Nil
Ms. Guo Lei	Company Secretary	Nil	Nil	Nil
Total		961	-961	Nil

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

One Senior Officer sold A Shares of the Company released from trading restrictions by SZSE trading system through auction during this Reporting Period.

So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2014, 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, details in relation to the changes of Directors, Supervisors and Senior Officers can be referred to the table above.

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	—	No
Mr. Xu Lie	SXPGC	Director	13 January 2011	—	No
Mr. Li Tianzhong	SXPGC	Deputy general manager	16 October 2009	—	No

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 RMB1,134,975 was made during this Reporting Period.

Staff information (as at 30 June 2014)

Number of staff	6,043
Number of retired staff whose costs were borne by the Company	0

Professional constitution

Classes of professional constitution	Number of Professionals
Production staff	3,958
Sales staff	905
Technology staff	566
Finance staff	83
Administration staff	531

Academic qualification attained

Classes of academic qualification attained	Number
Senior high schools or below	3,601
Tertiary institutions	1,659
Undergraduate	646
Master	130
Doctor	7

Dear shareholders,

I am pleased to report the operating results of the Company for the six months ended 30 June 2014.

For the six months ended 30 June 2014, pursuant to the PRC accounting standards, the operating income of the Group was RMB1,736,817,000 and net profit attributable to equity holders of the Company was RMB39,986,000, representing an increase of 7.40% and an increase of 701.69% respectively, as compared to that of the Same Period Last Year.

The Group had a turnover of RMB1,712,012,000 and profit attributable to owners of the Company of RMB39,861,000 for the six months ended 30 June 2014 under HKGAAP, representing an increase of 7.00% and an increase of 783.84% 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 2014.

BUSINESS REVIEW

In the first half of 2014, the Company actively responded to the impact brought by the fierce competitions in the pharmaceutical market, the increase in environmental protection costs and the increase in management costs resulting from its relocation. The Company used its best endeavors to engage in marketing, conducted technological research and energy-saving work diligently, continued to implement the strategy of internationalization, and strengthened its basic management to achieve a healthy development of the Company.

1. Made full efforts to engage in marketing

The Company fully took advantage of its edges as a leader of the pharmaceutical raw material market to expand domestic sales and export and step up its development of the markets of new products and featured products. In the first half of the year, the export and domestic sales of pharmaceutical raw material grew 9% and 10% respectively as compared with the corresponding period of last year. The sales of major efficient varieties such as caffeine and levodopa saw significant growth.

The Company also promoted the extensive preparations strategy in a proactive manner. Fully utilizing the advantages of fast coordination of its preparations division, making effort to reduce the production costs of preparation and stressing on the "Two New" developments (i.e. development of new varieties and new markets), the Company boosted the sales of preparations and recorded a growth of 11.5% in the sales of preparation industrial products (製劑產品) in the first half of the year as compared with the corresponding period of last year. Sales of major new preparation products such as glimepiride, Jiening and rabeprazole maintained rapid growth.

In addition, the Company leveraged market opportunities, tapped into its potential and increased its output to cater the market demand. In particular, the pharmaceutical intermediates of Shouguang Park gradually took up a larger market share with a significant growth in its profitability. Xinhua Medical and Trading Company (新華醫貿公司) and Xinhua Drug Store (新華大藥店), both wholly-owned subsidiaries of the Company, had successfully passed the new GSP certification of the PRC, while the online Xinhua Drug Store (網上新華大藥店) had been established and made a on-line trial run in July, which made the Company a pioneer in the pharmaceutical e-marketing sector in the PRC.

2. Stepped up efforts in pursuing technology breakthroughs with an aim to lower production cost

The Company streamlined its production management, implemented a reward and punishment mechanism with an aim to reduce costs, and stimulated the motivation of the staff. New technology and techniques were applied to reduce consumption, while energy-saving and consumption reduction initiatives with the use of technology of recycling of waste were adopted. The result was a remarkable success, with consumption of raw materials of the Company reduced by RMB12.11 million and consumption of energy of the Company reduced by RMB8.34 million in the first half of the year. The costs of major bulk pharmaceuticals such as ibuprofen decreased at varying rates.

3. Increased investment in R&D and expedited R&D of new products

The investment in R&D increased and R&D work was emphasized. In the first half of the year, the Company obtained 2 certificates and 2 production approvals of new drugs such as calcium polycarbophil and its tablet. The Company completed dynamic inspection for 8 new products and carried out trial production for 9 new drugs. Periodical results were achieved in the technology breakthrough of new products such as glimepiride, rabeprazole sodium, calcium polycarbophil.

4. Continued to implement the global strategy and explored the international upscale market

In the first half of the year, 11 products of the Company including ibuprofen and 3 Parks passed the on-site inspection of FDA of the US. Following the solid dosage workshop of the Company passed the review of Medicines and Healthcare Products Regulatory Agency of the United Kingdom in 2011, the injection workshop of the Company passed the review of IDA (International Dispensary Association) in January this year, and the Company has become a qualified supplier in compliance with the WHO-GMP standards, which laid a foundation for the export of injection products to the regulated international markets. In the first half of the year, international commissioned processing of preparations has maintained a high-speed development, with a year-on-year growth rate of 44%.

5. Implemented human resources reform and incentivized employees' productivity

In the first half of the year, the Company emphasized on effective allocation of staff and improvement of their working performance, actively implemented human resources reform with a focus on post wage, established development, assessment, allocation and incentive mechanisms for employees, and further incentivized employees' productivity and creativity, so as to secure talent pipeline for sustainable and healthy development of the enterprise.

PLANS FOR THE SECOND HALF OF THE YEAR

In the second half of the year, as the situation of domestic overcapacity is not likely to improve in a short term, competition will remain fierce, while the entry requirements of international market will continue to rise with an increment in trade barriers of various forms. Chemical raw materials will see an upward trend in price while the development of preparations which is sensitive to national policies is affected by a lack of a stable market environment.

In the meantime, the PRC government's strengthened support to the real economy, the favorable condition of macro policy, the more reasonable policy of the bidding of basic medicines, and the issue of low-priced medicine catalog provide new opportunities to the development of the Company. The implementation of new GMP has strengthened regulations and is favorable to the development of large-scale pharmaceutical enterprises with good brand reputation and standard operation.

1. Continue to strengthen marketing

The controlling capability in the pharmaceutical raw material market will be reinforced while the marketing of leading varieties and efficient varieties will be strengthened. In the meantime, great efforts will be made to develop in the international emerging market, fill the gap in the domestic market and develop new products, so as to nurture new economic growth points.

Implementation of the greater preparation strategy will be sped up with a focus on the marketing of preparation strategy varieties, which will enhance the vitality of the development of the Company. Leveraging the opportunities brought by the improvement in the bidding results of the Company, the inclusion of 60 products in the national low-priced medicine catalog, the upcoming launch of the new product calcium polycarbophil, the inclusion of Jiening (介寧) into the local reimbursable drug list, and the implementation of new GMP, the Company will pursue the development of preparations diligently.

2. Deepen efforts in making technology breakthroughs to further reduce cost

The Company will adhere to the plan for cost, technology and quality breakthroughs established at the beginning of the year, so as to ensure more than 10 technology breakthroughs to be made during the year, and endeavor to make another achievement in reducing raw material consumption by promoting and applying advanced technologies. The fundamental management and expense control of workshops will be reinforced to ensure further reduction in the production cost of principal products.

3. Enhance management and risk control

The expense control measures and the rigidity of execution will be further improved by adopting duty-linked policy for person in charge and regular report and appraisal policy, so as to ensure that the three types of expenses for the year will be managed within budget.

The risk control and credit management, especially the management on account receivables, will be strengthened, so as to control the fund employed rate at a rational level and minimize the operational risk.

4. Lay emphasis on reform and innovation

The Company will carefully study the Opinions of Provincial Party Committee and Provincial Government on Deepening State-owned Enterprise Reform to develop and promote employee stock ownership, share option incentive and other reforms, so as to improve staff's sense of responsibility, stimulate their motivation and enhance vitality for corporate development.

The Company will actively promote the existing research and development projects while speeding up the technical breakthroughs in the existing products, so as to ensure that the production transformation of 9 products to be completed, the dynamic audit for 8 projects to be completed and more than 10 reception document numbers to be obtained.

Park construction and relocation will be carried out orderly to ensure that obsolete production lines will be closed and new production lines will be put into normal production as scheduled under the construction projects of "Wu An" series products. In the meantime, "Wu An" relocation will be fully completed while efforts will be made in the construction of the ancillary facility project in Hutian Park and the second multi-function industrialization center.

By order of the Board
Zhang Daiming
Chairman

31 July 2014
Zibo, Shandong, PRC

The Group is mainly engaged in the development, manufacturing and sale of bulk pharmaceuticals, pharmaceutical preparations, chemical and pharmaceutical commerce. The profit of the Group is mainly attributable to its principal businesses.

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

As at 30 June 2014, the liquidity ratio of the Group was 158.42%, the quick ratio was 118.06%, the turnover ratio of account receivables was 348.65% (turnover ratio of account receivables = turnover/average account receivables and net value of bills x 100%) and the turnover ratio of inventory was 345.64% (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 sources of funds for the Group were loans from financial institutions and funds provided by the ultimate holding company of the Company. As at 30 June 2014, the total amount of bank loans was RMB660,284,000, which were floating rate loans based on Hong Kong inter-bank offered rates or rates issued by the People's Bank of China, and the total amount of loans from the ultimate holding company was RMB695,350,000. As at 30 June 2014, cash on hand and in bank amounted to RMB253,798,000 (including bank acceptance drafts deposits of RMB2,000,000).

As of 30 June 2014, 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 65,920,000. 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.

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 2014, the number of employees of the Group was 6,043. The total salaries for employees in the first half of 2014 amounted to RMB132,688,000.

The main investment projects in the second half of 2014 will be Hutian Park project.

As at 30 June 2014, the capital debt ratio of the Group was 75.22% (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 RMB. However, the Group achieved USD103,132,000 in its export for the first half of 2014. 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 larger export contracts, the Group will seek the prior agreement of the purchaser that both parties shall jointly 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

Key indicators as follows:

Item	Jan.-Jun. 2014	Jan.-Jun. 2013	Increase (%)
Operating income	1,736,816,836.23	1,617,134,270.43	7.40
Operating costs	1,420,104,715.71	1,363,733,658.96	4.13
Period expenses	286,213,033.90	257,687,289.86	11.07
R & D investment	40,464,623.00	36,063,079.25	12.21
Net cash flow from operating activities	119,711,584.97	5,378,264.18	2,125.84

The increase in net cash flows from operation activities was mainly due to the Group recovering bank acceptance deposits in the first half of this year, payment of bank acceptance deposits in the same period last year, seizure of market opportunities, expansion of product sales, and product inventory reduction.

In the first half of 2014 the Group's operating income was RMB1,736,817,000, representing an increase of 7.40% as compared to the Same Period Last Year. The increase in operating income was mainly attributable to the increase in marketing, leading to a rise in the sales of certain products. Operating profit amounted to RMB23,570,000, whereas there was a operating loss of RMB13,046,000 in the Same Period Last Year. The main reasons for the increase include the Company diligently carried out energy-saving and technological research work, the consumption of raw material and power fell significantly compared to the same period in the previous year, the Company's subsidiary, Xinhua Pharmaceutical (Shouguang) Company Limited, diligently developed its market resulting in a substantial increase in profit

The net decrease in cash and cash equivalents was RMB31,023,000, while there was a net decrease of RMB221,979,000 in the Same Period Last Year. The main reasons for the change include the Group recovering bank acceptance deposits during the first half of 2014, payment of bank acceptance deposits in the same period last year, seizure of market opportunities, expansion of product sales, and product inventory reduction.

The total assets of the Group as at 30 June 2014 amounted to RMB3,931,313,000, representing an increase of RMB81,960,000 or 2.13% as compared to that of RMB3,849,353,000 as at the beginning of this year. The increase was mainly due to the operating profit during the Reporting Period. The Group's loan amount as at 30 June 2014 was RMB1,355,634,000, representing a decrease of RMB8,800,000 from RMB1,364,434,000 at the beginning of this year. The total equity attributable to equity holders of the Company as at 30 June 2014 was RMB1,787,462,000, representing an increase of RMB27,932,000 or 1.59% from RMB1,759,530,000 at the beginning of this year. The increase was mainly attributable to the operating profit during the Reporting Period.

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

- (1) The total registered capital of Zibo Xinhua-Perrigo Pharmaceutical Company Limited is US\$6,000,000, and the Company holds 50.1% of its equity interest. This subsidiary is mainly engaged in producing and selling Ibuprofen. As at 30 June 2014, the total assets of the subsidiary was approximately RMB71,883,000, equity attributable to shareholders of the subsidiary was approximately RMB66,227,000. In the first half of 2014, the operating income and the net profit of the subsidiary were approximately RMB69,408,000 and RMB5,852,000 respectively, representing an increase of 33.51% and an increase of 1,078.74% respectively as compared with that of last year. The increases were mainly attributable to the rise in product sales.
- (2) The total registered capital Shandong Xinhua Medical Trade Company Limited is RMB48,499,000, and the Company holds 100% of its equity interest. This subsidiary is mainly engaged in the business of biological products, prepared Chinese 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 2014, the total assets of the subsidiary were approximately RMB317,158,000, equity attributable to shareholders of the subsidiary was approximately -RMB6,366,000. In the first half of 2014, the operating income of the subsidiary was approximately RMB587,843,000, representing an increase of 5.80% as compared with that of last year. The net profit of the subsidiary was approximately RMB6,328,000, representing a decrease of 11.08% as compared with that of last year.
- (3) The total paid-up capital of Xinhua Pharmaceutical (Shouguang) Company Limited is RMB230,000,000, and the Company holds 100% of its equity interest. This subsidiary is mainly engaged in producing and selling chemical products. As at 30 June 2014, the total assets of the subsidiary were approximately RMB720,148,000, equity attributable to shareholders of the subsidiary was approximately RMB292,147,000. In the first half of 2014, the operating income was approximately RMB327,290,000, the net profit of the subsidiary was approximately RMB10,219,000, representing an increase of RMB11,776,000 as compared with that of last year. The increase was mainly attributable to diligently developed its market resulting in a substantial increase in profit.

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

By geographical location of customers	First half of 2014		First half of 2013	
	Total turnover	Costs	Total turnover	Costs
PRC (incl. Hong Kong)	1,043,126	819,928	949,671	783,290
Europe	222,350	182,136	249,676	199,817
Americas	314,946	273,717	291,165	262,985
Others	140,527	122,842	109,490	97,973
Total	1,720,949	1,398,623	1,600,002	1,344,065

Management Discussion and Analysis

By industry and By product	Income from principal operations	Costs of sales of principal operations	Gross profit margin (%)
Bulk pharmaceutical Preparations	821,203	679,855	17.21
Medical commercial logistics	353,593	219,912	37.81
Chemical products and other products	386,011	365,480	5.32
	160,142	133,376	16.71
Total	1,720,949	1,398,623	18.73

An analysis of profit as compared to 2013 is as follows:

Items	Amount (RMB'000)		% of total profit	
	Jan.–Jun. 2014	2013	Jan.–Jun. 2014	2013
Operating profit	23,570	(43,862)	44.69	(86.83)
Net profit/loss from non-operation activities	29,174	94,378	55.31	186.83
Profit before taxation	52,744	50,516	100.00	100.00

The reasons for the change of profit as compared to 2013 were due to the Group achieving operating profit during the Reporting Period and the relatively large amount of income from disposal of non-current assets.

3. 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 annual average net profit attributable to the holders of the Company in consolidated statements realized in the most recent three years. If the above ratio shall not be attained for any particular reason, the board of directors should make a special explanatory statement to the general meeting of the Company." The dividend for 2013 of the Company at RMB0.02 per share was distributed on 18 July 2014.

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 2013 annual general meeting of the Company, the Company distributed a final dividend at RMB0.2 per 10 shares (tax inclusive) on the basis of 457,312,830 total issued shares of the Company for the year ended 31 December 2013. The distribution completed on 18 July 2014.
3. The Board did not recommend the payment of any interim dividend, nor any transfer from reserves to share capital, for the half year ended 30 June 2014.
4. Projected operating results for January to September of 2014.

Warnings and explanations for the predicted accumulative net profit for the period between the beginning of this year to the end of the next reporting period being a loss or a substantial change as compared with that of the same period last year: N/A

5. The Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.
6. 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.
7. Material Related Party Transactions

Related party transactions of the Company during the Reporting Period are set out in Note 7 to the accounts of the Company ("Accounts") prepared in conformity with PRC accounting standards and Note 13 to the Accounts prepared in conformity with HKGAAP.

8. During this Reporting Period, there was no material trust, subcontract and lease of the assets between the Company and other companies.
9. 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 the Reporting Period, save and except the guarantee of bank's acceptance bills of RMB50,000,000 provided by the Company in favour of Xinhua Pharmaceutical (Shouguang) Company Limited, there has been no other material guarantee provided by the Company, nor has there been any obligations not having been performed in full by the Company. There were no guarantees provided in favour of any controlling shareholders, non-legal entities or individuals which were prejudicial to the interests of the Company and its shareholders, in particular the minority shareholders of the Company. As at 30 June 2014, 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.

10. 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

Review of Major Events

11. 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 the Company's Listed Securities.

12. 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.

13. Information about holdings in 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%	88,950,000.00	—	(3,700,000.00)	Available-for-sale financial assets	Purchase
601328	BANKCOMM	14,225,318.00	0.02%	31,890,496.00	—	328,768.00	Available-for-sale financial assets	Purchase
Total		21,225,318.00	—	120,840,496.00	—	(3,371,232.00)	—	—

14. Index of important information which has been disclosed

The announcement in relation to the notice of the first extraordinary general meeting for the 2014 was published on the HKExnews, in the Securities Times B20 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on or about 30 January 2014.

The announcement in relation to the resolutions passed on the first extraordinary general meeting for the 2014 was published on the HKExnews, in the Securities Times B26 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on or about 19 March 2014.

The announcement of the "2013 Annual Results Announcement" was published on the HKExnews, in the Securities Times B31 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on or about 31 March 2014.

The announcement of the "The First Quarter Report of 2014" was published on the HKExnews, in the Securities Times B99 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on or about 26 April 2014.

The announcement of the "The Notice of Annual General Meeting for the Year 2013" was published on the HKExnews, in the Securities Times B14 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on or about 14 April 2014.

The announcement in relation to the 2013 Annual General Meeting resolutions was published on the HKExnews, in the Securities Times B30 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on or about 31 May 2014.

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Directors confirmed that the Company was in full compliance with all code provisions of the Corporate Governance Code (the “Code”) continued in Appendix 14 to the Listing Rules and has not deviated from the Code during the six months ended 30 June 2014.

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 2014.

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 2014, and it has been disclosed fully.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A 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 two with financial management expertise; details of their biographies were set out in the 2013 Annual Report of the Company and the announcements of the Company in relation to appointment of directors dated 18 March 2014 and 30 May 2014.

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. 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.

Unit: RMB

Assets	Notes	2014.6.30		2013.12.31	
		Consolidated	The Company	Consolidated	The Company
Current assets					
Cash and Cash equivalents	6.1	253,798,426.16	171,141,631.99	380,722,197.93	286,596,951.89
Held-for-trade financial asset		—	—	—	—
Note receivable	6.2	104,781,242.50	46,733,926.56	97,101,564.83	40,554,092.05
Account receivable	6.3	493,893,623.39	500,407,881.13	297,387,774.27	358,390,481.76
Advances to suppliers	6.4	51,382,148.41	5,815,553.39	38,633,434.50	5,226,266.77
Interest receivable		—	—	—	—
Dividend receivable		—	—	—	—
Other receivable	6.5	62,119,510.40	470,990,190.91	43,365,578.98	441,734,833.91
Inventories	6.6	425,935,420.64	240,078,550.92	531,991,971.79	285,477,549.03
Non-current assets due within one year		—	—	—	—
Other current asset	6.7	3,428,850.38	—	3,684,204.38	—
Sub-Total current assets		1,395,339,221.88	1,435,167,734.90	1,392,886,726.68	1,417,980,175.41
Non-current assets					
Available-for-sale Financial Asset	6.8	124,040,496.00	124,040,496.00	127,411,728.00	127,411,728.00
Held-to-maturity investment		—	—	—	—
Long-term receivable		—	—	—	—
Long-term equity investment	6.9	28,062,815.89	427,534,113.80	26,327,445.86	417,754,727.13
Investment property	6.10	61,435,970.59	61,435,970.59	63,926,073.25	63,926,073.25
Fixed assets	6.11	1,745,967,611.95	1,263,586,168.96	1,406,348,436.55	911,119,730.00
Construction in progress	6.12	290,487,815.63	231,457,654.89	540,029,538.77	486,818,522.74
Construction material		—	—	—	—
Disposal of fixed asset		—	—	—	—
Biological asset		—	—	—	—
Oil and nature gas		—	—	—	—
Intangible asset	6.13	265,494,404.00	176,373,005.05	271,002,393.46	178,875,508.49
Research & Development cost		—	—	—	—
Goodwill	6.14	—	—	2,715,585.22	—
Long-term prepayment		—	—	—	—
Deferred tax asset	6.15	20,485,112.58	—	18,705,306.41	—
Other non-current asset		—	—	—	—
Sub-Total non-current assets		2,535,974,226.64	2,284,427,409.29	2,456,466,507.52	2,185,906,289.61
Total Assets		3,931,313,448.52	3,719,595,144.19	3,849,353,234.20	3,603,886,465.02

Financial Report

(Prepared under PRC Accounting Standards)

Consolidated and the Company's Balance Sheet (Continued)

Unit: RMB

Liabilities & Shareholders' equity	Notes	2014.6.30		2013.12.31	
		Consolidated	The Company	Consolidated	The Company
Current liabilities					
Short-term loans	6.17	287,515,875.35	287,515,875.35	330,666,322.04	330,666,322.04
Held-for-trade financial liabilities		—	—	—	—
Note payable	6.18	24,097,603.00	3,247,500.00	118,393,500.00	48,393,500.00
Account payable	6.19	370,675,701.62	261,101,477.31	240,466,129.19	133,935,666.94
Advances for customers	6.20	19,515,355.57	10,731,628.06	22,881,524.04	10,638,100.88
Employees' wage payable	6.21	18,511,294.95	15,668,644.52	21,257,055.91	20,035,275.91
Tax payable	6.22	20,082,014.05	10,797,146.17	(3,476,994.50)	(4,865,712.74)
Interest payable	6.23	21,099,824.00	21,099,824.00	625,562.64	625,562.64
Dividends payable	6.24	14,456,856.13	14,456,856.13	5,310,599.53	5,310,599.53
Other account payable	6.25	108,060,419.51	91,555,611.72	140,268,555.67	122,722,197.98
Non-current liabilities due to be paid within one year	6.26	—	—	145,000,000.00	145,000,000.00
Other current liabilities	6.27	4,462,000.00	4,462,000.00	4,462,000.00	4,462,000.00
Sub-Total current liabilities		888,476,944.18	720,636,563.26	1,025,854,254.52	816,923,513.18
Non-current liabilities					
Long-term borrowings	6.28	1,068,118,180.00	1,068,118,180.00	888,767,355.82	888,767,355.82
Bonds payable		—	—	—	—
Long-term payable		—	—	—	—
Specific payable	6.29	13,000,000.00	13,000,000.00	—	—
Provisions		—	—	—	—
Deferred tax liabilities	6.30	5,127,281.39	2,884,117.76	6,011,522.02	3,389,802.56
Other non-current liabilities	6.31	129,177,963.64	129,177,963.64	131,900,102.75	131,900,102.75
Sub-total of non-current liabilities		1,215,423,425.03	1,213,180,261.40	1,026,678,980.59	1,024,057,261.13
Total liabilities		2,103,900,369.21	1,933,816,824.66	2,052,533,235.11	1,840,980,774.31

Unit: RMB

	Notes	2014.6.30		2013.12.31	
		Consolidated	The Company	Consolidated	The Company
Shareholders' equity					
Capital	6.32	457,312,830.00	457,312,830.00	457,312,830.00	457,312,830.00
Capital reserve	6.33	664,272,709.22	663,791,978.45	667,138,256.42	666,657,525.65
Less: Treasury stock		—	—	—	—
Special reserve		—	—	—	—
Surplus reserve	6.34	200,703,385.83	200,040,844.52	200,703,385.83	200,040,844.52
General Risk Provision		—	—	—	—
Undistributed profits	6.35	466,196,199.96	464,632,666.56	435,355,986.50	438,894,490.54
Exchange difference arising from transaction of financial statements denominated in foreign currencies		(1,023,431.40)	—	(980,524.17)	—
Sub-Total shareholders' equity attributable to the parent company		1,787,461,693.61	1,785,778,319.53	1,759,529,934.58	1,762,905,690.71
Minority Interest	6.36	39,951,385.70	—	37,290,064.51	—
Total shareholders' equity		1,827,413,079.31	1,785,778,319.53	1,796,819,999.09	1,762,905,690.71
Total liabilities & shareholders' equity		3,931,313,448.52	3,719,595,144.19	3,849,353,234.20	3,603,886,465.02

Financial Report

(Prepared under PRC Accounting Standards)

Consolidated and the Company's Income Statement

Unit: RMB

Item	Notes	Six months ended 30 June 2014		Same Period Last Year	
		Consolidated	The Company	Consolidated	The Company
1. Total Operating Income		1,736,816,836.23	997,833,917.34	1,617,134,270.43	951,197,344.70
Includes: Operating Income	6.37	1,736,816,836.23	997,833,917.34	1,617,134,270.43	951,197,344.70
2. Total Operating Cost		1,717,970,009.37	992,901,063.25	1,631,787,333.60	956,068,458.63
Including: Operating Cost	6.37	1,420,104,715.71	849,440,242.75	1,363,733,658.96	812,783,451.22
Business taxes and surcharges	6.38	8,936,674.54	4,070,819.70	10,366,384.78	7,096,493.05
Selling Expense	6.39	141,235,556.60	18,400,070.92	109,963,731.83	14,769,801.49
Management Expense	6.40	114,951,602.87	89,846,187.63	101,448,392.30	79,735,424.77
Financial Expense	6.41	30,025,874.43	31,143,742.25	46,275,165.73	41,683,288.10
Impairment loss of assets		2,715,585.22	—	—	—
Add: Gain from changes in fair value		—	—	—	—
Investment gain	6.42	4,722,825.41	4,722,779.39	1,606,802.85	1,606,802.85
Including: Gain from investment in associates and joint ventures		1,779,386.67	1,779,386.67	1,432,177.85	1,432,177.85
Exchange gain		—	—	—	—
3. Operating profit		23,569,652.27	9,655,633.48	(13,046,260.32)	(3,264,311.08)
Add: Non-operating income	6.43	33,915,857.57	33,734,212.06	24,778,778.41	8,972,598.86
Less: Non-operating expenses	6.44	4,741,146.43	2,735,237.73	2,451,846.32	1,709,409.97
Including: Loss on disposal of non-current assets		699,391.01	699,391.01	119,826.73	119,826.73
4. Total profit		19,828,505.84	6,920,395.75	(13,046,260.32)	(3,264,311.08)
Less: Income tax expense	6.45	52,744,363.41	40,654,607.81	9,280,671.77	3,998,877.81
		10,040,955.62	5,770,175.19	3,169,924.91	2,282,582.13
5. Net profit		42,703,407.79	34,884,432.62	6,110,746.86	1,716,295.68
Net profit attributable to equity holder of the company		39,986,470.06	—	4,987,774.39	—
Profit/loss attributable to minority shareholder		2,716,937.73	—	1,122,972.47	—
6. Earnings per share					
Basic earning per share	6.46	0.09	0.08	0.01	0.004
Diluted earning per share	6.46	0.09	0.08	0.01	0.004
7. Other comprehensive income	6.47	(2,964,070.97)	(2,865,547.20)	(34,421,999.76)	(34,000,598.40)
8. Total of comprehensive incomes		39,739,336.82	32,018,885.42	(28,311,252.90)	(32,284,302.72)
Total of comprehensive incomes attributable to the owners of the parent company		37,078,015.63	—	(29,322,887.73)	—
Total comprehensive income attributable to the minority shareholders		2,661,321.19	—	1,011,634.83	—

Unit: RMB

Item	Notes	Six months ended 30 June 2014		Same Period Last Year	
		Consolidated	The Company	Consolidated	The Company
1. CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from the sale of goods or rendering of services		1,056,002,951.92	611,123,710.61	1,009,772,592.35	628,277,803.76
Receipts of tax refunds		21,804,577.16	18,840,448.46	5,340,330.11	2,404,989.10
Other cash receipts relating to operating activities	6.48	134,884,239.64	128,983,392.30	97,238,277.33	68,946,276.08
SUB-TOTAL OF CASH INFLOWS FROM OPERATING		1,212,691,768.72	758,947,551.37	1,112,351,199.79	699,629,068.94
Cash payments for goods purchased and services received		735,954,476.15	411,066,139.15	738,275,113.62	507,916,034.28
Cash paid to and on behalf of employees		178,146,280.30	129,779,056.07	159,731,063.81	120,332,401.54
Payments of all types of taxes		67,058,159.38	25,792,583.16	76,634,641.02	35,964,236.54
Other cash payments relating to operating activities	6.48	111,821,267.92	77,491,206.58	132,332,117.16	75,871,803.43
SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES		1,092,980,183.75	644,128,984.96	1,106,972,935.61	740,084,475.79
NET CASH FLOWS FROM OPERATING ACTIVITIES		119,711,584.97	114,818,566.41	5,378,264.18	(40,455,406.85)
2. CASH FLOWS FROM INVESTING ACTIVITIES					
Cash receipts from disposals of investments		2,280,000.00	2,280,000.00	—	—
Cash receipts from returns on investments		663,438.74	663,392.72	174,625.00	174,625.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		1,169,030.00	1,169,030.00	29,206,217.00	29,206,217.00
Net cash receipts from disposals of subsidiaries and other business units		—	—	—	—
Other cash receipts relating to investing activities		—	—	—	—
SUB-TOTAL OF CASH INFLOWS FROM INVESTMENT ACTIVITIES		4,112,468.74	4,112,422.72	29,380,842.00	29,380,842.00
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		129,262,862.24	117,361,421.21	182,557,844.12	158,362,386.55
Cash payments to acquire investments		—	8,000,000.00	—	9,370,650.00
Net increase in secured loan		—	—	—	—
Net cash payments for acquisition of subsidiaries and other business units		—	—	—	—
Other cash payments relating to investing activities		—	6,180,000.00	—	36,000,000.00
SUB-TOTAL OF CASH OUTFLOWS FROM INVESTMENT ACTIVITIES		129,262,862.24	131,541,421.21	182,557,844.12	203,733,036.55
NET CASH FLOWS FROM INVESTING ACTIVITIES		(125,150,393.50)	(127,428,998.49)	(153,177,002.12)	(174,352,194.55)

Financial Report

(Prepared under PRC Accounting Standards)

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

Unit: RMB

Item	Notes	Six months ended 30 June 2014		Same Period Last Year	
		Consolidated	The Company	Consolidated	The Company
3. CASH FLOWS FROM FINANCING ACTIVITIES					
Cash receipts from investors		—	—	—	—
Including: Cash receipts by subsidiaries from minority shareholders		—	—	—	—
Cash receipts from borrowings		428,160,788.12	428,160,788.12	405,003,918.00	385,354,318.00
Proceeds from issue of corporate bonds		—	—	—	—
Other cash receipts relating to financing activities		—	—	—	—
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES		428,160,788.12	428,160,788.12	405,003,918.00	385,354,318.00
Cash repayments of amounts borrowed		438,110,774.37	438,110,774.37	451,666,725.00	331,666,725.00
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		15,395,268.86	15,395,268.86	18,296,826.81	18,296,826.81
Including: Cash payments to the minority shareholders for distribution of dividends or profits		—	—	—	—
Other cash payments relating to financing activities	6.48	1,012,500.00	1,012,500.00	4,800,000.00	4,800,000.00
SUB-TOTAL OF CASH OUTFLOWS		454,518,543.23	454,518,543.23	474,763,551.81	354,763,551.81
NET CASH FLOWS FROM FINANCING ACTIVITIES		(26,357,755.11)	(26,357,755.11)	(69,759,633.81)	30,590,766.19
4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		773,341.87	413,417.29	(4,420,955.82)	(4,063,377.89)
5. NET INCREASE IN CASH AND CASH EQUIVALENTS		(31,023,221.77)	(38,554,769.90)	(221,979,327.57)	(188,280,213.10)
Add: Balance of cash and cash equivalents at the beginning of the year		282,821,647.93	209,696,401.89	375,544,079.73	253,745,932.14
6. BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		251,798,426.16	171,141,631.99	153,564,752.16	65,465,719.04

Consolidated Statement of Changes in Shareholder's Equity in the First Half of 2014

Financial Report

(Prepared under PRC Accounting Standards)

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	
1. Ending balance of last year	457,312,830.00	667,138,256.42	—	—	200,703,385.83	—	435,355,986.50	(980,524.17)	37,290,064.51	1,796,819,999.09
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Effects of the correction of prior year's accounting errors	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	667,138,256.42	—	—	200,703,385.83	—	435,355,986.50	(980,524.17)	37,290,064.51	1,796,819,999.09
3. Increase/decreased in the year	—	(2,865,547.20)	—	—	—	—	30,840,213.46	(42,907.23)	2,661,321.19	30,593,080.22
I Net profit	—	—	—	—	—	—	39,986,470.06	—	2,716,937.73	42,703,407.79
II Other comprehensive income	—	(2,865,547.20)	—	—	—	—	—	(42,907.23)	(55,616.54)	(2,964,070.97)
Subtotal of I and II	—	(2,865,547.20)	—	—	—	—	39,986,470.06	(42,907.23)	2,661,321.19	39,739,336.82
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	—	—	—	—	—	—	(9,146,256.60)	—	—	(9,146,256.60)
a. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(9,146,256.60)	—	—	(9,146,256.60)
d. Others	—	—	—	—	—	—	—	—	—	—
V Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—	—	—
a. Capital reserve to capital (or Share capital)	—	—	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (or 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	—	—	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	664,272,709.22	—	—	200,703,385.83	—	466,196,199.96	(1,023,431.40)	39,951,385.70	1,827,413,079.31

Financial Report

(Prepared under PRC Accounting Standards)

Consolidated Statement of Changes in Shareholder's Equity in 2013

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	
1. Ending balance of last year	457,312,830.00	676,695,708.42	—	—	196,759,210.38	—	407,127,875.87	(607,710.35)	39,701,200.70	1,776,989,115.02
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Effects of the correction of prior year's accounting errors	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	676,695,708.42	—	—	196,759,210.38	—	407,127,875.87	(607,710.35)	39,701,200.70	1,776,989,115.02
3. Increase/decreased in the year	—	(9,557,452.00)	—	—	3,944,175.45	—	28,228,110.63	(372,813.82)	(2,411,136.19)	19,830,884.07
I Net profit	—	—	—	—	—	—	36,745,414.38	—	1,563,834.58	38,309,248.96
II Other comprehensive income	—	(24,557,452.00)	—	—	—	—	—	(372,813.82)	(82,849.08)	(25,013,114.90)
Subtotal of I and II	—	(24,557,452.00)	—	—	—	—	36,745,414.38	(372,813.82)	1,480,985.50	13,296,134.06
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	—	—	—	—	3,944,175.45	—	(8,517,303.75)	—	(3,892,121.69)	(8,465,249.99)
a. Transfer to surplus reserves	—	—	—	—	3,944,175.45	—	(3,944,175.45)	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(4,573,128.30)	—	(3,892,121.69)	(8,465,249.99)
d. Others	—	—	—	—	—	—	—	—	—	—
V Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—	—	—
a. Capital reserve to capital (or Share capital)	—	—	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (or 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	—	15,000,000.00	—	—	—	—	—	—	—	15,000,000.00
4. Ending balance of the year	457,312,830.00	667,138,256.42	—	—	200,703,385.83	—	435,355,986.50	(980,524.17)	37,290,064.51	1,796,819,999.09

The Company's Statement of Changes in Shareholder's Equity in the First Half of 2014

Financial Report

(Prepared under PRC Accounting Standards)

Unit: RMB

Item	Share capital	Capital reserves	Less: Treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Total shareholders' equity
1. Ending balance of last year	457,312,830.00	666,657,525.65	—	—	200,040,844.52	—	438,894,490.54	1,762,905,690.71
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the correction of prior year's accounting errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	666,657,525.65	—	—	200,040,844.52	—	438,894,490.54	1,762,905,690.71
3. Increase/decreased in the year	—	(2,865,547.20)	—	—	—	—	25,738,176.02	22,872,628.82
I Net profit	—	—	—	—	—	—	34,884,432.62	34,884,432.62
II Other comprehensive income	—	(2,865,547.20)	—	—	—	—	—	(2,865,547.20)
Subtotal of I and II	—	(2,865,547.20)	—	—	—	—	34,884,432.62	32,018,885.42
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	—	—	—	—	—	—	(9,146,256.60)	(9,146,256.60)
a. Transfer to surplus reserves	—	—	—	—	—	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(9,146,256.60)	(9,146,256.60)
d. Others	—	—	—	—	—	—	—	—
V Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—
a. Capital reserve to capital (or Share capital)	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (or 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	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	663,791,978.45	—	—	200,040,844.52	—	464,632,666.56	1,785,778,319.53

Financial Report

(Prepared under PRC Accounting Standards)

The Company's Statement of Changes in Shareholder's Equity in 2013

Unit: RMB

Item	Share capital	Capital reserves	Less: Treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Total shareholders' equity
1. Ending balance of last year	457,312,830.00	676,214,977.65	—	—	196,096,669.07	—	407,970,039.80	1,737,594,516.52
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the correction of prior year's accounting errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	676,214,977.65	—	—	196,096,669.07	—	407,970,039.80	1,737,594,516.52
3. Increase/decreased in the year	—	(9,557,452.00)	—	—	3,944,175.45	—	30,924,450.74	25,311,174.19
I Net profit	—	—	—	—	—	—	39,441,754.49	39,441,754.49
II Other comprehensive income	—	(24,557,452.00)	—	—	—	—	—	(24,557,452.00)
Subtotal of I and II	—	(24,557,452.00)	—	—	—	—	39,441,754.49	14,884,302.49
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	—	—	—	—	3,944,175.45	—	(8,517,303.75)	(4,573,128.30)
a. Transfer to surplus reserves	—	—	—	—	3,944,175.45	—	(3,944,175.45)	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(4,573,128.30)	(4,573,128.30)
d. Others	—	—	—	—	—	—	—	—
V Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—
a. Capital reserve to capital (or Share capital)	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (or 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	—	15,000,000.00	—	—	—	—	—	15,000,000.00
4. Ending balance of the year	457,312,830.00	666,657,525.65	—	—	200,040,844.52	—	438,894,490.54	1,762,905,690.71

1. BACKGROUND OF THE COMPANY

Shandong Xinhua Pharmaceutical Company Limited (here-in-after referred to the Company) was established in 1993, through the reorganization 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 2014 is RMB457.313 million, the capital structure is as follow:

Class of shares	Quantity of Shares	The proportion of the total share capital (%)
I. Subtotal of restricted tradable outstanding shares		
A share restricted tradable senior management-held shares		
II. Subtotal of no restricted tradable outstanding shares	457,313	100
RMB ordinary shares (A share)	307,313	67.2
Overseas foreign shares (H share)	150,000	32.8
III. Total shares	457,313	100

The Company is mainly engaged in developing, manufacturing, 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES ACCOUNTING, ESTIMATES AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENT CONSOLIDATION**1. 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 (ASBEs) Accounting Standards for Business Enterprises 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.

2. 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.

3. Accounting Year

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

4. Functional currency

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

5. 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.

6. Business Combination

Business combination refers the event or transaction that the Company combines two or more separate enterprises as one reporting entity. The Company shall recognize 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.

6.1 Business combination involving enterprises under common control

The assets and liabilities acquired through a business combination involving 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.

6.2 Business combination not involving enterprises under common control

The cost of business combinations not involving 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 recognized 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.

7. Basis of Preparation of Consolidated Financial Statements

7.1 Scope of Consolidation

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

7.2 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.

8. 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.

9. Foreign Currency Business and Translation of Financial Statements Denominated in Foreign Currencies

9.1 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 capitalization, 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 capitalized 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.

9.2 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.

10. Financial Assets and Financial Liabilities

10.1 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-derivative financial assets with fixed or determinable recoverable amount and fixed maturity that the management has the positive institution and ability to hold to maturity.

10.2 Recognition and measurement of financial assets

The financial asset of the Company becomes a party of financial contract, which is initially recognized at its fair value in balance sheet. 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 recognized as investment income. On disposal, the difference between fair value and initial recognized amount are recognized as investment income and adjust the gain or loss from changes in fair value accordingly.

Except for impairment losses and exchange gains or losses due to foreign currency financial assets, changes in fair value of available-for-sale financial assets are recognized in shareholders' equity. When financial assets terminate, the movement is accounted into current income statement. Interests calculated using the effective interest rate method during the holding period is recognized as investment income. Dividends from available-for-sale equity instruments are recognized as investment income.

10.3 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 bad debt is made due to balance of estimated cash flow (Excluding future credit losses that have not yet occurred) and the present value lower than book value. If there is objective evidence that the value of financial assets has been restored, and objectively relates to the loss matter, the previously recognized impairment loss is recognized as profit or loss for the period.

If available for sale financial assets at fair value have a significant or prolonged decline, originally recorded in the shareholders equity decline in fair value due to the cumulative loss included in impairment loss.

If impairment of available for sale financial assets has been confirmed, that objectively relates to impairment losses when the fair value increases, the previously recognized impairment loss is accounted as profit or loss for the period. For the confirmed impairment loss of available for sale financial assets, the fair value increase is directly accounted into shareholders' equity.

10.4 Transfer of financial assets

If financial assets meet one of the following conditions, will be 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.

10.5 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 measured using actual rate method, subsequently measured by using amortized cost method.

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

10.6 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.

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.

11. Accounting for provision for bad debts loss

- a. The Company confirms accounting for provision for bad debts loss as following principals: Provision for bad debts is made when the debts may go into liquidation, bankruptcy; or the debtors have not enough assets to distinguish its liabilities; or have severe short fall of cash; or there are serve natural disaster that leading the debtors to suspense their operations and unable to settle the debts in the foreseeable period; or the debtors let the payment overdue in settlement of debts or other evidences showing that the amounts, will not or probably be able to recover.
- b. Bad debt losses are accounted for using the allowance method, and at the end of the year impairment test the accountings by individual combination. Provisions for bad debts are made on an aging basis and recognized 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 receivable after the Company's approval procedures has been completed.

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

Determine basis or amounts standards for individual significant

Individual accounts receivable amount more than 5 million seem as a significant receivables

Provision method for amount individually significant and individually provision for bad debt

According to the future cash flows is lower than the difference between its book value, provision for bad debts

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

Determine the basis of combination

Combination of 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 for special accounts

Mainly including taxes to be deductible, amounts receivable from export tax rebates and other special

Provision method of provision for bad debts according to combination

Combination of aging

Provision bad debts according to the aging analysis

Combination with the relationship between trading partners

Provision bad debts according to other method

Combination for special accounts

Provision bad debts according to other method

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

Aging	Withdrawal percentage of accounts receivable (%)	Withdrawal percentage of Other receivable (%)
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 bad debts of account receivables

Relationship with trading partner

No provision for bad debts for related parties

Combination for special accounts

No provision for bad debts for taxes to be deductible, amounts receivable from export tax rebates and other special

(3) Accounts receivable of individual amount is not significant but individually provision for bad debts

The reason for individually provision for bad debts

Accounts receivable of individual amount is not significant, and in accordance with the provision for bad debts combination does not reflect the risk characteristics

Method for provision for bad debts

Provision bad debts according to future cash flow lower than the differences of book value

12. 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 method, the purchased inventories shall be accrued at the actual cost; the purchase or warehousing of various inventories in the company are priced based on the actual cost; the low-value consumable products and packing material are taken, they will be accrued to the cost at on time.

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

Net realizable 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 realizable value for raw material for held for production are determined by the estimated selling price of finished goods less the estimated cost to completion, selling expenses and taxes.

13. Long-term equity Investments

13.1 Classification of Long-term Investments

Long-term Investments mainly include the investments in entities 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 can not 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 rights to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies. The existence of significant influence mainly based on the fact that directly or indirectly through subsidiaries held more than 20% (including 20%) and less than 50% in the investee's voting shares. If there is no evidence showing that the Company has no rights take part in the decision of the investee's operating decision, it will not constitute the significant influence.

13.2 Initial Measurement of Long-term Equity Investment

The initial investment cost of a long-term equity investment acquired through a business combination involving enterprise under common control is the carrying amount of the owners' equity of the party being absorbed at combination date. The initial investment cost of the long-term equity investment acquired through a business combination but not involving 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 actual purchase price that has been paid, and 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 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.

13.3 Subsequent Measurement of Long-term Equity Investment

Investments in subsidiaries are accounted for using the cost method and adjusted by equity method when 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.

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 recognizes 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, unrealized profit or loss resulting from the Company and the associates and joint venture are eliminated for the attributable to the Company based on its share in the investee. For the first time 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 amortization of the remaining period of the equity investment debit balance confirmation Investment income.

13.4 Switching of cost method and equity method

The company will convert to use the cost method for Long-term investment measured using equity method will change to cost 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 has no longer has ability to exercise control but has 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.

13.5 Disposal of Long-term Investments

On disposal of Long-term investment, the difference between the carrying value if the investments is recorded as investment gain or loss. For the Long-term investments using 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 reckon into the period.

14. 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 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 (amortization) rates of the investment properties are follows:

Types	Depreciable life (year)	Estimated residual value rate (%)	Annual depreciation rate (%)
Land use right	Benefit from the transfer of life	0	—
House & building	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 derecognized 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 recognized in profit or loss for the period.

15. Fixed Assets

15.1 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.

15.2 Classification of Fixed assets

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

15.3 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.

15.4 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 relayed assets or recognized 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

15.5 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 derecognized. Expenditure not quantified for recognition as a fixed asset, once happen, it will be recognized into current gain or loss.

15.6 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.

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

16. Construction-in-progress

16.1 Measurement of construction progress

Construction-in-progress measured at the expenditures actually incurred. The cost of construction work undertaken by the Company itself includes direct materials cost, direct labor cost, and direct construction expenses. The cost of constructing construction work is determined according to 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 capitalized borrowing costs and gain or loss from currency exchange.

16.2 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. Depreciated 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.

17. The Accounting Treatment of Borrowing Cost

Borrowing costs include interest, amortization 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 capitalization of borrowing costs can commence only when all of the following conditions are satisfied; expenditures 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 recognized 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 capitalized 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 capitalized 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. Capitalization rate confirmed as general borrowing weighted average rate.

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

Capitalization 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. Capitalization of borrowing costs shall cease when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale.

18. The Pricing and Amortization of Intangible Assets

18.1 The pricing method of intangible assets

The Company's intangible assets mainly include land use right, software use right, non-patented technology, and 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.

18.2 Amortization of intangible assets

The cost of land use right is amortized evenly over the whole period of the right. The cost of software use right and non-patented technology of the Company is amortized evenly over the shorter period of the expected useful life, the contractual beneficial period and the useful life specified in the law, which is five years in the Company. Hand use rights are amortized over the terms 8, the rights, software use rights are amortized over 5 years. The amortization charge shall be recognized as cost of an intangible asset or profit or loss for the current period by the object of benefit derives from the assets.

18.3 For an intangible asset with a finite useful life, the Company reviews the useful life and amortization method at each financial year-end. 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 amortized accordingly.

19. Research and Development

According to the nature of expenditures and 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 recognized in profit or loss in the period in which it is incurred. Expenditure on the development phase is recognized 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 the above 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 recognized as intangible asset in subsequent period. The capitalized expenditure in the development phase shall be recognized as intangible asset when the asset is ready to its intended use.

20. Impairment for Non-financial Assets

The Company assesses at each balance sheet date whether there is any indication that may be impaired, as long-term equity investment fixed assets, construction-in-progress, intangible assets of finite useful life if there is any indication that is an assets may be impaired, the recoverable amount is estimated for the asset. Goodwill and an 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 the individual asset, the Company determines the recoverable amount 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 recognized, it shall not be reversed in subsequent periods. 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, 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 realized (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.

21. Goodwill

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

22. Employee Benefits

In the accounting period in which an employee has rendered service to the Company, employee benefits payable are recognized 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 termination of 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.

23. Provision

23.1 Recognition of provision

A provision is recognized as a liabilities 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.

23.2 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.

24. Recognition of Revenue

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

24.1 Revenue from sales of goods

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

24.2 Revenue from rendering of services

Revenue from the rendering of services is recognized 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; (c)and 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 recognized at the completion; where in different accounting year, the revenue is recognized percentage of completion method at the balance sheet date 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.

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

25. Government grants

Government grant means monetary assets or non-monetary assets acquired by the Company from the government without compensation. Government grant is recognized when the Company complies with the conditions attaching to the grant and when the Company receives the grant.

If the government grant is in the form of monetary assets, it is measured by the actual amount received; if the government grant is allocated according to a fixed amount standard, or the Company has sufficient proof to show it can satisfy the conditions related to financial support policies, and it is expected that such financial support fund can be obtained, such fund will be measured by the amount receivable. If the government grant is in a form of a non-monetary asset, it is measured at the fair values; if the fair values cannot be reliably obtained, they will be calculated at the nominal amounts of RMB1.

The government grants of the Company are divided into asset-related government grants and income-related government grants. Asset-related government grants mean the grants that the Company has acquired, used for construction or otherwise that form long-term assets. Income-related government grants mean the grants other than the asset-related grants. If the government documents do not clearly state the object of the grant, then the Company will determine according to the aforesaid principles.

Government grant related to assets is recognized as deferred income and will be evenly distributed into current profit or loss during the useful life of the related assets. If the grant is a compensation in related expenses or losses to be incurred in subsequent periods, the grant will be recognized as deferred income and recognized as current profit or loss in the periods they are incurred. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the current period.

26. Deferred Tax Assets and Deferred Tax Liabilities

A deferred tax asset and deferred tax liability is recognized based on the difference (temporary difference) between the carrying amount of an asset or liability and its tax base. The deferred tax asset is recognized 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 utilized. 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 realized or the liability is settled.

The Company recognizes 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 recognized 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.

27. 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 that 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 recognized in the method of debit in using balance sheet liability method.

28. Description of Critical Accounting Estimates

During preparation of the financial statements, the Company's management requires the use of estimates and assumptions. These could affect the application of accounting policies and change the amount of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. The Company's management will continue assessment of the key assumptions and uncertain factors related to those estimates. The influences of changes in accounting estimates are recognized in the current and future periods.

The following accounting estimates and critical assumptions lead to important risk of significant adjustments of the carrying amount in assets and liabilities in future periods.

(1) Impairment of receivables

The Company's receivables are measured by amortized cost at the balance sheet date to assess whether impairment occurs and the specific amount of impairment loss (if any). Objective evidence of impairment includes drastic decrease in expected future cash flows of individual or combined receivables, and significant negative factors of the debtor's financial position in individual or combined receivables. If there is evidence showing that the value of the receivables has been restored, and it is objectively related to issues occurring after the recognition of the loss, the previously recognized impairment loss will be reversed.

(2) Provision for inventory impairment

The Company estimates the net realizable value of inventories on a regular basis, and the difference arising from the higher of inventory costs and the net realizable value is recognized as the inventory obsolescence. The Company estimates the net realizable value of inventories as the estimated price of similar goods less the expected costs, selling expenses and related taxes during the completion. When the actual selling price or costs differ from the previous estimates, the management will accordingly adjust the net realizable value. The estimated results based on existing experience may differ from the actual results. It may cause the adjustment of the book value of inventory in balance sheet. Therefore, the amount of inventory impairment provision may change due to the above-mentioned reasons. Inventory impairment provision adjustments will affect the profit or loss of the estimated period.

(3) Accounting estimates in relation to goodwill impairment provision

The Company implements annual goodwill impairment test. The recoverable amount of asset group and asset group combination related to goodwill is the expected present value of future cash flows. The calculation requires accounting estimates.

If the management revises gross profit margin adopted in measurement of future cash flow of asset group and asset group combination, and the revised gross profit margin is lower than the current gross profit margin, the Company needs to increase its goodwill impairment provision.

If the management revises pre-tax discount rate applied to discounted cash flow, and the revised pre-tax discount rate is higher than the current discount rate, the Company needs to increase its goodwill impairment provision.

If the actual gross margin or pre-tax discount rate is higher or lower than the management's estimates, the company cannot reverse the original provision for impairment loss on goodwill.

(4) Accounting estimates in relation to fixed assets impairment provision

The Company implements impairment tests for buildings, machinery and other fixed assets with impairment indication at the balance sheet date. Recoverable amount of fixed assets is the higher amount of the expected present value of future cash flows or asset fair values less disposal expenses. The calculation requires accounting estimates.

If the management revises gross profit margin adopted in measurement of future cash flow of asset group and asset group combination, and the revised gross profit margin is lower than the current gross profit margin, the Company needs to increase its fixed assets impairment provision.

If the management revises pre-tax discount rate applied to discounted cash flow, and the revised pre-tax discount rate is higher than the current discount rate, the Company needs to increase its fixed assets impairment provision.

If the actual gross margin or pre-tax discount rate is higher or lower than the management's estimates, the company cannot reverse the original provision for impairment loss on fixed assets.

(5) Accounting estimates in relation to deferred income tax assets recognition

Estimates of deferred income tax assets require evaluation of taxable income and the applicable tax rate for the coming year. The realization of deferred tax assets depends on whether the Company obtains sufficient taxable income. Future changes in tax rates and the reversal time of the temporary differences may also affect income tax expense (income) and deferred income tax balances. The changes of the above estimates could lead to important adjustments to deferred income tax.

(6) Useful life of fixed assets and intangible assets

The Company reviews the estimated useful life of the fixed assets and intangible assets at least at each financial year end. The estimated useful life is determined based on the management's historical experience of similar assets, reference to industry's generally applied estimates and combined with the estimated technical update. When significant changes in previous estimates occur, the depreciation expense and amortization expense in future periods will be adjusted accordingly.

3. 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 the first half of 2014.

4. TAXES

The Company's main tax categories and tax rates are as follows:

1. Income tax

The Company is recognized as a high-tech enterprise according to the document Lu-Ke_Gao-Zi No. (2012) 19 issued by Shandong Science Technology Bureau, Shandong Finance Bureau, Shandong National Tax Bureau and Shandong Local Tax Bureau. The Company has obtained the high-tech enterprise certification on October 31, 2011. The term of validity is 3 years. 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%. In 2014, the new certificate is the bid, so the applicable tax rate is 15%.

The applicable tax rate for 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%.

5. 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	The exceed amount taken up by the equity of the Company's shareholders for the loss for the	
												Amounts of profit or loss for the year attributable to minority shareholders' equity	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	RMB46.4989 millions	Drug sales	RMB46.58 millions	—	100	100	YES	—	—	—
Shandong Xinhua Pharmaceutical Export & Import Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB5 millions	Engaged in goods, and technology Import and export and conducting counter trade, entrepot trade	RMB5.5 millions	—	100	100	YES	—	—	—
Zibo Xinhua Pharmaceutical Design Institute Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB3 millions	Medical Engineering design	RMB3.04 millions	—	100	100	YES	—	—	—
Zibo Xinhua Drug Store Chain Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB2 millions	Retailing of medicines	RMB2.16 millions	—	100	100	YES	—	—	—
Shandong Xinhua Pharmaceutical (European) GmbH	Control subsidiary	Rotterdam, Holland	Sale of Medical Chemicals	769,000 Euro	Pharmaceutical raw materials and intermediates	500,000 Euro	—	65	65	YES	RMB3.75 millions	—	—
Zibo Xinhua-west Pharmaceutical Company Limited	Control subsidiary	Zibo, Shandong	Medical Chemical Manufacture	1.5 million us dollars	Production and sales of non-calcium poly Kaposi APIs	1.125 millions us dollars	—	75	75	YES	RMB3.16 millions	—	—
Zibo Xinhua-Perigo Pharmaceutical Company Limited	Control subsidiary	Zibo, Shandong	Medical Chemical Manufacture	6 million us dollars	Production and sales of bulk drugs Ibuprofen	3,006 millions us dollars	—	50.1	50.1	YES	RMB33.04 millions	—	—
Xinhua Pharmaceutical (Shouguang) Company Limited	wholly-owned subsidiary	Shouguang, Shandong	Medical Chemical Manufacture	RMB230 millions	Production and sales of chemical equipment and accessories	RMB230.71 millions	—	100	100	YES	—	—	—
Xinhua (Zibo) Properties Company Limited	wholly-owned subsidiary	Zibo, Shandong	Developing of real estate	RMB20 millions	Developing of real estate	RMB20 millions	—	100	100	YES	—	—	—
Xinhua Pharmaceutical (Gaomi) Company Limited	wholly-owned subsidiary	Gaomi, Shandong	Turing of Medical Chemical Manufacture	RMB19 millions	Production and sales of powder injections (penicillin) and tablets and so on	RMB35 millions	—	100	100	YES	—	—	—
Shandong Xinhua Pharmaceutical (USA) Company Limited	wholly-owned subsidiary	South El Monte, USA	Sale of Medical Chemicals	1.5 million US dollars	Pharmaceutical raw materials and intermediates	1.5 millions us dollars	—	100	100	YES	—	—	—
Shandong Xinhua Electrical and Mechanical Engineering Company Limited	Wholly-owned subsidiary	Zibo, Shandong	Electrical and Mechanical Engineering	RMB8 millions	Electrical and mechanical engineering installation and commissioning	RMB8 millions	—	100	100	YES	—	—	—

1. Shandong Xinhua Pharmaceutical Trade Company Limited

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), 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, 42,628,900 was contributed by the Company in tangible assets, and RMB870,000 was contributed by Zibo Xinhua Drug Store Chain Company Limited 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 Xinhua Drug Store Chain Company Limited whereby the 2% equity interests of Pharm Trade held by Zibo Xinhua Drug Store Chain Company Limited was transferred to the Company at a consideration of RMB1,053,614. Pharm Trade is a wholly owned subsidiary of the Company.

2. Shandong Xinhua Pharmaceutical Export & Import Company Limited

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 principal operation of Xinhua Export& Import is exporting & importing of goods and technology, entrepot & counter trade business.

On April 30, 2009 it is resolved in the Shareholder meeting of Xinhua Export & Import that the registered capital be changed from 3 million to 5 million. 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 January 4, 2010, the Company entered into an equity transfer contract with Shandong Xinhua Pharmaceutical Trade Company Limited whereby the 98% equity interests 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

Zibo Xinhua Pharmaceutical Design Institute (hereinafter referred to as the Design Institute) was formed in March 2002 with a registered capital of RMB2,000,000 jointly 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 whereby Shandong Xinhua Group transferred its 10% equity interests of 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 to Design Institute. The increase of capital have been verified by the verification report "Price Waterhouse Inspection Zi [2009] No. 098" issued by PricewaterhouseCoopers Limited. Thereafter registered capital of Design Institute was increased to RMB3 millions. Design Institute is the wholly-owned subsidiary of the company.

4. Zibo Xinhua Drug Store Chain Company Limited

Zibo Xinhua Drug Store Chain Company Limited (originally known as Zibo Xinhua Drug Store Company Limited, being changed to the present name in December 2003, hereafter referred to as the Zibo Drug Store) was incorporated in July, 1999 jointly by the Company and Shandong Xinhua Group. Its registered capital was RMB1,000,000. The registered capital was increased to RMB2,000,000 in September 2002. The Company and Shandong Xinhua Group hold 88% and 12% respectively.

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 at a constriction of RMB394,900 and paid related tax RMB4,000. Drug Store is the wholly owned subsidiary of the Company.

5. Shandong Xinhua Pharmaceutical (European) GmbH

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 1 million Euros. The Company holds 70% of equity interests, while Mr. LIPENG owns 30%. The registered address of Xinhua European is at Rotterdam, Germany. Its reporting currency is Euro. In July 2006, the registered capital of the Company was changed to EURO650,000 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 co-operation agreement with Mr. Lipeng, whereby 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 76.9% and 23.1% 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 RMB119,000 to Xinhua (European). The fund was received on 20 October, 2009. The verification report was obtained on 10 November, 2009. After the injection the registered capital of Xinhua (European) was Euro 769,000. The Company invested Euro 500,000 and accounts for 65%; LK & K Trading Co., Ltd. invested Euro 269,000, accounting for 35%.

6. Zibo Xinhua-West Pharmaceutical Company Limited

Zibo Xinhua-West Pharmaceutical Company Limited (hereafter referred to as Xinhua-West) was established on 15 November 2005 with a registered capital of USD1.5 million, jointly 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 USD1.125 million and USD0.375 million in cash respectively. The paid-up capital of Xinhua-West was USD1.5 million. The principal operation of Xinhua-West is production and sales of Calcium Polycarbophil materials.

7. Zibo Xinhua-Perrigo Pharmaceutical Company Limited

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 USD6 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

Shandong Xinhua Pharmaceutical (Shouguang) Company Limited, originally named as Shandong Dadi Salt Chemical Group Company Limited (hereinafter referred to as Xinhua Shouguang), was established with the registered capital of RMB26,000,000 by the Company and Shandong Dadi Salt Chemical Group Company Limited on 12 September 2006. The Company contributed RMB12,740,000, accounting for 49% of the registered capital. The Company injected additionally RMB6,000,000 to Xinhua Shouguang and increased its registered capital to RMB32,000,000 in November 2007. The Company invested a total of RMB18.74 millions and held 58.56% of its shares. In 2008, the Company purchase all the shares of Shandong Dadi Salt Chemical Group Company Limited, at a consideration of RMB13,972,368.00. and renamed. Shandong Dadi Salt Chemical Group Company Limited as Shandong Xinhua Pharmaceutical (Shouguang) Company Limited, the Company also contributed an additional capitals of RMB48 millions. After the injection, the registered capital of Shouguang was RMB80 millions and became the wholly owned subsidiary of the Company.

The company increased the capital of Shouguang by RMB6 millions in December 2008 and RMB44 millions in April 2009. The capital increase was verified by Shandong Shencheng certificated public accountants with verification report (Shencheng CPA 2009 NO.21).

In 2010 the company added capital of RMB10 millions to Shouguang. The capital increase has been recognized by Shouguang ShengCheng Certified Public Accountants by the document of Shousheng Certified Public Accountants Yan Zi(2010) No. 010 verification report, and on August 26, 2010 Shouguang company get the Enterprise legal person business license after the change. After the capital increase, Shouguang company has registered capital of RMB230 million.

The main business of Shouguang includes production and sales of chemical products (excluding dangerous and poisonous chemical).

9. Xinhua (Zibo) Properties Company Limited

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.

10. Xinhua Pharmaceutical (Gaomi) Company Limited

Xinhua Pharmaceutical (Gaomi) Company Limited (hereinafter referred to Xinhua Gaomi), formerly known as Shandong Tianda Bio-Pharmaceutics Co., Ltd. (hereinafter referred to as Tianda Pharmaceutical), is the surviving company after the spin off of Tianda Pharmaceutical in July 2011. On 16 January 2012, Tianda Pharmaceutical was acquired by the Company for the consideration of RMB22,000,000 with its own funds to purchase the entire shareholding owned by Zhu Zhen-hua and Zhang Peng (excluding the value of the current assets). Upon completion of the merger, the Company holds 100% stake of Tianda Pharmaceutical.

2 March, 2012, enterprise name change authorization notice was approved by Gaomi Industry and Commerce Administration Group, ((Gao) Name Change Approve Private [2012] No. 0192), the name of Shandong Tianda Bio-Pharmaceutics Co., Ltd. was changed to Xinhua Pharmaceutical (Gaomi) Company Limited.

In May 2012, Xinhua Gaomi applied to increase its registered capital by RMB13,000,000. Gaomi Hongce Joint Accounting Firm issued the capital verification report for the capital increase (Hongce Nei Yan Bian Zi [2012] No. 12). The registered capital of Xinhua Gaomi has changed to RMB19 million after the increase.

The main business scope of Xinhua Gaomi is production and sales of injections (penicillin), tablets, granules, suspension, hard capsules, sterile bulk drugs (sodium mezlocillin, azlocillin sodium, ticarcillin sodium) (valid until 31 December 2015).

11. Shandong Xinhua Pharmaceutical (USA) Company Limited

Shandong Xinhua Pharmaceutical (USA) Company Limited (hereinafter referred to as Xinhua USA Company) was established on 29 January 2013 and is a wholly owned subsidiary of the Company. The registered capital of Xinhua USA Company is USD1.5 million. The registered address of Xinhua USA Company is South El Monte, USA. The booking currency is US dollar. The main business of Xinhua USA Company includes research and development of pharmaceutical, chemical and health products, certification and import & export.

12. Shandong Xinhua Electrical and Mechanical Engineering Company Limited

Shandong Xinhua Electrical and Mechanical Engineering Company Limited was established on 23 April 2014 and is a wholly owned subsidiary of the Company. The registered capital of this subsidiary is RMB8 million, contributed entirely in cash by the Company.

The main business scope of Shandong Xinhua Electrical and Mechanical Engineering Company Limited is machinery and equipment engineering, chemical engineering equipment installation, commissioning, electrical equipment installation and commissioning.

(2) Changes in the Scope of Consolidation

1. Companies newly included in the scope of consolidation this year

Name of company	Reason to join in scope of consolidation	Percentage of shareholding (%)	Net asset at the end of the year	Net profit during this year
Shandong Xinhua Electrical and Mechanical Engineering Company Limited	Newly establishment	100.00	8,018	18

2. Companies no longer included in the scope of consolidation this year

During this year, there is no company that is no longer included in the scope of consolidation.

(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 Euro=8.3946 RMB	1 Euro=8.4189 RMB	Exchange rate on the date of occurred
Shandong Xinhua Pharmaceutical (USA) Company Limited	1 USD=6.1528 RMB	—	Exchange rate on the date of occurred

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In the following financial statements, unless otherwise indicated, the term 'beginning of the year' refers to 1 January, 2014, 'end of the year' refers to 30 June 2014, 'this year' refers to the period from 1 January to 30 June 2014, and 'previous year' refers to the period from 1 January to 30 June 2013. 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	Converted into RMB	Original Currency	Exchange Rate	Converted into RMB
Cash on Hand	—	—	149	—	—	164
Including: USD	3	6.1528	17	3	6.0969	16
EURO	1	8.3946	10	5	8.4189	43
HKD	15	0.79375	12	18	0.78623	14
JPY	66	0.060815	4	66	0.057771	4
Cash in Bank	—	—	231,649	—	—	282,657
Including: USD	3,787	6.1528	23,300	4,286	6.0969	26,158
EURO	769	8.3946	6,459	53	8.4189	446
HKD	2	0.79375	2	2	0.78623	2
GBP	606	10.4978	6,366	34	10.0556	346
Fund in other currency	—	—	22,000	—	—	97,901
Total			253,798			380,722

At the end of the year, the balance of other cash and cash equivalents included bank acceptance security deposit of RMB2,000,000. There was RMB20,000,000 of structured deposit from Industrial Bank Zibo Branch.

2. Notes Receivable

Nature of notes	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bills	104,781	97,102

(1) At the end of the year, in respect of the balances of notes receivable, there were no bills having been charged, pledged or overdue.

- (2) By the end of 30 June 2014, the total amount of the notes which were endorsed to the other party but has not yet expired was RMB525,328,000, and the details of the five largest bills were as follows:

Type	Drawer	Date of issue	Date of maturity	Amount
Bank acceptance bill	Xintai Xin Kang Hong Pharmaceutical Co., Ltd.	2014-4-25	2014-10-25	3,000
Bank acceptance bill	Chongqing Saili Junan Pharmaceutical Co., Ltd.	2014-1-27	2014-7-26	3,000
Bank acceptance bill	Shandong Tianshili Pharmaceutical Co., Ltd.	2014-3-31	2014-9-30	2,000
Bank acceptance bill	Shandong Kanghui Pharmaceutical Co., Ltd.	2014-3-24	2014-9-21	2,000
Bank acceptance bill	Aerospace Science and industry Shenzhen (Group) Co. Ltd.	2014-3-4	2014-9-4	2,000
Total				12,000

- (3) As of 30 June 2014, there is no discounted bank acceptance bills that is not yet expired.

3. Account Receivable

(1) Risk Classification of Account 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 %
Account receivable of individually significant account with individual provision for bad debts	50,313	9.04%	50,313	100.00%	50,329	13.97%	50,329	100.00%
Provision for bad debts according to combination analysis								
Aging combination	475,227	85.36%	5,787	1.16%	287,387	79.79%	2,437	0.81%
Combination with the relationship between trading partners	22,984	4.13%	—	—	11,026	3.06%	—	—
Combination for special account	995	0.18%	—	—	938	0.26%	—	—
Subtotal	499,207	89.67%	5,787	1.16%	299,351	83.11%	2,437	0.81%
Account receivable of individually insignificant amount but with individual provision for bad debts	7,178	1.29%	6,704	93.40%	10,506	2.92%	10,032	95.49%
Total	556,697	—	62,804	—	360,187	—	62,799	—

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

Clients	Book balance	Amount for bad debts	Ratio(%)	Reason
Shandong Xin Kang Qi Pharmaceutical Co., Ltd. *	40,590	40,590	100%	Solvency consideration provision
Zibo Hua Bang Pharmaceutical Co., Ltd. *	9,723	9,723	100%	Solvency consideration provision
Total	50,313	50,313	—	—

* The Company made full provision of bad debts for Shandong Xin Kang Qi Pharmaceutical Co., Ltd. ("Xin Kang Qi") and its related secured party Zibo Hua Bang Pharmaceutical Co., Ltd. ("Hua Bang Pharm."). Because Xin Kang Qi has abnormal operation and capital chain break, its related secured parties Hua Bang Pharm and itself cannot afford trade payment to the Company's subsidiary Pharm. Trade.

- 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	473,752	99.69	4,755	285,340	99.30	1,427
1 to 2 years	468	0.10	238	1,190	0.41	238
2 to 3 years	299	0.06	143	211	0.07	126
More than 3 years	708	0.15	651	646	0.22	646
Total	475,227	100.00	5,787	287,387	100.00	2,437

- 3) Account receivable using other method of provision for bad debts

Name of combination	Book balance	Amount for bad debts
Combination with the relationship between trading partners	22,984	—
Combination for special account	995	—
Total	23,979	—

- 4) Account receivable of individually insignificant amount but with individual provision for bad debts

Clients	Book balance	Amount for bad debts	Ratio (%)	Reason
Shandong Xinhua Industry & Trade Co., Ltd.	1,150	1,150	100	Solvency consideration provision
Shandong Hnegan Pharmaceutical Co., Ltd.	965	769	80	Consider the possibility of payments
Shandong Xinbao Pharmaceutical Co., Ltd.*	2,491	2,491	100	Solvency consideration provision
Shandong Baiyimei Pharmaceutical Co., Ltd.*	1,199	1,199	100	Solvency consideration provision
Shandong Huayao Pharmaceutical Co., Ltd.	1,373	1,095	80	Consider the possibility of payments
Total	7,178	6,704	—	

* Xin Kang Qi, Shandong Xin Bao Pharmaceutical Co., Ltd. ("Xin Bao") and Shandong Bai Yi Mei Pharmaceutical Co., Ltd. ("Bai Yi Mei") are related secured parties. Because Xin Kang Qi has abnormal operation and capital chain break, its related secured parties Xin Bao, Bai Yi Mei and itself cannot afford goods payment to the Company's subsidiary Pharm. Trade, the Company therefore made full provision for such payment.

- (2) Written-off bad debts for this year

Name of equity	Amount	Provision for bad debts before recover	Amount of written-off	Foundation of bad debts	Reason
Zibo Mining Bureau Kunlun Hospital	—	—	5	Long aging	Recovery

- (3) There are no account receivables written off for this year.

- (4) At the end of the year, account receivable balance does not include receivable due from shareholders holding 5% or more voting rights in the Company's capital.

- (5) At the end of the year, the balance of account receivable due from the top five debtors is RMB150,806,000 accounting for 27.09% of the total balance of account receivable, details are as follows:

Clients	Relationship	Amount	Aging	Proportion%
Shandong Xin Kang Qi Pharmaceutical Co., Ltd.	Non-related parties	40,590	More than two years	7.29
Mitsubishi Corporation	Non-related parties	34,389	Less than one year	6.18
F.Hoffmann-La Roche AG	Non-related parties	33,127	Less than one year	5.95
USA Perrigo International Co., Ltd.	Other related parties	22,572	Less than one year	4.05
Zibo Central Hospital	Non-related parties	20,128	Less than one year	3.62
Total		150,806		27.09

- (6) At the end of the year, the balance of account receivable due from the related parties is RMB24,893,000 accounting for 4.47% of the total balance of account receivable, details are as follows:

Name of equity	Relationship	Amount	Proportion%
USA Perrigo International Co. Ltd.	other-related parties	22,572	4.05%
Shandong Xinhua Industry & Trade Company Limited	other-related parties	1,150	0.21%
USA Xinhua-West Pharmaceutical Company Limited	other-related parties	759	0.14%
Shandong Zibo XinCat Pharmaceutical Company Limited	Under common control of parent company	411	0.07%
Total		24,893	4.47%

- (7) The ending balance of account 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	Converted into RMB	Original Currency	Exchange Rate	Converted into RMB
USD	49,974	6.1528	307,478	30,266	6.0969	184,531
GBP	—	—	—	—	—	—
EURO	984	10.4978	10,331	488	10.0556	4,911
Total	—	—	317,809	—	—	189,442

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	33,922	66.03	37,708	97.61
1 to 2 years	17,344	33.75	625	1.62
2 to 3 years	78	0.15	283	0.73
More than 3 years	38	0.07	17	0.04
Total	51,382	100.00	38,633	100.00

The increase of advances to suppliers was due to the prepayment of RMB10,870,000 made by Shouguang Company.

- (2) At the end of year, the top five balances of advances to suppliers are RMB37,296,000 details as follow:

Name of equity	Relationship	Amount	Aging	Reason for unsettlement
Prepaid land premiums to Shouguang City Land Resources Bureau	Non-related party	15,400	One to two year	Land certification is handing
Weifang Xinpeng Properties Co., Ltd.	Non-related party	10,870	Less than one year	House property is handing
Prepaid land premiums to Gaomi Land Management Office	Non-related party	5,665	Less than one year	Land certification is handing
Shandong Jinling Chemical Co., Ltd.	Non-related party	2,792	Less than one year	Goods not yet reached
Xizang Shenwei Pharmaceutical Co., Ltd.	Non-related party	2,569	Less than one year	Goods not yet reached
Total		37,296		

- (3) At the end of the year, the balances of advances payments do not include advances to shareholders holding 5% or more voting rights in the Company's 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
EURO	49	8.3946	410	24	8.4189	199
USD	—	—	—	7	6.0969	40

5. Other Receivable

(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 %
Account receivable of individually significant amount and with individual provision for bad debts	17,924	20.47%	14,624	81.59%	17,924	26.05%	14,624	81.59%
Aging combination	43,936	50.17%	8,017	11.99%	20,236	29.41%	7,996	16.73%
Combination with the relationship between trading partners	8	0.01%	—	—	8	0.01%	—	—
Combination for special accounts	22,892	26.14%	—	—	27,818	40.43%	—	—
Subtotal	66,836	76.32%	8,017	11.99%	48,062	69.85%	7,996	16.73%
Account receivable of individually insignificant amount but with individual provision for bad debts	2,818	3.22%	2,818	100.00%	2,818	4.10%	2,818	100.00%
Total	87,578	—	25,458	—	68,804	—	25,438	—

1) Other receivable of individually significant amount and with individual provision for bad debts

Clients	Book amount	Amounts of bad debts	Ratio (%)	Reason
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	6,600	3,300	50.00	Solvency consideration provision
Nanjing Huadong Pharmaceutical Co., Ltd	11,324	11,324	100.00	consider of possibility of recovery
	17,924	14,624	—	

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	35,178	80.07	60	12,016	59.22	60
1 to 2 years	129	0.29	44	219	1.08	44
2 to 3 years	83	0.19	164	273	1.35	164
More than 3 years	8,546	19.45	7,749	7,728	38.35	7,728
Total	43,936	100.00	8,017	20,236	100.00	7,996

- 3) Account receivable using other method for provision of bad debts

Name of combination	Book balance	Amounts of bad debts
Combination with the relationship between trading partners	8	—
Combination for special accounts	22,892	—
Total	22,900	—

- 4) Other receivable of individually insignificant amount but with individual provision for bad debts

Clients	Book balance	Amount of bad debts	Ratio (%)	Reason
Linyi Mingyao Chemical Co., Ltd.	652	652	100	Judgment cannot recover, full provision
Shandong Kangda Pharmaceutical Co., Ltd.	2	2	100	No transaction, full provision
Jiangxi Renhe Pharmaceutical Co., Ltd.	3	3	100	No transaction, full provision
Jiangxi Hui ren Pharmaceutical Co., Ltd.	15	15	100	No transaction, full provision
Jiangxi Jiangzhong Pharmaceutical Trade Co., Ltd.	8	8	100	No transaction, full provision
Jiangxi Zhongxing Hanfang Pharmaceutical Co., Ltd.	4	4	100	No transaction, full provision
Shandong Kangyuan Pharmaceutical Co., Ltd.	164	164	100	Long aging, full provision
Pingyuan Pharmaceutical Co., Ltd.	52	52	100	Long aging, full provision
Harbin Pharmaceutical Group Holding Shi Yi Tang Bai Chuan Traing Co., Ltd.	795	795	100	Long aging, full provision
Anhui Huashi Pharmaceutical Co., Ltd.	53	53	100	Long aging, full provision
Xinjiang Shenzhou Pharmaceutical Co., Ltd.	186	186	100	Long aging, full provision
Shandong Haiwang Yinhe Pharmaceutical Co., Ltd.	213	213	100	Long aging, full provision
Linyi Renhua Pharmaceutical Co., Ltd.	95	95	100	Long aging, full provision
Heze Peony Pharmaceutical Co., Ltd.	68	68	100	Long aging, full provision
Lianyungang Kanion Trading Pharmaceutical Co., Ltd.	116	116	100	Long aging, full provision
Jiangsu Nhwa-Run Medicine Co., Ltd.	308	308	100	Long aging, full provision
Shandong Guoying Pharmaceutical Co., Ltd.	4	4	100	Long aging, full provision
Shandong Yiyuan Medical Co., Ltd.	25	25	100	Long aging, full provision
Linyi Zhongrui Pharmaceutical Co., Ltd.	7	7	100	No transaction, full provision
Hainan Hailing Pharmaceutical Co., Ltd.	20	20	100	Long aging, full provision
Zhangye Zhongxing Pharmaceutical Co., Ltd.	1	1	100	No transaction, full provision
Harbin Zhenbaodao Medical Trading Co., Ltd.	28	28	100	Long aging, full provision
Total	2,818	2,818		

- (2) There was no reversal (or recovery) of bad debts during the year.
- (3) At the end of the year, other receivables do not include receivable from shareholders holding 5% or more voting rights in the Company's capital.

- (4) At the end of the year, the top five balances of other receivables are RMB39,864,000, accounting for 46.69% of the total balance of other receivable, details are as follows:

Name of equity	Relationships	Amount	Aging	Proportion %	Nature or Content
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	11,324	More than three years	13.26%	Long-term accounts
Houzhen Project	Non-related party	8,000	Two to three years	9.37%	Land receivable
Provision of value-added tax for export	Non-related party	7,744	Less than one year	9.07%	VAT provisionally recognised according to domestic sales due to lack of export information
Nanjing Huadong Pharmaceutical Co., Ltd.	Non-related party	6,600	Less than one year	7.73%	Claim receivable
Should return the income tax	Non-related party	6,196	More than three years	7.26%	Should return the income tax
Total		<u>39,864</u>		<u>46.69%</u>	

- (5) At the end of the year, the balance of account receivable due from the related parties was RMB11,332,000 accounting for 12.94% of the total balance of account receivable, details are as follows:

Name of equity	Relationship	Amount	Proportion %
Shandong Xinhua Industry & Trade Company Limited	other-related parties	8	0.01
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	other-related parties	11,324	12.93
Total		<u>11,332</u>	<u>12.94</u>

- (6) 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
EURO	30	8.3946	253	85	8.4189	712
USD	372	6.1528	2,289	454	6.0969	2,771
Total	<u>402</u>	<u>—</u>	<u>2,542</u>	<u>539</u>	<u>—</u>	<u>3,483</u>

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	47,612	703	46,909	48,820	703	48,117
Work-in-progress	151,745	972	150,773	189,304	972	188,332
Goods-in-stock	224,211	8,634	215,577	288,968	8,634	280,334
Low-value consumables	10,836	—	10,836	13,369	—	13,369
Special materials for Government	1,840	—	1,840	1,840	—	1,840
Total	436,244	10,309	425,935	542,301	10,309	531,992

(2) Inventory Impairment

Item	Balance at the beginning of the year	Provision made	Reduction		Balance at the end of the year
			Written back	Written off	
Raw material	703	—	—	—	703
Work-in-progress	972	—	—	—	972
Goods-in-stock	8,634	—	—	—	8,634
Total	10,309	—	—	—	10,309

Please refer to Notes 2.12, for the policies for provision for inventing impairment.

(3) Inventory impairment accrue

Item	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 realizable value	—	—
Work-in-progress	Book value is less than net realizable value	—	—
Goods-in-stock	Book value is less than net realizable value	—	—
Finished Goods	Book value is less than net realizable value	—	—

7. Other current assets

Items	Balance at the end of the year	Balance at the beginning of the year	Nature
Prepaid enterprise income tax	3,429	3,684	Prepaid enterprise income tax

8. Available-for-sale Financial Assets

a) Available-for-sale financial assets

Item	Available-for-sale equity instruments (measured by fair value)	Available-for-sale equity instruments (measured by amortized cost)	Total
Balance at the beginning of the year	124,212	3,200	127,412
Cost of equity instruments	21,225	30,000	51,225
Balance at the end of the year	120,840	3,200	124,040
Balance of fair value variation accumulated counted as other comprehensive income	84,673	—	84,673
Provision for impairment in available-for-sale financial assets	—	30,000	30,000

b) Impairment of available-for-sale financial assets

Item	Available-for-sale equity instruments (measured by fair value)	Available-for-sale equity instruments (measured by amortized cost)	Total
Provision for impairment in available-for-sale financial assets at the beginning of the year	—	33,987	33,987
Provision for impairment in available-for-sale financial assets this year	—	—	—
Hereinto: transfer from other comprehensive income	—	—	—
Deduction this year	—	3,987	3,987
Hereinto: subsequent fair value recovery	—	—	—
Provision for impairment in available-for-sale financial assets at the end of the year	—	30,000	30,000

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	28,063	26,327
Total long-term equity investment	28,063	26,327
Less: Impairment loss of Long-term equity investment	—	—
Net amount of Long-term equity investment	28,063	26,327

The primary reason for increase of long-term equity investment during this year is that the income from investment of Shandong Xincat Pharmaceutical Company Limited has increased.

(2) Using the 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
Using the equity method								
Shandong Zibo Xincat Pharmaceutical Company Limited	20	20	10,414	26,327	1,736	—	28,063	—

(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
Joint Ventures							
Shandong Zibo Xincat Pharmaceutical Company Limited	20	20	194,026	72,136	121,890	124,512	9,212

(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) Investment properties measured by cost model

Item	Balance at the beginning of the year	Additions of the year	Reductions of the year	Balance at the end of the year
Original price	85,081	—	—	85,081
Buildings	76,305	—	—	76,305
Land use right	8,776	—	—	8,776
Accumulated depreciation & amortization	21,155	2,490	—	23,645
Buildings	20,497	2,380	—	22,877
Land use right	658	110	—	768
Book value	63,926	—	—	61,436
Buildings	55,808	—	—	53,428
Land use right	8,118	—	—	8,008
Provision for impairment	—	—	—	—
Buildings	—	—	—	—
Land use right	—	—	—	—
Book value	63,926	—	—	61,436
Buildings	55,808	—	—	53,428
Land use right	8,118	—	—	8,008

The depreciation and amortization charge for the year was RMB2,490,000.

- (2) R & D centre 1# and Xinhua Building have not yet been issued with title documents for the current year.

11. Fixed Assets

(1) Details of fixed assets

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the term
Original value				
Buildings	904,329	114,671	—	1,019,000
Machinery & Equipment	1,737,944	306,332	17,021	2,027,255
Vehicles	22,220	944	434	22,730
Office equipment and others	45,520	1,721	32	47,209
Subtotal	2,710,013	423,668	17,487	3,116,194
Accumulated depreciation				
Buildings	319,669	20,589	—	340,258
Machinery & Equipment	934,253	58,089	14,881	977,461
Vehicles	16,537	1,178	430	17,286
Office equipment and others	32,818	2,049	31	34,836
Subtotal	1,303,277	81,905	15,342	1,369,841
Net book value				
Buildings	584,660	—	—	678,742
Machinery & Equipment	803,691	—	—	1,049,795
Vehicles	5,683	—	—	5,443
Office equipment and others	12,702	—	—	12,373
Subtotal	1,406,736	—	—	1,746,353
Provision for impairment				
Buildings	—	—	—	—
Machinery & Equipment	382	—	—	382
Vehicles	—	—	—	—
Office equipment and others	6	—	—	6
Subtotal	388	—	—	388
Book value				
Buildings	584,660	—	—	678,743
Machinery & Equipment	803,309	—	—	1,049,413
Vehicles	5,683	—	—	5,444
Office equipment and others	12,696	—	—	12,367
Subtotal	1,406,348	—	—	1,745,967

During this year, the amount which fixed assets transferred from construction in progress was RMB398,933.000. The depreciation charge for the year was RMB81,679.000.

(2) Temporary idle fixed assets

Item	Original Cost	Accumulated depreciation	Provision for impairment	Net value	Remarks
House & Building	3,864	565	—	3,299	
Equipment	14,572	9,925	382	4,264	
Office equipment and others	142	133	2	7	
Subtotal	18,578	10,623	384	7,570	

Idle fixed assets are formaldehyde plant in Shouguang, which has been shut down.

(3) Fixed assets that have not been issued with title documents are as follows:

Name of properties	Original Cost	Net value	The time expected to complete the title documents
Xinhua Mall	9,847	7,208	At the end of 2014
Factory building of 3,000 ton Ibuprofen	26,046	19,427	At the end of 2014
Comprehensive Office Building (block B)	12,930	6,400	At the end of 2014
Xinhua building	45,800	41,085	At the end of 2014
Xinhua building surrounding	7,405	6,643	At the end of 2014
Warehouse of bulk drug	2,600	2,363	At the end of 2014
Aspirin warehouse	16,000	14,479	At the end of 2014
Salicylic acid warehouse	5,500	4,977	At the end of 2014
Power plant	3,700	3,348	At the end of 2014
35KV converting station warehouse	2,800	2,534	At the end of 2014
Hutian quality inspection building	10,000	9,168	At the end of 2014
Hutian sewage treatment plant	3,100	2,805	At the end of 2014
Hutian production centre warehouse	12,000	11,097	At the end of 2014
Hutian storage warehouse	4,100	3,792	At the end of 2014
Barbitone warehouse	1,000	925	At the end of 2014
TMP warehouse	6,000	5,549	At the end of 2014
CPC warehouse	4,800	4,439	At the end of 2014
R & D centre 1#	6,230	5,687	At the end of 2014
R & D centre 2#	15,800	14,987	At the end of 2014
Isopropyl antipyrine warehouse	14,280	14,280	At the end of 2015
Five an power warehouse	11,660	11,660	At the end of 2015
Ammonia hydrogen production project warehouse	1,440	1,440	At the end of 2015
Incinerator project warehouse	6,300	6,300	At the end of 2015
FAA warehouse	13,620	13,620	At the end of 2015
Analgin recycling plant	14,260	14,260	At the end of 2015
Analgin three an warehouse	16,110	16,110	At the end of 2015
Analgin warehouse	31,470	31,470	At the end of 2015
Staff quarter	1,775	1,271	At the end of 2014
DK warehouse	8,759	7,058	At the end of 2014
Violoric acid warehouse	7,572	5,932	At the end of 2014
Dining hall	2,255	1,864	At the end of 2014
2# Apartment	3,202	2,627	At the end of 2014
5# Single staff quarter	3,391	2,798	At the end of 2014
6# Single staff quarter	3,359	2,823	At the end of 2014
Sulfuric acid warehouse	3,346	2,756	At the end of 2014
Analysis laboratory	1,074	873	At the end of 2014

Name of properties	Original Cost	Net value	The time expected to complete the title documents
1# Warehouse	2,405	1,981	At the end of 2014
2# Warehouse	1,533	1,231	At the end of 2014
Trioxin warehouse	2,044	1,697	At the end of 2014
Chloro-propionyl chloride warehouse	3,439	2,981	At the end of 2014
Ethyl cyanoacetate warehouse	3,493	2,886	At the end of 2014
Water treatment plant	3,668	2,785	At the end of 2014
Frozen plant	2,345	1,780	At the end of 2014
Diester warehouse	1,247	1,054	At the end of 2014
Ethyl cyanoacetate warehouse	3,111	2,572	At the end of 2014
Civil engineering of southern district power	7,670	7,063	At the end of 2014
DK phrase II warehouse	10,637	9,785	At the end of 2014
3# Warehouse	3,480	2,961	At the end of 2014
Pyrazolone phrase I warehouse	8,394	6,606	At the end of 2014
Pyrazolone phrase II warehouse	8,153	6,870	At the end of 2014
Civil engineering of Sulfuric acid phase II	17,052	760	At the end of 2014
Pharm. Trade warehouse	1,500	937	At the end of 2014
Pharm. Trade warehouse	1,802	1,245	At the end of 2014
Pharm. Trade warehouse	10,696	5,945	At the end of 2014
CPC warehouse	1,784	1,233	At the end of 2014
Total	433,981	366,422	

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	21,322	—	21,322	17,066	—	17,066
Innovation Park- Annex Building	4,088	—	4,088	3,922	—	3,922
1# Innovation Park- R & D centre 1#	2,234	—	2,234	2,082	—	2,082
2# Innovation Park- R & D centre 2#	7,407	—	7,407	2,028	—	2,028
Xinhua Shouguang III east industrial park project	53,731	—	53,731	50,668	—	50,668
Tribendimidine Project	9,308	—	9,308	8,289	—	8,289
Public project of Hutian	38,220	—	38,220	37,816	—	37,816
Barbitione, TMP, CPC product relocation	21,609	—	21,609	18,708	—	18,708
Others	132,571	—	132,571	399,451	—	399,451
Total	290,488	—	290,488	540,030	—	540,030

(2) Major changes in construction projects

Projects	Balance at the beginning of the year	Additions	Deduction		Balance at the end of the year
			Transfer to fixed assets	Other deductions	
Innovation Park- Xinhua Building	17,065	4,257	—	—	21,322
Innovation Park- Annex Building	3,922	166	—	—	4,088
1# Innovation Park- R & D centre 1#	2,082	151	—	—	2,233
2# Innovation Park- R & D centre 2#	2,028	5,378	—	—	7,405
Xinhua Shouguang III east industrial park project	50,668	8,445	5,383	—	53,731
Tribendimidine Project	8,289	1,019	—	—	9,308
Public project of Hutian	37,816	404	—	—	38,220
Barbitione, TMP, CPC product relocation	18,708	2,901	—	—	21,609
Others	399,452	137,429	393,550	10,760	132,571
Total	540,030	160,151	398,933	10,760	290,488

Projects	Budget	Proportion of construction investment to budget (%)	Progress of project	Accumulation amounts of Capitalization interest	Including: Capitalization interest of this year	Capitalization interest ratio (%)	Source of funds
Innovation Park- Xinhua Building	79,700	72.12%	Ongoing	—	—	—	Funds-own
Innovation Park- Annex Building	16,160	90.80%	Ongoing	—	—	—	Funds-own
1# Innovation Park- R & D centre 1#	16,850	38.30%	Ongoing	—	—	—	Funds-own
2# Innovation Park- R & D centre 2#	25,000	109.62%	Ongoing	—	—	—	Funds-own
Xinhua Shouguang III east industrial park project	383,098	84.01%	Ongoing	—	—	—	Funds-own
Tribendimidine Project	36,500	121.39%	Ongoing	—	—	—	Funds-own
Public project of Hutian	32,000	119.44%	Ongoing	—	—	—	Funds-own
Barbitione, TMP, CPC product relocation	55,000	94.38%	Ongoing	—	—	—	Funds-own
Others	—	—	Ongoing	14,243	3,534	—	Funds-own
Total	—	—		14,243	3,534	—	

(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.

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
Original value	332,881	59	46	332,894
Land use rights	300,402	—	—	300,402
Software use rights	6,536	59	46	6,549
Non-patented technology	23,504	—	—	23,504
Other	2,439	—	—	2,439
Accumulated amortization	61,879	5,521	—	67,400
Land use rights	44,744	3,211	—	47,955
Software use rights	4,441	370	—	4,811
Non-patented technology	12,206	1,695	—	13,901
Other	488	245	—	733
Net book value	271,002	—	—	265,494
Land use rights	255,658	—	—	252,448
Software use rights	2,095	—	—	1,738
Non-patented technology	11,298	—	—	9,602
Other	1,951	—	—	1,706
Provision for impairment	—	—	—	—
Land use rights	—	—	—	—
Software use rights	—	—	—	—
Non-patented technology	—	—	—	—
Other	—	—	—	—
Net carrying value	271,002	—	—	265,494
Land use rights	255,658	—	—	252,448
Software use rights	2,095	—	—	1,738
Non-patented technology	11,298	—	—	9,602
Other	1,951	—	—	1,706

The amortization charge for the year is RMB5,521,000.

- (2) The Company has mortgaged two plots of land in Zhangdian District of Hutian Town, to the Construction Bank of China Zibo Branch for a loan of RMB27,373,000. The Property Right Certificates are Zi Guo Yong (2009) A15409 and Zi Guo Yong (2009) A15408. (See details in notes 6 (28) Long-term borrowing). The total area is 187,030m². The original book value of the land is RMB73,109,000 and the net value is RMB65,920,000.
- (3) 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.

14. Goodwill

Name of Investee	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year	Year end Provision for Impairment
Xinhua Pharmaceutical (Gaomi) Company Limited	2,716	—	—	2,716	2,716
Total	2,716	—	—	2,716	2,716

See notes 2.20, impairment for non-financial assets for approaches of goodwill impairment test and provision for impairment.

15. Deferred Tax Assets

(1) Recognized deferred tax assets

Items	Balance at the ending of the year	Balance at the beginning of the year
Provision for bad debts of subsidiaries	16,803	16,803
Provision for decline in value of inventories of subsidiaries	517	517
Provision for impairment of fixed assets of subsidiaries	61	61
Unpaid Salaries	305	305
Unrealized internal profits on sales and purchase with subsidiaries	2,799	1,019
Total	20,845	18,705

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

Item of deductible temporary difference	Balance at the ending of the year	Balance at the beginning of the year
Provision for bad debts of subsidiary	67,210	67,210
Provision for decline in value of inventories of subsidiaries	2,067	2,067
Provision for impairment of fixed assets of subsidiaries	246	246
Unpaid Salaries	1,222	1,222
Unrealized internal profits on sales and purchase with subsidiaries	16,732	5,133
Total	87,476	75,878

16. Statement of provision for impairment of Assets

Items	Balance at the beginning of the year	Addition	Reduced		Balance at the end of the year
			written back	written off	
Provision for bad debts	88,237	25	—	—	88,262
Provision for decline in value of inventories	10,309	—	—	—	10,309
Provision for impairment loss of fixed assets	388	—	—	—	388
Provision for impairment loss of available-for-sale financial assets	33,986	—	—	3,986	30,000
Provision for goodwill	—	2,716	—	—	2,716
Total	132,920	2,741	—	3,986	131,675

17. Short-term Loans

Types of loans	Balance at the end of the year	Balance at the beginning of the year
Credit loan	207,516	208,118
Guarantee loan	80,000	60,969
Pledge Loan	—	61,579
Total	287,516	330,666

The decrease of the balance of short-term loans this year was due to the Company mainly selecting more long-term loans in order to meet the needs of the Company's working capital.

18. Note Payable

Nature of note	Balance at the end of the year	Balance at the beginning of the year
Commercial acceptance	3,248	—
Bank acceptance	20,850	118,394
Total	24,098	118,394

The ending balance of note payable which will be matured on 31 December 2014 is RMB24,098,000.

19. Account Payable

(1) Account payable

	Balance at the end of the year	Balance at the beginning of the year
Accounts payable	370,676	240,466
Including: More than one year	11,491	8,239

Account payable aged over one year is 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% or more of the voting rights in the Company's capital.
- (3) The ending balance of account 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
EURO	2,200	8.3946	18,466	1,897	8.4189	15,970
USD	2,004	6.1528	12,327	642	6.0969	3,915

20. Advances from Customers

(1) Advances from Customers

	Balance at the end of the year	Balance at the beginning of the year
Advances from customers	19,515	22,882
Including: More than one Year	2,076	1,472

- (2) The ending balance of advances from customers does not include any amount due to the shareholders holding 5% or more of the voting rights in the Company's 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	256	6.1528	1,578	256	6.0969	1,563

21. 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)	—	132,688	132,688	—
Staff welfare	—	7,609	7,609	—
Social securities	—	30,008	30,008	—
Including: 1. Medical insurance	—	6,905	6,905	—
2. Unemployment insurance	—	20,462	20,462	—
3. Work injury insurance	—	988	988	—
4. Maternity insurance	—	959	959	—
5. Only child pension subsidy	—	694	694	—
Housing funds	385	15,503	15,353	536
Union running costs and employee education costs	8,669	2,189	2,254	8,604
Directors' and Supervisors' remuneration	4,982	2,000	4,596	2,385
Compensation to employee for termination of employment relationship	—	166	166	—
Other*	7,221	7,255	7,491	6,986
Total	<u>21,257</u>	<u>197,419</u>	<u>200,165</u>	<u>18,511</u>

* Others mainly consist of provision for staff bonus in accordance with the operating result and operating incomes.

22. Tax Payable

Categories of tax	Balance at the end of the year	Balance at the beginning of the year
Value added tax	7,369	(10,332)
Business tax	165	50
Income tax	6,379	1,057
Urban maintenance & construction tax	955	569
Corporation individual income tax	207	337
Property tax	2,329	2,034
Land use tax	2,025	2,026
Stamp tax	137	294
Educational surcharge	682	406
Embankment protection fee	136	82
Local water conservancy construction fund	(302)	—
Total	<u>20,082</u>	<u>(3,477)</u>

23. Interest payable

Items	Balance at the end of the year	Balance at the beginning of the year
Interest on long term loan repayable by instalments	<u>21,100</u>	<u>626</u>

24. Dividends Payable

Item	Balance at the end of the year	Balance at the beginning of the year
Dividends for State owned legal person share	3,322	—
Dividends for other domestic share	2,824	—
Others	8,311	5,311
Total	14,457	5,311

25. Other Payable

(1) Other payable

Item	Balance at the end of the year	Balance at the beginning of the year
Other payable	108,060	140,269
More than one year	23,516	17,394

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

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

Item	Amount	Ageing	Content
Jiangsu Saideli Pharmaceutical Machinery Manufacturing Co., Ltd.	4,948	One to two year	Construction cost
Deposit	3,727	Less than one year	Deposit
Zibo Shutai Trade Co., Ltd.	3,370	Less than one year	Construction cost
Shenzhen Keyuan Construction Co., Ltd.	2,900	Less than one year	Construction cost
Shandong Xizi Electrical Co., Ltd.	2,491	One to two year	Construction cost
Total	17,436		

- (4) The ending balance of other 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
EURO	—	—	—	13	8.4189	108
USD	22	6.1528	138	651	6.0969	3,967

26. Non-current liabilities payable within one year

(1) Non-current liabilities within one year

Items	Balance at the end of the year	Balance at the beginning of the year
Long-term loan payable within one year	—	145,000

(2) Classification of long-term loan payable within one year

Types of loan	Balance at the end of the year	Balance at the beginning of the year
Guarantee loan	—	80,000
Credit loans	—	65,000
Total	—	145,000

(3) Details of Long-term loan payable within one year

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 Qingdao Branch	2012-2-29	2014-2-28	RMB	4.76%	—	80,000
Agricultural Bank of China Zibo Branch	2011-4-21	2014-4-20	RMB	6.40%	—	20,000
Bank of China Zibo Branch	2011-3-30	2014-3-29	RMB	6.10%	—	45,000
Total					—	145,000

27. 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	4,462	4,462

Deferred income carried over in one year referred to 3000 ton Bunuofen project grants, 100 ton tribendimidine High-tech industrialization project, technology centre creativity construction project, Aspirin product GMP modification project, MVR power saving technological transformation project, Aspirin optimal variety cultivation project and Aspirin series product technological transformation project which will be carried over within one year.

28. Long-term borrowing

- (1) Classification of long-term borrowing

Types of loan	Balance at the end of the year	Balance at the beginning of the year
Guarantee loan	226,395	89,156
Credit loan	814,350	765,872
Mortgage loan	27,373	33,739
Total	1,068,118	888,767

- (2) The guarantee loan is guaranteed by Hualu Holdings Co., Ltd., the ultimate controlling company of the Company. See notes 7 (2) 5 Acceptance of Guarantee.
- (3) RMB700,000,000 credit loan is borrowed from the ultimate controlling company, Hualu Holdings Co., Ltd. Also, the Company needs to prepay the relevant handling charge of RMB4,650,000.
- (4) The mortgage loan is the loan granted by China Construction Bank Zibo Branch. The mortgage is the land use right. See notes 6 (13) Intangible Assets for details of the mortgage.
- (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
Hualu Holdings Group Co., Ltd.	2011-12-30	2016-12-30	RMB	5.83%	496,250	495,500
Hualu Holdings Group Co., Ltd.	2013-1-1	2015-12-31	RMB	5.85%	199,100	198,800
The Export- Import Bank of China Shandong Branch	2014-1-17	2015-7-17	RMB	4.20%	150,000	—
Bank of China Zibo Branch	2014-3-31	2017-3-31	RMB	6.15%	50,000	—
Bank of China Zibo Branch	2013-10-15	2016-10-15	RMB	6.15%	49,000	50,000
Construction Bank of China Zibo Branch	2011-3-4	2016-3-3	RMB	6.45%	27,373	33,739
Construction Bank of China Zibo Branch	2013-11-11	2017-4-29	RMB	6.40%	23,142	27,000
Key project construction loan	2009-6-30	2017-6-29	RMB	5.35%	20,000	20,000
Construction Bank of China Zibo Branch	2013-8-12	2017-4-29	RMB	6.40%	17,005	19,840
Construction Bank of China Zibo Branch	2013-9-9	2017-4-29	RMB	6.40%	9,822	11,460
Construction Bank of China Zibo Branch	2013-3-7	2017-4-29	RMB	6.40%	9,428	11,000
Construction Bank of China Zibo Branch	2013-1-14	2017-4-29	RMB	6.40%	9,142	10,571
Construction Bank of China Zibo Branch	2012-10-30	2017-4-29	RMB	6.40%	7,856	9,285
Nanyang Commercial Bank (China) Co., Ltd Qingdao Branch	2013-12-6	2015-1-6	USD	5.00%	—	1,572
Total					1,068,118	888,767

29. Special Payable

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year	Notes
Tribendimidine High-tech industrialization project*	—	13,000	—	13,000	—
Total	—	13,000	—	13,000	—

* Based on notice of "the issuance of special funds and the use of innovative technology allocation scheme", Hualukongfa (2014) No.21, issued by Hualu Holdings Group, the Company acquired funds of RMB13,000,000 for Tribendimidine High-tech industrialization project on March 2014.

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 of available-for-sale financial asset	28,200	5,127	33,085	6,012

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

Items	Temporary differences	Deferred income tax amount for the year
Deferred income tax asset		
Bad debts provision of the parent company	20,813	3,122
Provision for decline in value of inventories of the parent company	4,475	671
Provision for impairment loss of the parent company's available-for-sale financial asset	30,000	4,500
Loses on the parent company investment in associates	7,700	1,155
Unpaid wages and salaries of the parent company	10,981	1,647
Unpaid accrued expense	6,419	963
Subtotal	<u>80,388</u>	<u>12,058</u>
Deferred income tax liabilities		
The change in fair value of the parent company's available-for-sale financial asset	99,615	14,942
Asset appraisal appreciation	8,973	2,244
Subtotal	<u>108,588</u>	<u>17,185</u>
Net amount	<u><u>28,200</u></u>	<u><u>5,127</u></u>

31. Other non-current liabilities

(1) Details of other non-current liabilities

Items	Balance at the end of the year	Balance at the beginning of the year
Asset-related government subsidies	125,616	128,338
Authorized reserve fund	3,562	3,562
Total	<u><u>129,178</u></u>	<u><u>131,900</u></u>

(2) Government subsidies

Types of government subsidiaries	Balance at the beginning of the year	Amount of new subsidiaries this year	Income for the year	Other variation	Balance at the end of the year	Related to assets or related to income
Compensation for relocation	94,408	—	491	—	93,917	Related to assets
3000 tons Ibuprofen Project	2,803	—	295	590	2,508	Related to assets
Tribendimidine High-tech industrialization project	4,671	—	295	590	4,376	Related to assets
Technology centre creativity construction project	3,833	—	250	500	3,583	Related to assets
Aspirin product GMP modification project	9,635	—	609	1,217	9,026	Related to assets
MVP power saving technological transformation project	360	—	20	40	340	Related to assets
Aspirin optimal variety cultivation project	11,763	—	713	1,425	11,050	Related to assets
Aspirin series product technological transformation project	867	—	50	100	817	Related to assets
Total	128,339	—	2,723	4,462	125,616	—

Other variation refers to the expected amount of government subsidies to be brought forward as income from 1 July 2014 to 30 June 2015 which shall be reclassified to other current liabilities.

*1 Based on Shandong Province Zibo City Eastern Chemical Area Relocation Plan issued in September 2008, certain products of the Company were listed in this relocation plan. In this respect, Zibo Financial Bureau granted to the Company relocation compensation pursuant to Zi-Cai Qi(2009) No.29, Zi-Cai-Qi (2009) No.33 & Zi-Cai-Qi (2009) No.55. During 2013, the Company received compensation of RMB40,454,000 in total from Finance Bureau of Zibo City.

*2 Based on the document Lu-Cai-Jian-Zhi (2009) No.157 issued by Shandong Financial Bureau, the Company received RMB5,900,000 in 2009 for 3000 tons Ibuprofen project. The Company shall carry forward such amount into its profit/loss accounts within 10 years. The expected amount to be brought forward as income from 1 July 2014 to 30 June 2015 shall be reclassified to "other current liabilities", and the remaining amount of the government subsidies shall be shown under "other non-current liabilities".

*3 Based on the document Lu-Fa-Gai-Ton-Zi (2011) No.323 issued by Shandong Development and Innovation Committee, the Company received RMB5,900,000 in 2011 for tribendimidine high-tech industrialization project. The expected amount to be brought forward as income from 1 July 2014 to 30 June 2015 shall be reclassified to "other current liabilities", and the remaining amount of the government subsidies shall be shown under "other non-current liabilities".

*4 Based on the document Fa-Gai-Ban-Gao-Ji (2011) No.1247 issued by National Development and Innovation Committee, the Company received RMB5,000,000 in 2012 for technology centre creativity construction project. The expected amount to be brought forward as income from 1 July 2014 to 30 June 2015 shall be reclassified to "other current liabilities", and the remaining amount of the government subsidies shall be shown under "other non-current liabilities".

- *5 Based on the document Zi-Fa-Gai-Fa (2012) No.253 issued by Zibo Development and Innovation Committee and Zibo Economic Information Committee, the Company received RMB12,170,000 in 2012 for Aspirin product GMP modification project. The expected amount to be brought forward as income from 1 July 2014 to 30 June 2015 shall be reclassified to "other current liabilities", and the remaining amount of the government subsidies shall be shown under "other non-current liabilities".
- *6 Based on the document Zi-Zheng-Ban Zi No. (2012) 73 issued by Zibo People's Government Office, the Company received RMB400,000 in 2012 as MVR energy conservation technology modification special fund.
- *7 Based on the document Lu-Ke-Zhuan No. (2012) 187 issued by Shandong Science Department and Finance Department, the Company received RMB14,250,000 in 2013 for Aspirin famous large breed cultivation project. The expected amount to be brought forward as income from 1 July 2014 to 30 June 2015 shall be reclassified to "other current liabilities", and the remaining amount of the government subsidies shall be shown under "other non-current liabilities".
- *8. Based on the document Zi-Gao-Xin-Guan-Fa (2013) No.11 issued by Zibo High-tech District Management Committee, the Company received RMB1,000,000 for aspirin series product technological transformation project in 2013. The Company would refund within 10 years. The expected amount to be brought forward as income from 1 July 2014 to 30 June shall be reclassified to "other current liabilities", and the remained amount of government subsidies shall be shown under "other non-current liabilities".

32. Share Capital

Name of shareholders	Balance at the beginning of the year	Issue of new share	Change			Balance subtotal	Balance at the ending of the year	Proportion (%)	Holding proportion
			Bonus issue	Capitalisation of reserve	Transfer				
1. Conditional tradable shares									
State-owned shares	—	—	—	—	—	—	—	—	—
State-owned legal-person shares	—	—	—	—	—	—	—	—	—
Domestic shares	1	—	—	—	—	(1)	(1)	—	—
Including: Domestic legal-person held shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	1	—	—	—	—	(1)	(1)	—	—
Foreign-funded shares	—	—	—	—	—	—	—	—	—
Including: Foreign legal-person shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
Sub-total	1	—	—	—	—	(1)	(1)	—	—
2. Unconditional tradable shares									
Domestically listed RMB A shares	307,312	—	—	—	—	—	—	307,313	67.20
Domestically listed foreign invested shares	—	—	—	—	—	—	—	—	—
Overseas listed foreign invested H shares	150,000	—	—	—	—	—	—	150,000	32.80
Others	—	—	—	—	—	—	—	—	—
Subtotal	457,312	—	—	—	—	—	—	457,313	100.00
Total share	457,313	—	—	—	—	—	—	457,313	100.00

33. Capital reserve

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Revaluation of assets appreciation	60,910	—	—	60,910
Premium share	496,492	—	—	496,492
Receipt of donation	1,158	—	—	1,158
Other capital reserve	108,578	(3,371)	(506)	105,713
Total	667,138	(3,371)	(506)	664,273

An increase in capital reserve for this year is due to the change in fair value of available-for-sale financial assets.

34. Surplus Reserves

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Statutory surplus reserves	135,906	—	—	135,906
Discretionary surplus reserve	64,797	—	—	64,797
Total	200,703	—	—	200,703

35. Undistributed Profits

Item	Balance at the end of the year	Appropriation rate
Undistributed profit at the end of last year	435,356	—
Add: adjustment to the undistributed profit at beginning of the year	—	—
Undistributed profit at beginning of the year	435,356	—
Add: Net profit of the year	39,986	—
Less: Appropriation of statutory surplus reserve	—	10%
Appropriation of discretionary surplus reserve	—	—
Appropriation of common risk provision	—	—
Dividends payable on common stock	9,146	—
Dividends transferred to capital stock	—	—
Undistributed profit at the end of the year	466,196	—

On 30 May 2014, the 2013 profit distribution plan was endorsed at the Company's Annual General Meeting. 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 dividends to all shareholders, RMB0.02 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 Trade Co., Ltd.	35%	3,750	3,750
Eastwest United Group, INC	25%	3,162	3,421
Perrigo Asia Holding Company	49.9%	33,039	30,119
Total		39,951	37,290

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	1,720,949	1,600,002
Income from other operation	15,868	17,133
Sub-total of operation income	1,736,817	1,617,135
Cost for main operation	1,398,623	1,344,065
Cost for other operation	21,482	19,669
Sub-total of operation cost	1,420,105	1,363,734

(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	821,203	679,855	781,092	657,492
Including: Export sales	577,562	488,238	560,225	492,877
Preparations	353,593	219,912	303,471	180,951
Commerical circulations	386,011	365,480	411,502	392,093
Chemical and others	160,142	133,376	103,937	113,529
Total	1,720,949	1,398,623	1,600,002	1,344,065

(3) Operating Income from top five customers

Name of customers	Amount of this year	Proportion (%)
Mitsubishi Corporation	85,573	4.93
USA Perrigo International Co., Ltd.	75,923	4.37
Bayer Pharmaceutical Co., Ltd.	51,293	2.95
F. Hoffmann-La Roche AG	39,816	2.29
Shandong Kanghui Pharmaceucical Co., Ltd.	35,745	2.06
Total	288,350	16.60

38. Business Taxes and Surcharges

Item	Tax rate	Amount of this year	Amount of last year
Business tax	5%	198	573
Urban maintenance & construction tax	7%	4,709	5,278
Educational surcharges	5%	3,363	3,770
Local water conservancy construction funds	1%	667	745
Total		8,937	10,366

39. Selling Expense

Item	Amount of this year	Amount of last year
Salary	28,848	23,912
Sales and Promotion Expenses	8,725	9,058
Transport Expense	18,187	13,045
Travel Expense	6,550	6,221
Office Expense	1,096	1,250
Export Commission	1,126	1,652
Advertising Expense	60,646	41,690
Terminal Selling Expense	11,235	9,508
Other	4,823	3,628
Total	141,236	109,964

40. Management Expense

Item	Amount of this year	Amount of last year
Salary and Welfare	24,451	15,744
Five Social Insurances and one housing fund and fee	5,630	6,137
Other Welfare	7,025	5,487
Labor Protection Expense	578	594
Insurance Expense	1,050	2,180
Depreciation	7,229	9,242
Repair Expense	870	1,006
Intangible Assets Amortization	5,252	5,108
Low Cost Consumables Amortization	415	1,789
Inventory Loss and Damage	8	—
Entertainment Expense	1,973	2,336
Travel Expense	1,240	1,307
Office Expense	1,257	1,901
Tax	9,089	9,827
Litigation Expense	615	400
Employment of Intermediaries Expense	339	1,201
R & D Expense	23,822	13,904
Sewage Expense	315	1,840
Others	23,794	21,445
Total	114,952	101,448

41. Financial Expense

Item	Amount of this year	Amount of last year
Interest expense	33,823	36,988
Less: interest income	1,514	1,156
Add: exchange loss	(4,119)	8,472
Add: other	1,836	1,971
Total	30,026	46,275

42. 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	1,779	1,432
Investment income from holding Available for sale financial assets	—	175
Others	2,944	—
Total	4,723	1,607

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

Item	Amount of this year	Amount of last year	The reason for change
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	1,779	1,432	Net profit changes of the investee
Total	1,779	1,432	

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

43. 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
Proceed from disposal of non-current asset	252	111	252
Including: Proceeds from disposal of fixed asset	252	111	252
Government Subsidies	33,215	23,799	33,215
Other	449	869	449
Total	33,916	24,779	33,916

(2) Details of Government subsidies

Type of Subsidies	Amount of this year	Amount of last year	Approval document
Foreign trade funding	50	—	Zi-Cai-Qi (2013) No.101
Bulk drug of Aspirin technology modification project	442	—	Weikeyaozhuanxiangguanban (2011) No.93-203-001-01
Recycling economy and sewage funding	30,000	—	Zicaiqi (2014) No.24
Comprehensive management of the atmospheric pollution funding	—	—	Major national technology fudn
Major national technology project- Tribendimidine international cooperation project funding	—	962	Zigaoxinguanfa (2012) No.58
Major national technology project- Ibuprofen technology transformation project funding	—	965	Zigaoxinguanfa (2012) No.59
Provincial technology project- Benfluorex hydrochloride funding	—	50	Zigaoxinguanfa (2012) No.60
Technology innovation award	—	200	Zigaoxinguanfa (2012) No.61
Industry criterion premium	—	200	Zigaoxinguanfa (2012) No.62
Technology progress award	—	100	Zigaoxinguanfa (2012) No.62
Paracetamol technology modification project	—	268	Weikeyaozhuanxiangguanban (2011) No.93-201-101-04
Science and technology support fund	—	4,087	Finance Bureau of Zibo High-tech District
International market development support fund	—	3	Zicaiqizhi (2013) No.9
Sewage treatment support fund	—	15,140	Houqufa (2013) No.2
Subtotal	30,492	21,975	
Government Subsidies amortized this year			
3000 tons of Ibuprofen project transferred from deferred income	295	295	Lucaijianzhi (2009) No.157
Relocation compensation amortization	491	—	Zizhengbanzi (2009) No.10
Technology centre creativity construction project	250	250	Fagaibangaoji (2011) No.1247
Tribendimidine High-tech industrialization project	295	295	Zifagaifa (2011) No.94
Aspirin product GMP modification project	609	609	Zifagaifa (2012) No.253
Aspirin optimal variety cultivation project	713	375	Lukezhuan (2012) No.187
MVR technology transformation	20	—	Zizhengbanzi (2012) No.72
Aspirin Series product technology transformation	50	—	Zigaoxinguanfa (2013) No.11
Subtotal	2,723	1,824	
Total	33,215	23,799	

44. 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 asset	699	120	699
Including: loss on disposal of fixed asset	699	120	699
Overdue fines and penalties	—	—	—
Other	4,042	2,332	4,042
Total	4,741	2,452	4,741

45. Income Tax Expense

Item	Amount of this year	Amount of last year
Income tax expenses for current period	12,199	3,628
Deferred income tax expense	(2,158)	(458)
Total	10,041	3,170

46. 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	39,986	4,988
Non-recurring gains and losses attributable to the Company	2	26,917	21,433
The net profit after attributable shareholders of the Company, excluding non-recurring gains and losses	3=1-2	13,069	(16,445)
The total number of shares in the beginning of the year	4	457,313	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	$12=4+5+6\times7\div11-8\times9\div11-10$	457,313	457,313
Basic earnings per share (I)	$13=1\div12$	0.09	0.01
Basic earnings per share (II)	$14=3\div12$	0.03	(0.04)
Dilution potential ordinary shares interest recognized as an expense	15	—	—
Conversion expresses	16	—	—
Income tax rate	17	15%	15%
The increase in number of shares weighted average number of Warrants and options exercisable, convertible bonds, etc	18	—	—
Diluted earnings per share (I)	$19=[1+(15-16)\times(1-17)]\div(12+18)$	0.09	0.01
Diluted earnings per share (II)	$20=[3+(15-16)\times(1-17)]\div(12+18)$	0.03	(0.04)

47. Other comprehensive Income

Items	Amount of this year	Amount of last year
1. The profits generated by Available- for- sale financial assets	(3,371)	(40,001)
less: Income tax impact on Available- for- sale financial assets	(506)	(6,000)
Previously recognized in other comprehensive income transferred to net profit or loss	—	—
Subtotal	(2,865)	(34,001)
2. Conversion differences of financial statements denominated in foreign currencies	(99)	(421)
3. Others	—	—
Total	(2,964)	(34,422)

48. Cash Flow Statement

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

1) Other Cash Receipt Relating to Operating Activities

Item	Amount of this year	Amount of last year
Subsidies income	31,105	75,928
Interest income	418	1,156
Bank acceptance security deposit	76,901	8,500
Tribendimidine Hight-tech industrialization project fund	13,000	—
Other	13,460	11,654
Total	134,884	97,238

2) Other Cash Payments Relating to Operating Activities

Item	Amount of this year	Amount of last year
Office expense	2,353	1,901
Travel expense	7,790	5,528
Annual listing fee, audit fee and Board's fee	1,079	1,201
Sewage discharge fee	315	1,840
Advertising and marketing expense	62,931	61,908
Freight charge	15,187	13,045
Entertainment expense	1,973	2,336
Research and development expense	16,822	13,904
Guarantee fund	—	21,720
Other	3,371	8,950
Total	111,821	132,332

3) Other Cash Payments Relating to Financing Activities

Item	Amount of this year	Amount of last year
Financing charges	1,013	4,800

(2) Additional information for consolidated cash flow statement

Item	Amount of this year	Amount of last year
1. Reconciliation of net income to cash flows from operating activities		
Net profit	42,703	6,112
Add: Provisions for impairment loss of asset	2,716	—
Depreciation of fixed asset	81,905	84,819
Amortization of intangible asset	5,521	5,115
Losses on disposal of fixed asset, intangible asset and other long-term asset	699	120
Profit or loss from changes in fair value	—	—
Financial expense	33,823	36,988
Investment loss	(4,723)	(1,607)
Decrease in deferred tax assets	(1,780)	—
Increase in deferred tax liabilities	(884)	(6,458)
Decrease in inventories	106,057	(884)
Decrease in operating receivables	(177,756)	(133,856)
Increase in operating payables	31,430	15,030
Net cash flows from operating activities	119,711	5,378
2. Significant investing and financing activities not involving cash receipt or payment:		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired on Finance lease	—	—
3. Changes in cash and cash equivalents:		
Ending balance of cash	251,798	153,565
Less: beginning balance of cash	282,822	375,544
Add: ending balance of cash equivalents	—	—
Less: beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	(31,024)	(221,979)

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

Item	Amount of this year	Amount of last year
Cash	251,798	282,822
Including: Cash in hand	149	164
Bank deposit available for payments at any moment	251,649	282,657
Other funds available for payments at any moment	—	—
Cash equivalents	—	—
Ending balance of cash and equivalents	251,798	282,822
Including: Restricted cash and Cash equivalents of the Company or subsidiaries in the Group.	—	—

7. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Related Party Relationships

1. Parent company and the ultimate controlling entity

(1) Parent company and the ultimate controlling entity

Name of controlling shareholder	Relationships with the			Principal activities	Legal person	Code of Organization
	Company	Nature	Registered address			
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 Holdings 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 controlling shareholder	Balance at the beginning of the year	Additions	Reductions	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 controlling shareholder	Holding amounts		Holding proportion	
	Amount of the year	Amount of last year	This year	Last year
Shandong Xinhua Pharmaceutical Group Company Limited	166,116	166,116	36.32%	36.32%

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	He Tongqing	766662729
2. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	Limited company	Zibo Shandong	Sales of Pharmaceutical Chemical	Zhang Daiming	788496661
3. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	Limited company	Zibo Shandong	Engineering Design of Pharmaceutical Chemical	Du Deping	737227162
4. Zibo Xinhua Drugstore Chain Co., Ltd.	Limited company	Zibo Shandong	Sales of Pharmaceutical Chemical	He Tongqing	267196268
5. Shandong Xinhua Pharmaceutical (Europe) Ltd.	Limited company	Rotterdam Holland	Sales of Pharmaceutical Chemical	Zhang Daiming	—
6. Zibo Xinhua - West Pharmaceutical Co., Ltd.	Limited company	Zibo Shandong	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
11. Shandong Xinhua Pharmaceutical (USA) Company Limited	Limited company	South El Monte, USA	Sales of Pharmaceutical Chemical	Guo Qiang	—
12. Shandong Xinhua Electrical and Mechanical Engineering Company Limited	Limited company	Zibo Shandong	Electrical and mechanical engineering installation and commissioning etc	Du Deping	493747603

(2) Registered capital of the subsidiaries and their changes

Name of subsidiaries	Currency	Balance at the beginning of the year	Additions	Reductions	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 drugstore chain Co., Ltd.	RMB	2,000	—	—	2,000
5. Shandong Xinhua Pharmaceutical (Europe) Ltd.	Euro	769	—	—	769
6. Zibo Xinhua - West 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	19,000	—	—	19,000
11. Shandong Xinhua Pharmaceutical (USA) Co., Ltd	USD	1,500	—	—	1,500
12. Shandong Xinhua Electrical and Mechanical Engineering Co., Ltd	RMB	—	8,000	—	8,000

(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 Drugstore Chain Co., Ltd.	2,000	2,000	100.00	100.00
5. Shandong Xinhua Pharmaceutical (Europe) Ltd.*	500	500	65.00	65.00
6. Zibo Xinhua - West 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	19,000	100.00	100.00
11. Shandong Xinhua Pharmaceutical (USA) Company Limited**	1,500	1,500	100.00	100.00
12. Shandong Xinhua Electrical and Mechanical Engineering Co., Ltd.	8,000	—	100.00	—

* The currency for holding the shares is Euro,

** The currency for holding the shares is US dollar.

3. Associates

Name	Type of organization	Place of registration	Principal activities	Legal person	Registered capital	Proportion of shareholding (%)	Proportion of voting (%)	Code of organization
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
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 controlling company	Sale of raw material	—
Sale of raw material	—		
Shandong Hualu Hengsheng Chemical Company Limited	Subsidiary of ultimate controlling company	Purchase of materials	723286858
USA Perrigo International Company Limited	Subsidiary shareholder	Sale of bulk drug	—
USA East-west Pharmaceutical Company Limited	Subsidiary shareholder	Sale of bulk drug	—

(2) Related Party Transactions**1. Pricing Policy**

The price of product sales to related parties as well as the price of raw materials purchased 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 Wanbo Chemical & Industrial Company Limited	Chemical materials	17,722	2.50	16,216	3.9
Zibo DSM Pharmaceutical Company Limited	Pharmaceutical materials	7,022	0.99	6,917	1.66
Shandong Xincat Chemical & Industrial Company Limited	Drug	500	0.07	581	—
Shandong Hualu Hengsheng Chemical Company Limited	Chemical materials	17,754	2.50	—	—
Total		42,998	—	23,714	—

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	711	5.29	711	6
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of wastes (water, gas, solid)	1,943	54.11	533	7.7
Zibo DSM Pharmaceutical Company Limited	Sale of power	3,345	24.88	2,898	24.5
Shandong Zibo XinCat Pharmaceutical Company Limited	Sale of power	294	2.19	325	2.76
China Shandong Group Ltd.	Sale of bulk drug	—	—	35,920	4.6
USA Perrigo International Co., Ltd.	Sale of bulk drug	75,923	7.77	71,860	9.2
USA Xinhua-west Pharmaceutical Co., Ltd.	Sale of bulk drug	—	—	554	0.07
Total		82,216	—	112,801	—

4. Payment of loan interest and underwriting fee

Name of related party	Transaction contents	Amount of this year	Amount of last year
Hualu Holdings Co., Ltd.	loan interest	20,538	20,539
Hualu Holdings Co., Ltd.	underwriting fee	1,050	1,050

5. Acceptance of guarantee

The Company entered into a loan agreement with Qingdao Branch of Export-Import Bank of China with a loan amount of RMB80,000,000 for a period from 20 May 2014 to 20 May 2015. The loan was guaranteed by the ultimate controlling company, Hualu Holdings Co., Ltd.

The Company entered into a loan agreement with Qingdao Branch of Export-Import Bank of China with a loan amount of RMB150,000,000 for a period from 17 January 2014 to 17 July 2015. The loan was guaranteed by the ultimate controlling company, Hualu Holdings Co., Ltd.

The Company entered into a loan agreement with Construction Bank of China Zibo Branch with a loan amount of RMB76,396,000 for a period from 30 October 2012 to 29 April 2017. The loan was guaranteed by the ultimate controlling company, Hualu Holdings Co., Ltd.

6. Lease of Assets

6.1. 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	500	500

7. Other Transactions

7.1 Trademark Using Fee

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	5,000	5,000

Pursuant to the Trademark License Agreement signed by the parent company Shandong Xinhua Pharmaceutical Group Company Limited and the Company on 7 December 1996, the Company was granted the exclusive right to use the trademark Xinhua (Trademark) by the Shandong Xinhua Pharmaceutical Group Company Limited 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. The terms of the agreement will be effective during the period when the Trademark is valid and until the agreement is terminated.

The company and its parent company Shandong Xinhua Pharmaceutical Group Company Limited signed a supplemental trade mark permission agreement (Supplemental Agreement) on 23 March, 2012. The term of validity of the agreement is from 1 April, 2012 to 31 December, 2014. Based on the Supplemental Agreement the Company's annual trade mark fee changes to RMB10,000,000 for the use of the trademark 'Xinhua', and the other clauses remain unchanged.

8. Key Management Personnel Salaries

Item	Amount of this year	Amount of last year
Key Management Personnel Salaries*	1,135	1,119

* Key Management Personnel Salaries refer to wages of members of the board of directors, the supervisors and the senior officers of the Company.

(3) Current Account Balance with Related Party**1. Related party transactions balance of asset 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
Account receivable				
Shandong Xinhua Industry & Trade Company Limited	1,150	1,150	1,150	1,150
Shandong Zibo XinCat Pharmaceutical Company Limited	411	—	74	—
China Shandong Group Ltd.	—	—	6,443	—
USA Perrigo International Co., Ltd.	22,572	—	7,725	—
USA Xinhua - West Pharmaceutical Co., Ltd.	759	—	752	—
Total	24,892	1,150	16,144	1,150
Advances to Suppliers				
Shandong Xinhua Industry & Trade Company Limited	32	—	46	—
Shandong Hualu Hengsheng Chemical Company Limited	1,450	—	3,073	—
Total	1,482	—	3,119	—
Other Receivable				
Shandong Xinhua Industry & Trade Company Limited	8	—	8	—
Zibo DSM Pharmaceutical Company Limited	528	—	—	—
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324	11,324	11,324
Total	11,860	11,324	11,332	11,324

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
Account Payable		
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	3,658	4,533
Zibo DSM Pharmaceutical Company Limited	500	852
Shandong Zibo XinCat Pharmaceutical Company Limited	552	447
Total	<u>4,710</u>	<u>5,832</u>
Other payable	—	1,219
Long-term Loan		
Hualu Holdings Co., Ltd.	<u>695,350</u>	<u>694,300</u>

8. CONTINGENCIES

1. Contingent liabilities caused by pending litigation

On 1 January 2011, the Company's subsidiary Pharm. Trade signed "Mailuoning Injection Distribution Agreement" with Nanjing Huadong Pharmaceutical Company Limited (hereinafter referred to as Huadong Pharm.). On 26 October 2011 Pharm. Trade fulfilled their payment obligations by bank acceptances according to the contract commitment. Huadong Pharm. endorsed the bank acceptances received from Pharm. Trade to Nanjing Jinling Pharmaceutical Company Limited (hereinafter referred to as Nanjing Jinling Pharm.).

On 31 December 2011, the bank acceptances' previous endorser Jinan Jinbaisheng Steel Trade Co. Ltd. (hereinafter referred to as Baisheng Steel), reported the loss of the bank acceptances to Sichuan Panzhihua Eastern District People's court and applied the announcement. The bank acceptances had been noticed to be invalid by the court on 12 March 2012. Soon after, Baisheng Steel cashed the bank acceptances.

In July 2012, Huadong Pharm. sued Pharm. Trade with contract dispute to Nanjing Xuanwu District People's Court to request the payment RMB6,000,000 and relevant interest. Pharm. Trade's bank deposit was frozen RMB6,500,000 by the court in August 2012. On 31 December 2012, Nanjing Xuanwu District People's Court issued civil judgement Xuan-Shang-Chu-Zi No.(2012) 00948 requiring Pharm. Trade pay RMB6,000,000 and relevant interest to Huadong Pharm. On 15 November 2013, the court issued execution ruling Xuan-Zhi-Zi No.(2013) 01685 to transfer RMB6,600,000 from Pharm. Trade.

On 6 December 2013, Pharm Trade countersued Baisheng Steel, Huadong Pharm. and Nanjing Jinling Pharm. to Jinan Huaiyin District People's Court to pursue the compensation about RMB6,600,000 and relevant interest from Baisheng Steel, Huadong Pharm. and Nanjing Jinling Pharm. On 12 December 2013, RMB7,000,000 of Huadong Pharm.'s bank deposit was frozen.

After legal advisory, the Company believes the bank acceptances paid to Huadong Pharm. from Pharm. Trade were flawless legal bills. There was no failure to pay the price. Huadong Pharm. or Nanjing Jinling Pharm. did not assert claims to Sichuan Panzhihua East District People's Court during valid period after the announcement published. Also, they did not sue to the court before the judgement issued. Huadong Pharm. or Nanjing Jinling Pharm. slacked to execute their legitimate rights that caused those bank acceptances became invalid. Therefore, the fact of this bank acceptances dispute described above is distinct. Basically, the Company will carry the cause and recover sixty percentages of the payment. The Company counted fifty percentages of transferred RMB6,600,000 as provision for bad debt.

2. Apart from contingencies described above, the Company has no other important events to be disclosed at 30 June 2014.

9. COMMITMENT**1. Contracted for or Agreed-upon large-sum arrangement**

Items	Contract Amount	Amount Unpaid
Innovation Zone	74,086	12,330
Hutian park	37,208	4,302
DK Project	15,924	1,977
Others	355,478	71,372
Total	482,696	89,981

2. Other than as disclosed above, the Company has no other material commitment as at 30 June 2014.**10. POST BALANCE SHEET DATE EVENTS**

The Company has no other important post balance sheet date events to be disclosed at 30 June 2014.

11. OTHER IMPORTANT EVENTS

The Company has no other important events to be disclosed at 30 June 2014.

12. MAIN ITEMS' NOTES OF THE COMPANY'S FINANCIAL STATEMENTS**1. Account Receivable****(1) Classification of Account 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%
Account receivable of individual amount is significant, individually provision for bad debts								
Combination of aging								
Combination with the relationship between trading partners	270,824	53.89%	957	0.19%	167,253	46.40%	957	0.27%
Combination for special account	230,541	45.87%	—	—	192,095	53.28%	—	—
Subtotal	501,365	99.76%	957	0.19%	359,348	99.68%	957	0.27%
Account receivable of individual amount is not significant, but individually provision for bad debts	1,150	0.23%	1,150	100.00%	1,150	0.32%	1,150	100.00%
Total	502,515	—	2,107	—	360,498	—	2,107	—

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	270,497	99.88	835	166,926	99.80	835
1 to 2 years	198	0.07	40	198	0.12	40
2 to 3 years	115	0.04	69	115	0.07	69
More than 3 years	14	0.01	14	14	0.01	14
Total	270,824	100.00	957	167,253	100.00	957

2) Account receivable adopting other method for provision for bad debts

Clients	Book balance	Amount for bad debts	Ratio (%)	Reason
Combination with the relationship between trading partners	230,542	—	—	—

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

Clients	Book balance	Amount for bad debts	Ratio (%)	Reason
Shandong Xinhua Industrial & Trading Co., Ltd.	1,150	1,150	100.00	Consider repayment ability and full provision for bad debts

(2) There were no accounts receivables being written off in this year in accordance with the Company's policies.

(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 RMB283,946,000 accounting for 56.50% of the total balance of account receivable.

Name of equity	Relationship	Amount	Aging	proportion%
Shandong Xinhua Pharmaceutical Trade Company Limited	Wholly-owned subsidiary	167,889	Within one year	33.41
Shandong Xinhua Pharmaceutical (Europe) Company Limited	Subsidiary	36,190	Within one year	7.20
Mitsubishi Corporation	Non-related parties	34,389	Within one year	6.84
F.Hoffmann-La Roche AG	Non-related parties	33,127	Within one year	6.59
Bayer healthcare Co. Ltd.	Non-related parties	12,351	Within one year	2.46
Total		283,946		56.50

- (5) At the end of the year, the balance of account receivables due from the related parties of RMB231,691,000 accounting for 46.11% of the total balance of account receivable, details as follows:

Name of equity	Relationship	Amount	Proportion%
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	Other related parties	411	0.08%
USA Perrigo International Co., Ltd.	Other related parties	7,183	1.43%
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Wholly-owned subsidiary	167,889	33.41%
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Wholly-owned subsidiary	9,231	1.84%
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Subsidiary	36,190	7.20%
Zibo Xinhua-eastwest Pharmaceutical Co., Ltd.	Subsidiary	3	0.00%
Zibo Xinhua Drug Store Chain Co., Ltd.	Wholly-owned subsidiary	37	0.01%
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	Wholly-owned subsidiary	9,597	1.91%
Shandong Xinhua Industry & Trade Co., Ltd.	Other related parties	1,150	0.23%
Total		231,691	46.11

- (6) The ending balance of account 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	41,053	6.1528	252,590	24,828	6.0969	151,371
GBP	984	10.4978	10,331	488	10.05560	4,911

2. Other Receivable

(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
Account receivable of individual amount is significant, individually provision for bad debts	11,324	2.31%	11,324	100.00%	11,324	2.46%	11,324	100.00%
Combination of aging	24,537	5.01%	7,381	1.54%	10,977	2.38%	7,381	1.64%
Combination with the relationship between trading partners	443,015	90.47%	—	—	424,808	92.26%	—	—
Combination for special account	10,819	2.21%	—	—	13,332	2.90%	—	—
Subtotal	478,372	97.69%	7,381	1.54%	449,116	97.54%	7,381	1.64%
Total	489,695	—	18,705	—	460,440	—	18,705	—

- 1) Other receivable of significant amount, with bad debts individually provided for

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	16,883	68.81	17	3,413	31.10	17
1 to 2 years	100	0.41	29	147	1.34	29
2 to 3 years	83	0.34	122	204	1.86	122
More than 3 years	7,471	30.44	7,213	7,213	65.70	7,213
Total	24,537	100.00	7,381	10,977	100.00	7,381

- 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	443,015	—
Combination for special account	10,819	—
Total	453,834	—

- (2) At the ending 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 RMB449,437,000 accounting for 91.77% of the total balance of other receivable, details as follows:

Name of equity	Relationships	Amount	Aging	Proportion %	Nature or Content
Shandong Xinhua Pharmaceutical (Shouguang) Company Limited	related party	295,400	Within three years and more than three years	60.32	Current accounts
Shandong Xinhua Pharmaceutical Trade Company Limited	related party	77,589	Within three years; more than three years	15.84	Current accounts
Xinhua (Zibo) Properties Company Limited	related party	57,380	One to two years	11.72	Current accounts
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	11,324	More than three year	2.31	Current accounts
VAT	Non-related party	7,744	Within one year	1.58	According to the sales inside confirmation
Total		449,437		91.77	

- (4) At the end of the year, the balance of other receivable due from the related parties is RMB454,335,000 accounting for 92.77% of the total balance of other receivable, details as follows:

Name of Company	Relationships	Amount	Proportion %
Shandong Xinhua Pharmaceutical (Shouguang) Company Limited	Holding subsidiary	295,400	60.32
Shandong Xinhua Pharmaceutical Trade Company Limited	Holding subsidiary	77,589	15.84
Xinhua (Zibo) Property Development Co., Ltd	Holding subsidiary	57,380	11.72
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	11,324	2.31
ZiBo Xinhua Drugstore Chain Company Limited	Holding subsidiary	7,001	1.43
Shandong Xinhua Pharmaceutical (Gaomi) Company Limited	Holding subsidiary	5,641	1.15
Total		454,335	92.77

3. Long-term equity investment

(1) Long-term equity investment

Item	Balance at the end of the year	Balance at the beginning of year
Using cost method	400,846	392,845
Using equity method	26,688	24,910
Total long-term equity investment	427,534	417,755
Less: provision for impairment loss of Long-term equity investment	—	—
Net amount of Long-term equity investment	427,534	417,755

(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	Reductions	Balance at the end of the year	Cash Dividends received in the year
Using cost method								
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 Drugstore Chain Co., Ltd.	100%	100%	2,159	2,159	—	—	2,159	—
4. Shandong Xinhua Pharmaceutical (Europe) Ltd.	65%	65%	4,597	4,597	—	—	4,597	—
5. Zibo Xinhua - West 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	—
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) Properties Development Co., Ltd	100%	100%	20,000	20,000	—	—	20,000	—
10. Xinhua Pharmaceutical (Gaomi) Co., Ltd.	100%	100%	35,000	35,000	—	—	35,000	—
11. Shandong Xinhua Pharmaceutical (USA) Company Limited	100%	100%	9,371	9,371	—	—	9,371	—
12. Shandong Xinhua Electrical and Mechanical Engineering Company Limited	100%	100%	8,000	—	8,000	—	8,000	—
Subtotal			400,846	392,846	8,000	—	400,846	—
Using equity method								
1. Shandong Zibo XinCat Pharmaceutical Company Limited	20%	20%	10,414	24,909	1,779	—	26,688	—
Subtotal			10,414	24,909	1,779	—	26,688	—
Total			411,260	417,756	9,779	—	427,534	—

(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
Joint Ventures							
Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	194,026	72,136	121,890	124,512	9,212

(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	976,525	929,388
Income for other operation	21,309	21,809
Total	997,834	951,197
Cost for main operation	825,797	787,903
Cost for other operation	23,643	24,880
Total	849,440	812,783

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

Types	Amount of this year		Amount of last year	
	income	cost	income	cost
Bulk Pharmaceutical	751,795	622,049	729,106	619,253
Including: Export sale Preparation	508,154	429,149	508,239	444,813
Chemical and other	224,705	203,723	200,130	168,498
	25	25	152	152
Total	976,525	825,797	929,388	787,903

(3) Operating Income from top five customers

Name of customers	Amount of this year	Proportion (%)
Shandong Xinhua Pharmaceutical Trade Co., Ltd	149,271	15.29
Mitsubishi Corporation	84,612	8.66
Bayer healthcare Co. Ltd.	51,268	5.25
Shandong Xinhua Pharmaceutical (Europe) Company Limited	40,041	4.10
F.Hoffmann-La Roche AG	39,421	4.04
Total	364,613	37.34

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	1,779	1,432
Investment income from Available-for-sale financial assets during the period of ownership	—	175
Other	2,944	—
Total	4,723	1,607

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

Item	Amount of this year	Amount of last year	The reason for change
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	1,779	1,432	Net profit changes in the investee
	1,779	1,432	

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

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

Item	Amount of this year	Amount of last year
1. Reconciliation of net income to cash flows from operating activities		
Net profit	34,884	1,716
Add: Provisions for impairment loss of asset	—	—
Depreciation of fixed asset	54,503	59,137
Amortization of intangible asset	2,503	2,632
Losses on disposal of fixed asset, intangible asset and other long-term asset	699	120
Profit or loss from changes in fair value	—	—
Financial expense	33,823	33,361
Investment loss	(4,723)	(1,607)
Decrease in deferred tax asset	—	—
Increase in deferred tax liabilities	(506)	(6,000)
Decrease in inventories	45,399	58,587
Decrease in operating receivable	(124,285)	(127,326)
Increase in operating payable	72,521	(61,075)
Net cash flows from operating activities	114,818	(40,455)
2. Significant investing and financing activities not involving cash receipt or payment:		
Conversion of debts to capital	—	—
Convertible bond due within one year	—	—
Fixed assets acquired on finance lease	—	—
3. Changes in cash and cash equivalents:		
Ending balance of cash	171,142	65,465
Less: beginning balance of cash	209,696	253,745
Add: ending balance of cash equivalents	—	—
Less: beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	(38,554)	(188,280)

13. 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. 2014 non-operating gains and losses are as follows:

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	(447)	(120)	Loss of disposal of fixed assets and intangible 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	33,215	23,799	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	2,280	175	Disposal and dividends of available-for-sale
4. In addition to the above, the non-operating income and expenditure;	(3,593)	(1,352)	
Total	<u>31,455</u>	<u>22,502</u>	
Less: Income tax effect	<u>4,536</u>	<u>1,082</u>	
Total non-recurring net gain or loss	<u>26,919</u>	<u>21,420</u>	
Including: attributable to shareholders of the Company	26,918	21,433	

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 of this year	Amount of last year
According to foreign accounting standards	39,986	4,988	1,787,462	1,759,530
Adjustments				
1. Education provision	(147)	(562)	6,662	6,809
2. Impact on deferred income tax	22	84	(1,001)	(1,022)
3. Dividend payable	—	—	9,146	—
Subtotal of adjustment	(125)	(478)	14,807	5,787
Amount according to 'Accounting Standard for Enterprises' attributable to the Company	39,861	4,510	1,802,269	1,765,317

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 2014, 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	2.25%	0.09	0.09
Net profit after deducting non-recurring gains and losses , attributable to shareholders of the Company	0.74%	0.03	0.03

14. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statement has been approved to report by the Board of Directors on 31 July 2014.

Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

Condensed consolidated statement of profit of loss

		Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
		(unaudited)	(audited)
	<i>Notes</i>		
Revenue	3	1,712,012	1,600,002
Cost of sales		(1,398,623)	(1,354,431)
Gross profit		313,389	245,571
Investment income		4,458	1,331
Other income		37,526	41,801
Other expenses		(7,356)	(27,468)
Distribution and selling expenses		(141,236)	(109,964)
Administrative expenses		(122,140)	(106,996)
Finance costs		(33,823)	(36,988)
Share of profit of an associate		1,779	1,432
Profit before tax	4	52,597	8,719
Income tax expense	5	(10,019)	(3,086)
Profit for the period		42,578	5,633
Profit for the period attributable to:			
Owners of the Company		39,861	4,510
Non-controlling interests		2,717	1,123
		42,578	5,633
Earnings per share - basic and diluted	6	RMB0.087	RMB0.010

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period	42,578	5,633
Other comprehensive (expense) income:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation	(99)	(421)
Fair value loss on available-for-sale investments	(3,372)	(40,001)
Income tax relating to components of other comprehensive income	506	6,000
Other comprehensive expense for the period, net of tax	(2,965)	(34,422)
Total comprehensive income (expense) for the period	39,613	(28,789)
Total comprehensive income (expense) attributable to:		
Owners of the Company	36,952	(29,801)
Non-controlling interests	2,661	1,012
	39,613	(28,789)

Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

Condensed consolidated statement of financial position

	Notes	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Non-current assets			
Intangible assets	8	11,539	13,248
Property, plant and equipment	8	1,748,849	1,409,625
Construction in progress	8	290,488	540,030
Prepaid lease payments on land use rights	8	246,027	249,532
Investment properties	8	61,436	63,926
Interest in an associate		26,689	24,910
Available-for-sale investments		124,040	127,412
Deferred tax assets		20,485	18,705
Goodwill		—	2,716
Prepayments for acquisition of land use rights		21,065	15,400
		2,550,618	2,465,504
Current assets			
Inventories		351,610	457,676
Properties under development		74,326	74,316
Trade and other receivables	9	686,709	460,425
Prepaid lease payments on land use rights	8	6,421	6,363
Amounts due from fellow subsidiaries		3,792	9,717
Tax recoverable		3,464	3,817
Restricted bank balances		2,000	97,901
Bank balances and cash		251,798	282,822
		1,380,120	1,393,037
Current liabilities			
Trade and other payables	10	568,082	540,533
Dividend payables		5,311	5,311
Amounts due to fellow subsidiaries		3,731	4,607
Amount due to an associate		140	25
Tax payable		6,414	1,190
Borrowings		287,516	475,666
		871,194	1,027,332
Net current assets		508,926	365,705
Total assets less current liabilities		3,059,544	2,831,209

	<i>Notes</i>	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Capital and reserves			
Share capital	11	457,313	457,313
Reserves		1,335,810	1,298,858
Proposed final dividend		9,146	9,146
		1,802,269	1,765,317
Equity attributable to owners of the Company		39,951	37,290
Non-controlling interests			
Total equity		1,842,220	1,802,607
Non-current liabilities			
Deferred tax liabilities		6,128	7,034
Loan from ultimate holding company		695,350	694,300
Borrowings		372,768	194,467
Deferred income		143,078	132,801
		1,217,324	1,028,602
		3,059,544	2,831,209

Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

Condensed consolidated statement of changes in equity

	Attributable to owners of the Company											
	Share capital	Share premium	Capital reserve	Reserve funds	Available-for-sale investment reserve	Other reserve	Exchange reserve	Retained earnings	Dividend reserve	Total	Non-controlling interests	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
At 1 January 2014 (audited)	457,313	466,618	93,642	200,821	87,539	481	(981)	450,738	9,146	1,765,317	37,290	1,802,607
Profit for the period	—	—	—	—	—	—	—	39,861	—	39,861	2,717	42,578
Other comprehensive expense	—	—	—	—	(2,866)	—	(43)	—	—	(2,909)	(56)	(2,965)
Total comprehensive (expenses) income for the period	—	—	—	—	(2,866)	—	(43)	39,861	—	36,952	2,661	39,613
At 30 June 2014 (unaudited)	457,313	466,618	93,642	200,821	84,673	481	(1,024)	490,599	9,146	1,802,269	39,951	1,842,220
At 1 January 2013 (audited)	457,313	466,618	78,642	196,877	112,096	481	(608)	428,098	4,573	1,744,090	39,701	1,783,791
Profit for the period	—	—	—	—	—	—	—	4,510	—	4,510	1,123	5,633
Other comprehensive expense	—	—	—	—	(34,001)	—	(310)	—	—	(34,311)	(111)	(34,422)
Total comprehensive (expenses) income for the period	—	—	—	—	(34,001)	—	(310)	4,510	—	(29,801)	1,012	(28,789)
Dividends recognised as distribution (note 7)	—	—	—	—	—	—	—	—	(4,573)	(4,573)	—	(4,573)
At 30 June 2013 (unaudited)	457,313	466,618	78,642	196,877	78,095	481	(918)	432,608	—	1,709,716	40,713	1,750,429

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 <i>RMB'000</i> (unaudited)
Cash generated from operations	51,165	7,962
Income tax paid	(7,128)	(4,180)
Net cash from operating activities	44,037	3,782
Net cash used in investing activities	(75,931)	(197,960)
Net cash from (used in) financing activities	870	(27,801)
Net decrease in cash and cash equivalents	(31,024)	(221,979)
Cash and cash equivalents at 1 January	282,822	375,544
Cash and cash equivalents at 30 June, represented by bank balances and cash	251,798	153,565

1. BASIS OF PREPARATION

Shandong Xinhua Pharmaceutical Company Limited (the “Company”) is a joint stock limited company established in the People’s Republic of China (the “PRC”) with limited liability. The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in December 1996 and its A shares were listed on Shenzhen Stock Exchange in July 1997.

The directors of the Company regard Hualu Holdings Company Limited, a state-owned limited liability company established in the PRC, as the ultimate holding company and Shandong Xinhua Pharmaceutical Group Company Limited (“SXPGC”), a wholly state-owned limited liability company established in the PRC, as the immediate holding company.

The addresses of the registered office and principal place of business of the Company are disclosed in the “Company Information” section to the interim report.

The unaudited condensed interim financial information are presented in Renminbi (“RMB”), which is also the functional currency of the Company and its principal subsidiaries.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the development, production and sales of bulk pharmaceuticals, preparations, chemical and other products, and commerce circulations.

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 2013.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Except as described below, the accounting policies and methods of calculation used in the condensed consolidated interim financial information for the six months ended 30 June 2014 are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

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 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

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 2010-2012 Cycle ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ¹
HKFRS 9	Financial Instruments ²
HKFRS 14	Regulatory Deferral Accounts ³
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
Amendments to HKFRS 11	Accounting for Acquisition of interests in joint Operations ³
HKFRS 15	Revenue from Contracts with Customers ⁴
Amendments to HKAS 19	Defined Benefit Plans - Employee Contributions ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptance Methods of Depreciation and Amortisation ³

¹ Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

² HKFRS 9, as amended in December 2013, amended the mandatory effective date of HKFRS 9. The mandatory effective date is not specified in HKFRS 9 but will be determined when the outstanding phases are finalised. However, application of HKFRS 9 is permitted.

³ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

⁴ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HAKS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2011-2013 Cycle will have a material effect on the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will not have significant impact on amounts currently reported in respect of the Group's financial assets and financial liabilities.

Other than disclosed above, the directors of the Company anticipated that the application of other new and revised standards, amendments or interpretation would have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

(a) Description of segments

The Group's operating segments, based on information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods supplied. The principal types of goods supplied are bulk pharmaceuticals, preparations, chemical and other products and commerce circulations. The Group's reportable segments under HKFRS 8 are as follows:

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

Information regarding the above segments is reported below.

(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 2014 (Unaudited)

	Bulk pharmaceuticals RMB'000	Preparations RMB'000	Commerce circulations RMB'000	Chemical and other products RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	817,707	349,819	385,907	158,579	—	1,712,012
Inter-segment sales	306	149,448	62,328	171,539	(383,621)	—
Total	<u>818,013</u>	<u>499,267</u>	<u>448,235</u>	<u>330,118</u>	<u>(383,621)</u>	<u>1,712,012</u>
Segment profit	<u>35,627</u>	<u>5,945</u>	<u>2,323</u>	<u>13,306</u>		<u>57,201</u>
Unallocated income						34,796
Unallocated expenses						(7,356)
Finance costs						(33,823)
Share of profits of an associate						1,779
Profit before tax						<u>52,597</u>

For the six months ended 30 June 2013 (Unaudited)

	Bulk pharmaceuticals RMB'000	Preparations RMB'000	Commerce circulations RMB'000	Chemical and other products RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	781,091	303,471	411,502	103,938	—	1,600,002
Inter-segment sales	6,006	151,648	9,642	142,785	(310,081)	—
Total	<u>787,097</u>	<u>455,119</u>	<u>421,144</u>	<u>246,723</u>	<u>(310,081)</u>	<u>1,600,002</u>
Segment profit (loss)	<u>43,510</u>	<u>17,669</u>	<u>3,222</u>	<u>(9,500)</u>		<u>54,901</u>
Unallocated income						19,333
Unallocated expenses						(29,959)
Finance costs						(36,988)
Share of profits of an associate						1,432
Profit before tax						<u>8,719</u>

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 (excluding government grants), other expenses, depreciation for investment properties, 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 2014 (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>	Total <i>RMB'000</i>
Segment assets	2,073,059	394,508	242,794	730,400	3,440,761
Unallocated corporate assets					489,977
Consolidated assets					3,930,738

At 31 December 2013 (Audited)

	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>	Total <i>RMB'000</i>
Segment assets	1,689,688	594,002	189,506	765,852	3,239,048
Unallocated corporate assets					619,493
Consolidated assets					3,858,541

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, restricted bank balances and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of revenues earned by individual reportable segments.

4. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014 <i>RMB'000</i> (unaudited)	2013 <i>RMB'000</i> (unaudited)
Depreciation for property, plant and equipment	82,275	80,870
Depreciation for investment properties	2,490	2,490
Amortisation of prepaid lease payments on land use rights	3,447	3,359
Amortisation of intangible assets	1,709	1,440
Total depreciation and amortisation	89,921	88,159
Cost of inventories recognised as an expense	1,398,623	1,354,431
Dividends and interest income	(6,237)	(2,763)
Loss on disposal of property, plant and equipment	447	120
Impairment losses recognised in respect of trade and other receivables	27	—
Impairment losses reversed	(5)	—
Impairment recognised in respect of goodwill	2,716	—

5. INCOME TAX EXPENSE

The major components of income tax expense in the condensed consolidated statement of profit or loss are:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current income tax – PRC Enterprise Income Tax (“EIT”)	12,705	3,628
Deferred income tax	(2,686)	(542)
Income tax expense	10,019	3,086

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 and is entitled to the preferential tax rate of 15% during the period.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the period attributable to the owners of the Company of RMB39,861,000 (2013: RMB4,510,000) and based on the weighted average of 457,312,830 shares (2013: 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 2014 and 2013 are the same as there were no dilutive events existed during both periods.

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 2014 (2013: nil).
- (b) Dividends attributable to the previous financial year, approved during the interim period.

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Final dividend in respect of the financial year ended 31 December 2013, approved during the following interim period, of RMB 0.02 per share (year ended 31 December 2012: RMB0.01 per share)	9,146	4,573

8. CAPITAL EXPENDITURES

	Intangible assets RMB'000	Property, plant and equipment RMB'000	Construction in progress RMB'000	Prepaid lease payments on land use rights RMB'000	Investment properties RMB'000	Total RMB'000
Net carrying values at 1 January 2014	13,248	1,409,625	540,030	255,895	63,926	2,282,724
Additions	—	24,794	149,391	—	—	174,185
Disposals	—	(2,228)	—	—	—	(2,228)
Transfers	—	398,933	(398,933)	—	—	—
Depreciation and amortisation	(1,709)	(82,275)	—	(3,447)	(2,490)	(89,921)
Net carrying values at 30 June 2014 (unaudited)	<u>11,539</u>	<u>1,748,849</u>	<u>290,488</u>	<u>252,448</u>	<u>61,436</u>	<u>2,364,760</u>
Representing:						
Non-current portion	<u>11,539</u>	<u>1,748,849</u>	<u>290,488</u>	<u>246,027</u>	<u>61,436</u>	<u>2,358,339</u>
Current portion	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,421</u>	<u>—</u>	<u>6,421</u>
Net carrying values at 1 January 2013	14,686	1,426,187	273,977	241,498	68,906	2,025,254
Additions	2,439	66,906	362,903	28,499	—	460,747
Disposals	—	(9,475)	—	(7,689)	—	(17,164)
Transfers	—	96,850	(96,850)	—	—	—
Depreciation and amortisation	(3,877)	(170,553)	—	(6,413)	(4,980)	(185,823)
Impairment loss recognised	—	(290)	—	—	—	(290)
Net carrying values at 31 December 2013 (audited)	<u>13,248</u>	<u>1,409,625</u>	<u>540,030</u>	<u>255,895</u>	<u>63,926</u>	<u>2,282,724</u>
Representing:						
Non-current portion	<u>13,248</u>	<u>1,409,625</u>	<u>540,030</u>	<u>249,532</u>	<u>63,926</u>	<u>2,276,361</u>
Current portion	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,363</u>	<u>—</u>	<u>6,363</u>

9. TRADE AND OTHER RECEIVABLES

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Trade and bills receivables	657,115	448,272
Less : Allowance for doubtful debts of trade receivables	(61,654)	(61,649)
	595,461	386,623
Other receivables, deposits and prepayments	90,010	69,587
VAT recoverable	7,369	10,329
Consideration receivable on disposal of land	8,000	8,000
Less : Allowance for doubtful debts of other receivables	(14,131)	(14,114)
	91,248	73,802
Total trade and other receivables	686,709	460,425

The Group's revenue from export sales is on letter of credit. The credit period is agreed upon and stipulated 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 90 days for local hospital customers.

The following is an aged analysis of the trade and bills receivables net of allowance for doubtful debts presented based on the invoice date, which approximated to the revenue recognition dates, at the end of the reporting period.

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Within one year	592,945	384,847
More than one year but within two years	1,982	952
More than two years but within three years	534	824
	595,461	386,623

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.

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Within one year	354,475	344,789
More than one year but less than two years	7,926	3,396
More than two years but less than three years	1,318	2,098
Over three years	2,246	2,745
	365,965	353,028
Other payables and accrued charges	202,117	187,505
	568,082	540,533

11. SHARE CAPITAL

	30 June 2014		31 December 2013	
	Number of shares '000 (unaudited)	RMB'000 (unaudited)	Number of shares '000 (audited)	RMB'000 (audited)
Issued and fully paid:				
State-owned shares of RMB 1 each				
At the beginning and the end of the period / year	166,116	166,116	166,116	166,116
Restricted senior management shares of RMB 1 each				
At the beginning of the period / year	1	1	1	1
Transfer to ordinary shares	(1)	(1)	—	—
At the end of period / year	—	—	1	1
RMB ordinary shares (A Shares) of RMB 1 each				
At the beginning of the period / year	141,196	141,196	141,196	141,196
Transfer from restricted senior management shares	1	1	—	—
At the end of period / year	141,197	141,197	141,196	141,196
Overseas listed foreign invested shares (H Shares) of RMB 1 each				
At the beginning and the end of the period / year	150,000	150,000	150,000	150,000
	457,313	457,313	457,313	457,313

12. COMMITMENTS

Capital commitments

At 30 June 2014, the Group had the following capital commitments principally related to construction in progress, purchase of land use rights 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:

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Contracted but not provided for	89,981	194,920
Authorised but not contracted for	85,000	85,000
	174,981	279,920

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:

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Within one year	690	795
In the second to fifth year inclusive	405	750
	1,095	1,545

The Group as lessor

The Group leases certain of its properties under operating lease arrangements. The properties are expected to generate rental yields of 3.6% (2013: 3.8%) 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:

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Within one year	2,210	2,425
In the second to fifth year inclusive	3,967	5,377
After five years	200	600
	6,377	8,402

13. 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 2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Immediate holding company		
— Payment of annual trademark license fee (Note i)	5,000	5,000
— Rental expense	500	500
Ultimate holding company		
— Interest expenses of loan from ultimate holding company	20,538	20,539
— Share of underwriting expenses of loan from ultimate holding company	1,050	1,050
Fellow subsidiaries		
— Sale of water, electricity, steam and waste materials	4,056	4,142
— Sale of bulk pharmaceuticals and chemical raw materials	1,943	35,920
— Purchase of raw materials	42,499	23,133
Associate		
— Sale of water, electricity and steam	294	325
— Purchase of raw materials	500	581
Non-controlling interest shareholders		
— Sale of bulk pharmaceuticals and chemical raw materials	75,923	72,414

Note:

- i. On 7 December 1996, 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 28 February 2013, subject to further renewal of the registration of the Trademark.

On 23 March 2012, the Group was entered into the supplemental trademark licence agreement with SXPGC, the annual licence fee to use the Trademark is RMB10,000,000 for the period between 1 April 2012 to 31 December 2014. Other terms of the trademark licence agreement remain unchanged.

- ii. The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the period ended 30 June 2014, the Group had transactions with State-owned Enterprises including, but not limited to, sales of pharmaceutical products and purchases of raw materials. The directors of the Company consider that transactions with other State-owned Enterprises are activities in the ordinary course of business, and that dealings of the Group have not been significantly controlled or owned by the PRC government. The Group has also established pricing policies for products and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.
- (b) As at 30 June 2014, Hualu Holdings Company Limited provide guarantee to secure banking facilities granted to the Group amounted to RMB169,157,000 (2013: RMB169,157,000).
- (c) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Short-term benefits	498	657
Post-employment benefits	84	80
	582	737

(1) DOCUMENTS FOR INSPECTION

- (1) The original copy of the Company's 2014 Interim Report signed by the Chairman of the Board.
- (2) Financial statements for the six months ended 30 June 2014 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;

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. Liu Hongwei;
Mr. Chan Chung Kik, Lewis.

Shandong Xinhua Pharmaceutical Company Limited

31 July 2014