



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 )



2015  
INTERIM REPORT

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**Important:**

The board of directors (“Board”) and the directors (“Directors”) of Shandong Xinhua Pharmaceutical Company Limited hereby confirm that there are no false representations, misleading statements or material omissions contained in this interim report (“Report”) and they, jointly and severally, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this Report. The financial report of the Company and its subsidiaries (collectively referred to as “Group”) for the six months ended 30 June 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. He Xiaohong) 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
Legal Representative	:	Mr. Zhang Daiming
Company Secretaries	:	Mr. Cao Changqiu
Telephone Number	:	86-533-2196024
Facsimile Number	:	86-533-2287508
E-mail Address of Company Secretaries	:	cqcao@xhzy.com
Registered Address	:	Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, the People's Republic of China (the "PRC")
Office Address	:	No. 1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province, the PRC
Postal Code	:	255086
Website of the Company	:	<a href="http://www.xhzy.com">http://www.xhzy.com</a>
E-mail Address of the Company	:	xhzy@xhzy.com
PRC newspaper for information disclosure	:	Securities Times
Website designated by the China Securities Regulatory Commission (the "CSRC")	:	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Listing Information		
H Shares		
Stock Exchange	:	The Stock Exchange of Hong Kong Limited (the "SEHK")
Abbreviated Name	:	Shandong Xinhua
Stock Code	:	0719
A Shares		
Stock Exchange	:	Shenzhen Stock Exchange
Abbreviated Name	:	Xinhua Pharm
Stock Code	:	000756

## Summary of Financial Results

### (I) IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS

Unit: RMB Yuan

Item	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)		Change as compared to the Same Period Last Year After adjustment
		Before adjustment	After adjustment	
Operating revenue	<b>1,948,408,051.58</b>	1,736,816,836.23	1,860,412,320.64	4.73%
Total profits	<b>44,479,116.56</b>	52,744,363.41	61,847,039.97	(28.08%)
Income tax expense	<b>13,383,052.06</b>	10,040,955.62	11,666,662.62	14.71%
Net profits	<b>31,096,064.50</b>	42,703,407.79	50,180,377.35	(38.03%)
Minority interest income	<b>5,236,486.95</b>	2,716,937.73	10,086,809.40	(48.09%)
Profit attributable to the equity holders of Company	<b>25,859,577.55</b>	39,986,470.06	40,093,567.95	(35.50%)
Net cash flow from operating activities	<b>73,271,923.37</b>	119,711,584.97	135,417,879.83	(45.89%)
Basic earnings per share	<b>0.06</b>	0.09	0.09	(33.33%)
Diluted earnings per share	<b>0.06</b>	0.09	0.09	(33.33%)

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (the "End of Last Year") (Audited)		Change as compared to the End of Last Year
		Before adjustment	After adjustment	
Total assets	<b>4,489,165,716.19</b>	4,245,149,713.77	4,245,149,713.77	5.75%
Total liabilities	<b>2,548,535,162.10</b>	2,333,280,726.09	2,333,280,726.09	9.23%
Minority shareholders' equities	<b>101,960,898.21</b>	91,178,815.24	91,178,815.24	11.83%
Total of equity assigned to the shareholders of parent company	<b>1,838,669,655.88</b>	1,820,690,172.44	1,820,690,172.44	0.99%

#### Extraordinary item include (RMB)

Extraordinary item	Amount	Note (if applicable)
Profit or loss from disposal of non-current assets	(1,351,718.03)	Loss of disposal of fixed assets
Government subsidies recognised in current profit and loss, (excluding those closely related to the Company's normal operation and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume)	6,882,271.73	Received government subsidies reckoned into current term
Gains (losses) from fair value changes of trading financial assets and trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's normal operations	2,611,873.60	Dividends from available-for-sale financial assets
Reversal for impairment provision of receivables subject to separate impairment test	3,944,227.27	Bad Debt of accounts receivable for reversal independently drawing impairment of subsidiary
Other non-operating income or cost except the above items	(1,307,826.45)	
Non-controlling interests	(311,637.82)	
Income taxes expense	682,758.36	
Total	<u>10,407,707.58</u>	

## Summary of Financial Results

### Items by fair value

Unit: RMB

Items	Amount as at 1 January 2015	Change of fair value	Total change of fair value	Provision impairment	Amount as at 30 June 2015
Financial assets:					
Include: 1. Financial assets by fair value and its change is included into profit and loss	-	-	-	-	-
Include: Derivative	-	-	-	-	-
2. Available-for-sale financial assets	217,390,560.00	-	1,235,648.00	-	218,626,208.00
Total of financial assets	217,390,560.00	-	1,235,648.00	-	218,626,208.00
Financial liabilities:					
Investment property	-	-	-	-	-
Biological assets	-	-	-	-	-
Others	-	-	-	-	-
Total	<u>217,390,560.00</u>	<u>-</u>	<u>1,235,648.00</u>	<u>-</u>	<u>218,626,208.00</u>

### Other comprehensive income items

Unit: RMB

Items	Six months ended 30 June 2015	Six months ended 30 June 2014
1. The amount of profit (losses) on financial assets available for sale	<b>1,235,648.00</b>	(3,371,232.00)
Less: tax by financial assets available for sale	<b>185,347.20</b>	(505,684.80)
Net profit or loss transferred from previously recognized in other comprehensive income	-	-
Subtotal	<b>1,050,300.80</b>	(2,865,547.20)
2. Exchange difference arising from transaction of financial statements denominated in foreign currencies	<b>(138,542.29)</b>	(98,523.77)
Less: net profit or loss transferred from foreign operation is disposed current	-	-
Subtotal	<b>(138,542.29)</b>	(98,523.77)
Total	<u><b>911,758.51</b></u>	<u>(2,964,070.97)</u>

# Changes in Share Capital Structure and Information on Shareholders

## 1. SHARE CAPITAL STRUCTURE

Count unit: share

Class of shares	30 June 2015		1 January 2015	
	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	0	0
Stated-owned shares	0	0	0	0
Domestic legal person shares	0	0	0	0
Conditional tradable senior management A shares	0	0	0	0
Others	0	0	0	0
2. Total number of unconditional tradable shares	457,312,830	100.00	457,312,830	100.00
Renminbi ordinary shares (A shares)	307,312,830	67.20	307,312,830	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 2015, the Company had on record a total of 36,803 shareholders, including 45 holders of H Shares and 36,758 holders of A Shares.

3. As at 30 June 2015, the ten largest shareholders of the Company were as follows:

Unit: share

Name of Shareholder	Types of shareholders	Number of shares held	% of the total share capital	Number of conditional tradable shares held	Number of shares being charged or frozen
Shandong Xinhua Pharmaceutical Group Company Limited ("SXP GC")	State-owned shareholder, A shares	157,587,763	34.46	0	0
HKSCC (Nominees) Limited	Listed H shares	148,903,698	32.56	0	0
The industrial and commercial bank of China co., LTD. – the south big data 100 index securities investment funds	Fund, A shares	2,276,563	0.50	0	0
Agricultural bank of China Co., LTD. – China strategy selected equity securities investment fund	Fund, A shares	1,699,950	0.37	0	0
Yang Lin	Domestic person, A shares	1,352,800	0.30	0	0
Ding Youyang	Domestic person, A shares	1,329,700	0.29	0	0
Xia Yuanxiang	Domestic person, A shares	1,107,600	0.24	0	0
Qian Xuqing	Domestic person, A shares	947,500	0.21	0	0
Ping An Bank Ltd – Xinhua Wealth and Flexible Configuration Hybrid Securities Investment Fund	Fund, A shares	900,600	0.20	0	0
Tao Rong	Domestic person, A shares	772,296	0.17	0	0

## Changes in Share Capital Structure and Information on Shareholders

4. As at 30 June 2015, 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 share
Shandong Xinhua Pharmaceutical Group Company Limited (“SXPGC”)	157,587,763	A Shares
HKSCC (Nominees) Limited	148,903,698	H Shares
The Industrial and Commercial Bank of China Co., LTD. – the South Big Data 100 Index Securities Investment Funds	2,276,563	A Shares
Agricultural Bank of China Co., LTD. – China Strategy Selected Equity Securities Investment Fund	1,699,950	A Shares
Yang Lin	1,352,800	A Shares
Ding Youyang	1,329,700	A Shares
Xia Yuanxiang	1,107,600	A Shares
Qian Xuqing	947,500	A Shares
Ping An Bank Ltd. – Xinhua Wealth and Flexible Configuration Hybrid Securities Investment Fund	900,600	A Shares
Tao Rong	772,296	A Shares

*Note:*

- 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” (“CSRC Rules”) 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 defined in the CSRC Rules.  
  
The Directors do not know whether there is any association amongst the ten largest shareholders of unconditional tradable shares of the Company, or any association between ten largest shareholders of unconditional tradable shares and the ten largest shareholders of the Company or if there are any persons acting in concert as defined in the CSRC Rules.
- The only domestic shareholder with more than 5% of the total issued shares of the Company is SXPGC. During the Reporting Period, SXPGC reduced its shareholdings by 1,888,932 shares by secondary market auction 968,000 shares by judicial auction.
- There was no change of controlling shareholder of the Company during the Reporting Period.
- Save as disclosed above and so far as the Directors are aware, as at 30 June 2015 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 Structure and Information on Shareholders

### 5. INFORMATION ABOUT CONTROLLING SHAREHOLDER AND ULTIMATE CONTROLLER

- (1) During the 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

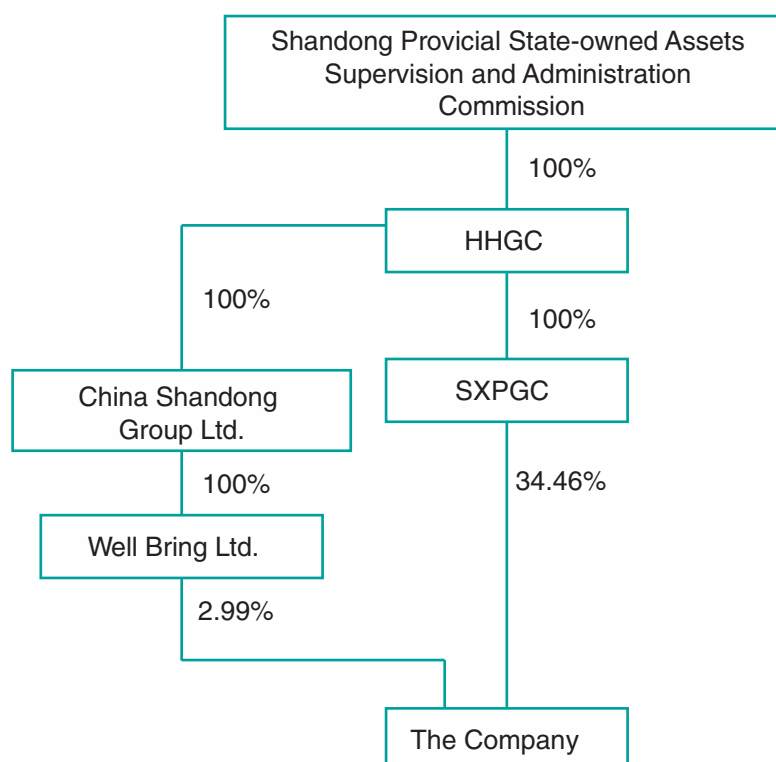
Class of ultimate controller: Local State-owned Assets Supervision and Administration Commission

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 products (except for hazardous chemicals) and import and export business (within the scope approved).

In 2014, the audited operating income and the profit of the SXPGC were approximately RMB3,612,000,000; and RMB126,370,000. As at the end of 2014, the total assets and the total liabilities of SXPGC were approximately RMB4,363,000,000 and RMB2,410,000,000, the asset-liability ratio was 44.80%. In 2014, net cash flow from operating activities was approximately RMB320,000,000.

Hualu Holding 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 2014, the audited operating income and net profit of HHGC were approximately RMB16,965,210,000 and RMB867,580,000 respectively. As at 31 December 2014 the total assets and total assets of HHGC were approximately RMB24,473,620,000 and RMB10,541,940,000 respectively. In 2014, net cash flow from operating activities was approximately RMB1,659,620,000.





## Directors, Supervisors and Senior Officers

The number of shares held by the Directors, Supervisors and Senior Officers of the Company were as follows:

Name	Position	Number of Shares (share) as at 30 June 2015	Change in Number of Shares	Number of Shares (share) as at 1 January 2015
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. Li Wenming	Independent non-executive Director (has been appointed with effect from 20 March 2015)	Nil	Nil	Nil
Mr. Du Guanhua	Independent non-executive Director (has been appointed with effect from 20 March 2015)	Nil	Nil	Nil
Mr. Chan Chung Kik, Lewis	Independent non-executive Director	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	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	Nil	Nil	Nil
Mr. Cao Changqiu	Company Secretary	Nil	Nil	Nil
Ms. Guo Lei	Company Secretary (resigned with effect from 26 May 2015)	Nil	Nil	Nil
Total		Nil	Nil	Nil

No Directors, Supervisors or Senior Officers holds any A Shares or H Shares in the Company.

So far as the Directors, Senior Officers and Supervisors are aware, as at 30 June 2015, 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 and Senior Officers

### CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

During the Reporting Period, change in shareholdings by the directors, Supervisors and Senior Officers is set out in the table above.

### POSITION HELD IN THE SHAREHOLDING COMPANY

Name	Name of the shareholder	Position	Beginning date	Termination date	Remuneration received from shareholding company
Mr. Zhang Daiming	SXPGC	Chairman	6 July 2010	–	No
Mr. Ren Fulong	SXPGC	Director and 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 Directors' and the Supervisors' remuneration must be approved in a shareholders' meeting of the Company, whereas the remuneration of the Senior Officers must be approved by the Board of Directors.
Basis for determining the 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 remuneration of Directors, Supervisors and Senior Officers	A payment of RMB1,052,816 was made during this Reporting Period.

### Staff information (As at 30 June 2015)

Number of staff	6,520
Number of retired staff whose costs were borne by the Company	0

### Professional constitution

Class of professional constitution	Number of Professionals
Production staff	3,718
Technology staff	590
Administration staff	566
Finance staff	89
Product R&D staff	174
Purchasing staff	39
Sales staff	1,014
Quality supervision staff	330
Total	6,520

### Academic qualification attained

Classes of academic qualification attained	Number
University or above	978
Tertiary institutions	1,661
Intermediate institutions	1,329
Senior high schools and technical schools	1,849
Junior high schools or below	703
Total	6,520

## Chairman's Statement

I hereby report to the shareholders of Shandong Xinhua Pharmaceutical Company Limited (“the Company”) the operating results of the Company for the six months ended 30 June 2015.

The operating income of the Company and its subsidiaries (together referred to as the “Group”) for the six months ended 30 June 2015 calculated pursuant to the PRC Accounting Standards was RMB1,948,408,000, representing a 4.73% increase as compared to that of the same period last year, and the net profit attributable to the shareholders of the Company was RMB25,860,000, accounting for a 35.50% decrease as compared to that of the same period last year.

The board of directors does not recommend the distribution of interim dividends for the six months ended 30 June 2015.

### BUSINESS REVIEW

In the first half of 2015, the Group actively participated in the competition in the pharmaceutical market and overcame various adverse factors including the increase in depreciation expenses, finance costs and labor costs as a result of relocation. The Group also took the initiative to seize market opportunities, took priority to maintain the manufacturing of cost-efficient products, set out to tap the preparation market and strengthened the foundational management, thus the enterprise's capability of the operational profitability was enhanced.

#### 1. Improving profitability by capturing market opportunities and adjusting the organizational structure

In the first half of the year, the Group captured opportunities in the aspirin and caffeine markets and spared no efforts in meeting the market demand in a bid to ensure the stability of the market of mainstream pharmaceutical raw materials. A gross profit of 19.95% was recorded in the pharmaceutical raw material segment, up by 2.74 percentage points as compared to the same period last year.

The strategy for exploring the preparation market proved effective. In the first half of the year, the growth in the preparation business segment sped up and the sales volumes of rabeprazole and nitrendipine soft capsules, the key areas of strategic focus, increased by 38.6% and 33% respectively as compared to the same period last year. A gross profit of 43.42% was recorded in the industrial preparation segment, up by 4.39 percentage points as compared to the same period last year.

The gross profit of the Group in the first half of the year was 21.48%, up by 1.63 percentage points as compared to the same period last year.

#### 2. Stepping up technological advancements by allocating more resources to research and development

The Group allocated more resources to research and development and inspired the motivation of R&D staff. In the first half of the year, the Group had approximately 60 applications for new products pending approval from the Center for Drug Evaluation of the PRC (CDE) and 10 applications for new products which had passed on-site inspection will soon be placed in the queue pending approval from CDE.

The Group commenced plans for the Abbreviated New Drug Application (ANDA) to register ibuprofen tablets. The Group had intensified its efforts in projects on technological breakthroughs. There was a significant increase in the techno-economic indicator of certain products and the Group had saved RMB8.04 million yuan in terms of raw material consumption for the first half of the year.

### **3. Reinforcing the foundation for development by seizing opportunities for construction of the special projects**

The construction of the international cooperation center for modern pharmacy and the second multi-purpose industrial center was underway as planned. The project of the international cooperation center for modern pharmacy had been particularly and closely monitored and endorsed by the heads of the municipal and provincial governments. The production expansion project for the injection business is now underway.

### **4. Sharpening the competitive edge by stepping up internal management**

The Group continued to intensify its efforts to implement the 5S management method, which further improved on-site management. Works related to the management on areas such as quality, safety and environmental protection commenced smoothly. The Group had passed the test on its aspirin conducted by the Therapeutic Goods Administration (TGA) of Australia, the on-site audit for its Hydrocortisone performed by Ministry of Food and Drug Safety of Korea and the audit on other 77 items by international clients and had obtained GMP certificates for its 5 products. Various foundational management works such as the risk management and control had been gradually carried out.

## **PLAN FOR THE SECOND HALF OF THE YEAR**

With the launch of a set of policies including the reform on national pharmaceutical prices, the increased efforts of the PRC government in industrial regulation have, from an objective perspective, established an improved environment for the development of the Company. The fact that the chemical raw material market is running low has brought about favorable conditions for the Company to lower the costs of its products. Now that the relocation plan is basically completed, it is beneficial for the Company to shift its focus to enhancing management, minimizing costs and stepping up efficiency.

Due to the weakened demand in the international market, the competition will become more intensified. With the implementation of the new environmental protection law, the investment in environmental protection will increase and the manufacturing units will face even more constraints. The surge in depreciation expenses, labor costs and R&D costs as a result of relocation will present enormous challenges to the profit margin for the period.

### **1. Achieving breakthroughs in marketing by driving the market**

The Group will seize market opportunities, strive to maximize sales, focus on the development of key products and markets, endeavor to explore emerging markets and intensify efforts to explore the market for new products.

The Group will capture opportunities for pharmaceutical tenders and those presented by national policies in favor of low-price drugs, utilize the overall strengths of the Company, focus on the operations of key preparations and strive to over-achieve the annual targets of its preparation business segment.

The Group will also expedite the development of online pharmacies, drive the development of e-commerce in the pharmaceutical industry and actively develop "Internet+" e-commerce business model.

### **2. Achieving technological breakthroughs by enhancing product R&D processes and enabling technical improvements**

The Group will promote the R&D of key new pharmaceuticals, speed up the industrialization of new products and ensure that targets for the industrialization of brand new products will be achieved.

The Group will promote and implement the amended Administrative Measures on Awards for Technological Improvements, Administrative Measures on Awards for Production of New Products and Administrative Measures on Awards for Costs in the Research and Development Stage and inspire the motivation of R&D personnel in order to achieve the annual goal of tendering a total of 70 applications for new products pending approval from the CDE.

### **3. Making breakthroughs in lowering costs by endeavoring to implement plans for minimizing costs and maximizing efficiency**

Based on the various key projects for technological breakthroughs set at the beginning of the year, the Group will actively implement different measures for minimizing costs and maximizing efficiency, and through such breakthroughs, further lower the costs to a considerable extent, in turn sharpening its competitive edge.

The Group will take advantage of its strengths enabled by the currently low prices of chemical products in order to gain an upper hand in tenders. The Group will also enhance the strategic cooperation with key suppliers in order to minimize the procurement costs.

### **4. Ensuring smooth implementation of projects through delicate design and preparation**

The Group will ensure that the civil engineering construction project of the international cooperation center for preparations will be completed and certain equipment for the center will be installed during the year, in turn creating favorable conditions for the Group to accelerate the internationalization of its preparations.

Further, the Group will ensure that the civil engineering construction project of the second multi-purpose industrial center will be completed during the year, establishing a solid foundation for the industrialization, R&D and registration of new products of pharmaceutical raw materials.

The Group will also expedite the technological breakthroughs in hormone products and make thorough preliminary preparations for the relocation of the hormone business in order to establish conditions facilitating the relocation in due course.

### **5. Achieving breakthroughs in management through enhancing foundational management**

The Group will continue to implement the 5S management method in an attempt to improve on-site management in all aspects.

Also, the Group will intensify its efforts in risk management and strictly control the expenditure in order to ensure that the three items of expenditure (namely operating, management and finance expenditure) will not exceed the yearly budget and that two types of funds employed (namely funds employed for finished goods and account receivables) will be maintained at a reasonable level.

The Group will be dedicated to work in aspects including safety, environmental protection, quality and energy saving and ensure that nothing will go wrong in a business that human lives and welfare are at stake, in turn establishing a solid and sound foundation for the development of the Company.

The Group is mainly engaged in the development, manufacturing and sale of bulk pharmaceuticals, pharmaceutical preparations, chemicals 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 2015, the liquidity ratio of the Group was 102.2% (liquidity ratio = current assets/current liabilities x 100%), the quick ratio was 72.72% (quick ratio = quick assets/current liabilities x 100%), the turnover ratio of account receivables was 1,013.69% (turnover ratio of account receivables = annualized turnover/average account receivables x 100%) and the turnover ratio of inventory was 560.27% (inventory turnover ratio = annualized 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 2015, the total amount of bank loans was RMB870,238,000, 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 RMB697,450,000. As at 30 June 2015, The Group borrowed RMB100,000,000 through finance lease arrangements. The amount of cash the Group has on hand and in bank amounted to RMB506,048,000 (including bank acceptance drafts deposits of RMB25,206,000 and domestic guarantee deposits of RMB3,350,000 in respect of overseas loans).

As of 30 June 2015, the Group charged the land use rights in Hutianzhen, Zhangdian, to a bank for loans. The book value of the land use rights is RMB64,458,000. Apart from this, there exist no other charges on the Group's assets.

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

The classification of the performance results of the Group is referred to in the section headed "Analysis of business conditions and financial position under the relevant disclosure requirement and provisions of PRC".

As at 30 June 2015, the number of employees of the Group was 6,520, The total salaries for all employees in the first half of 2015 amounted to RMB181,670,000.

The main investment projects in the second half of 2015 will be Hutian Park project and Headquarters Park project.

As at 30 June 2015, the asset-liability ratio of the Group was 56.77% (asset-liability ratio = total borrowings/total assets x 100%).

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

The assets and debts of the Group were denominated in RMB. However, the Group achieved USD93,396,000 in its export for the first half of 2015. Therefore, the Group would be subject to heavier impact from foreign exchange in this regard. 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 prior agreements of the purchasers 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.

## Management Discussion and Analysis

### 2. ANALYSIS OF BUSINESS CONDITIONS AND FINANCIAL POSITION UNDER THE RELEVANT DISCLOSURE REQUIREMENT AND PROVISIONS OF PRC

An analysis of financial results as compared to 2014 is as follows (RMB'000):

Item	As at 30 June 2015	As at 30 June 2014	Change as compared to the Same Period Last Year (%)
Operating revenue	<b>1,948,408</b>	1,860,412	4.73
Operating cost	<b>1,529,865</b>	1,491,087	2.60
Period charge	<b>368,088</b>	326,868	12.61
Research and development expenditure	<b>62,258</b>	46,274	34.54
Net cash flow from operating activities	<b>73,272</b>	135,418	(45.89)

Net cash flow from operating activities was decreasing. The main reasons for the change include that the Group had to make payments for bank acceptance deposits during the first half of 2015, whereas in the same period last year there had been recovery of bank acceptance deposits.

In the first half of 2015, the Group's operating income was RMB1,948,408,000, representing an increase of 4.73% 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 and a rise in the sales of commercial circulations. Operating profit amounted to RMB40,256,000, compared to RMB32,511,000 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 net increase in cash and cash equivalents was RMB196,057,000, while there was a net decrease of RMB27,595,000 in the Same Period Last Year. The main reason is that the first half of this year the Group's investment spending and repayment of debt reduction.

The total assets of the Group as at 30 June 2015 amounted to RMB4,489,166,000, representing an increase of RMB244,016,000 or 5.75% as compared to that of RMB4,245,150,000 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 2015 was RMB1,667,688,000, representing a increase of RMB192,853,000 from RMB1,474,835,000 at the beginning of this year, the cash and bank balances of the Company will mainly be used as working capital for production, operation and projects. The total equity attributable to equity holders of the Company as at 30 June 2015 was RMB1,838,670,000, representing an increase of RMB17,980,000 or 0.99% from RMB1,820,690,000 at the beginning of this year. The increase was mainly attributable to the operating profit during the Reporting Period.

### Operation and Results of subsidiaries and investee 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 2015, the total assets of the subsidiary was approximately RMB73,067,000, equity attributable to shareholders of the subsidiary was approximately RMB67,845,000, In the first half of 2015, the operating income and net profit of the subsidiary were approximately RMB59,290,000 and RMB3,096,000, representing a decrease of 14.58% and a decrease of 47.10% respectively as compared with that of last year. The decreases were mainly attributable to the decrease of 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, traditional Chinese herbal medicine pieces for decoction, proprietary Chinese medicine, API, preparations, antibiotic preparations, biochemical medicine, health food, medical appliances, birth control products and cosmetics etc. As at 30 June 2015, the total assets of the subsidiary was RMB374,142,000, equity attributable to shareholders of the subsidiary was RMB4,025,000. In the first half of 2015, the operating income of the subsidiary was RMB691,842,000, representing an increase of 17.69% as compared with that of last year. The net profit of the subsidiary was RMB3,277,000, representing a decrease of 48.21% as compared with that of last year. The decrease was mainly due to the use of such profit in compensating for the deficit of the same period and that no income tax had arisen.
- (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 2015, the total assets of the subsidiary were approximately RMB742,841,000, the equity attributable to shareholders of the subsidiary was approximately RMB318,042,000, the operating income is approximately RMB314,945,000 for the first half of 2015, representing a decrease of 3.77% as compared with that of last year. The net profit was RMB13,949,000, representing an increase of 36.5% as compared with that of last year. The increase was mainly attributable to proactively developing its market resulting in a substantial increase in profit.
- (4) The Company holds 60% equity interests in Shandong Zibo Xincat Pharmaceutical Co., Ltd. The registered paid-up capital of Xincat Pharmaceutical is RMB84,930,000. This subsidiary is mainly engaged in producing and selling chemical products. As of 30 June 2015, the total assets of the company amounted to RMB180,277,000 and the equity attributed to its shareholders amounted to RMB128,286,000. In the first half of 2015, it achieved operating revenue of RMB123,148,000, representing a decrease of 1.1% as compared with that of last year. It recorded a net profit of RMB7,881,000, representing a decrease of 14.44% as compared with that of last year, which was mainly due to the decline of product price effected by market.



## Management Discussion and Analysis

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

By geographical location of customers	First half of 2015		First half of 2014	
	Total turnover	Costs	Total turnover	Costs
PRC (incl. Hong Kong)	1,212,920	907,706	1,166,914	891,102
Americas	329,511	280,923	314,946	273,717
Europe	232,634	186,931	222,350	182,136
Others	147,025	126,077	140,526	122,843
<b>Total</b>	<b>1,922,090</b>	<b>1,501,638</b>	<b>1,844,736</b>	<b>1,469,797</b>

By industry and By product	Income from principal operations	Costs of sales of principal operations	Gross profit margin (%)
Bulk pharmaceutical Preparations	802,117	642,112	19.95
Commercial circulations	488,868	276,624	43.42
Chemical products and other products	481,944	459,835	4.59
	149,161	123,067	17.49
<b>Total</b>	<b>1,922,090</b>	<b>1,501,638</b>	<b>21.87</b>

An analysis of profit as compared to 2014 is as follows:

Items	Amount (RMB'000)		% of total profit	
	January-June 2015	2014	January-June 2015	2014
Operating profit	40,256	54,559	90.51	59.64
Net profit/loss from non-operation activities	4,223	36,926	9.49	40.36
Profit before taxation	44,479	91,485	100.00	100.00

The composition of profits in the Reporting Period was rather different from that of last year. This was mainly due to the reason that the Group realized operating profits during the Reporting Period whereas in last year, government subsidies were received.

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

According to 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 of the Company for 2014 is RMB0.02 per share and the distribution of which will be completed before 21 August 2015.

### Save as disclosed herein:

- There has been 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.
- The Board did not recommend the payment of any interim dividend, nor any transfer of capital from reserves to share capital, for the half year ended 30 June 2015.
- The Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.
- There was no material purchase of assets or disposal of the Company's assets, nor did any material mergers or acquisitions involving the Company occurred during the Reporting Period. Similarly, no transactions of such nature occurred during the last reporting period and were carried over to the Reporting Period.
- During the Reporting Period, there was no material trust, subcontract and lease of assets between the Company and other companies.
- The special explanation and independent opinions of the independent non-executive directors 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.

There were no guarantees provided in favor 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 2015, 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.

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

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

- Management of Funds

During the Reporting Period, the Company did not appoint any person to manage the Company's funds. No such appointment was made in the preceding reporting period and carried over to the Reporting Period.

- Information about holding equity 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%	150,900,000.00	2,219,184.00	(10,600,000.00)	Available-for-sale financial assets	Purchase
601328	BANKCOMM	14,225,318.00	0.01%	67,726,208.00	-	11,835,648.00	Available-for-sale financial assets	Purchase
Total		<u>21,225,318.00</u>	<u>-</u>	<u>218,626,208.00</u>	<u>2,219,184.00</u>	<u>1,235,648.00</u>	-	-

- There was no penalty upon and rectification of the Company during this Reporting Period.

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

The Directors confirmed that the Company was in compliance with the Code on Corporate Governance Practices (the “Code”) and has not deviated from the Code during the six months ended 30 June 2015. The Code includes the provisions contained in Appendix 14 to the Listing Rules.

### **AUDIT COMMITTEE**

The Company set up the audit committee under the Board in accordance with Rule 3.21 of the Listing Rules.

The audit committee along with the management of the Company has 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 2015.

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 2015, 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 2014 Annual Report of the Company and the announcements of the first extraordinary general meeting resolutions for 2015.

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

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

# Consolidated Balance Sheet

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Assets Item	Notes	As at 30 June 2015	Balance at the beginning of the year
<b>Current assets:</b>			
Monetary funds	VI (1)	506,048,133.46	328,769,345.83
Financial assets measured at fair value and with their variance recorded into current profits and losses		–	–
Notes receivable	VI (2)	160,792,158.50	128,882,485.92
Accounts receivable	VI (3)	456,889,715.07	311,949,545.31
Prepayments	VI (4)	43,202,743.30	42,455,262.02
Interest receivable		–	–
Dividends receivable		–	–
Other accounts receivable	VI (5)	59,359,248.19	40,653,822.52
Inventories	VI (6)	503,338,331.83	588,887,791.35
Non-current assets due within one year		–	–
Other current assets	VI (7)	14,938,552.52	20,816,342.65
<b>Total current assets</b>		<b>1,744,568,882.87</b>	<b>1,462,414,595.60</b>
<b>Non-current assets:</b>			
Financial assets available for sale	VI (8)	221,826,208.00	220,590,560.00
Long-term accounts receivable		–	–
Long-term equity investment		–	–
Investment real estate	VI (9)	87,777,445.16	69,585,332.70
Fixed assets	VI (10)	1,886,987,898.40	1,975,943,708.53
Projects under construction	VI (11)	218,439,337.78	177,782,207.67
Project materials		–	–
Disposal of fixed assets		–	–
Productive biological assets		–	–
Oil and gas assets		–	–
Intangible assets	VI (12)	302,104,882.70	312,962,415.75
Development expenditure		–	–
Business reputation	VI (13)	–	–
Long-term expenditures to be amortized		–	–
Deferred income tax assets	VI (14)	27,461,061.28	25,870,893.52
Other non-current assets		–	–
<b>Total non-current assets</b>		<b>2,744,596,833.32</b>	<b>2,782,735,118.17</b>
<b>Total assets</b>		<b>4,489,165,716.19</b>	<b>4,245,149,713.77</b>

# Consolidated Balance Sheet (Continued)

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Liabilities and Shareholders' Equity	Notes	As at 30 June 2015	Balance at the beginning of the year
<b>Current liabilities:</b>			
Short-term borrowing	VI (16)	470,927,586.43	429,978,928.59
Financial liabilities measured at fair value with their variance recorded into current profits and losses		-	-
Notes payable	VI (17)	86,802,291.67	122,175,386.81
Accounts payable	VI (18)	444,513,377.51	361,102,897.10
Accounts received in advance	VI (19)	38,695,132.41	34,416,698.06
Payroll payable	VI (20)	20,866,426.55	36,287,700.18
Taxes and dues payable	VI (21)	22,118,032.29	13,230,211.46
Interest payable	VI (22)	22,783,437.00	587,252.16
Dividends payable	VI (23)	14,456,856.13	5,310,599.53
Other payables	VI (24)	145,503,804.34	184,050,581.16
Non-current liabilities due within one year	VI (25)	435,835,729.33	408,907,645.38
Other current liabilities	VI (26)	4,452,000.00	5,042,000.00
<b>Total current liabilities</b>		<b>1,706,954,673.66</b>	<b>1,601,089,900.43</b>
<b>Non-current liabilities:</b>			
Long-term loans	VI (27)	694,257,844.00	635,948,545.00
Bonds payable		-	-
Long-term payables		66,666,666.67	-
Long-term payroll payable		-	-
Special payables	VI (28)	13,000,000.00	13,000,000.00
Estimated liabilities	VI (29)	-	9,440,000.00
Deferred income	VI (31)	48,521,952.70	55,243,824.43
Deferred income tax liabilities	VI (30)	15,572,525.07	14,996,956.23
Other non-current liabilities	VI (32)	3,561,500.00	3,561,500.00
<b>Total non-current liabilities</b>		<b>841,580,488.44</b>	<b>732,190,825.66</b>
<b>Total liabilities</b>		<b>2,548,535,162.10</b>	<b>2,333,280,726.09</b>
<b>Shareholders' equity:</b>			
Capital Stock	VI (33)	457,312,830.00	457,312,830.00
Other equity instruments		-	-
Capital surplus	VI (34)	513,092,452.66	507,192,452.66
Less: Treasury stock		-	-
Other comprehensive income	VI (35)	165,591,025.94	164,632,863.45
Special reserve		-	-
Surplus reserve	VI (36)	209,313,480.05	209,313,480.05
General risk reserve		-	-
Undistributed profits	VI (37)	493,359,867.23	482,238,546.28
<b>Total of equity assigned to the shareholders of parent company</b>		<b>1,838,669,655.88</b>	<b>1,820,690,172.44</b>
<b>Minority shareholders' equities</b>		<b>101,960,898.21</b>	<b>91,178,815.24</b>
<b>Total of shareholders' equity</b>		<b>1,940,630,554.09</b>	<b>1,911,868,987.68</b>
<b>Total of liabilities and shareholder's equity</b>		<b>4,489,165,716.19</b>	<b>4,245,149,713.77</b>

# Parent Company's Balance Sheet

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Assets Item	Notes	As at 30 June 2015	Balance at the beginning of the year
<b>Current assets:</b>			
Monetary funds		<b>372,285,371.00</b>	184,170,408.47
Financial assets measured at fair value and with their variance recorded into current profits and losses		—	—
Notes receivable		<b>95,403,839.11</b>	76,825,330.83
Accounts receivable	XVI (1)	<b>478,977,670.60</b>	336,402,023.26
Prepayments		<b>7,297,264.20</b>	6,767,757.61
Interest receivable		—	—
Dividends receivable		—	—
Other accounts receivable	XVI (2)	<b>476,381,594.91</b>	461,385,127.78
Inventories		<b>277,038,811.67</b>	303,798,645.29
Non-current assets due within one year		—	—
Other current assets		<b>4,136,120.51</b>	—
<b>Total current assets</b>		<b><u>1,711,520,672.00</u></b>	<b><u>1,369,349,293.24</u></b>
<b>Non-current assets:</b>			
Financial assets available for sale		<b>221,826,208.00</b>	220,590,560.00
Long-term accounts receivable		—	—
Long-term equity investment	XVI (3)	<b>468,244,841.06</b>	468,244,841.06
Investment real estate		<b>87,777,445.16</b>	69,585,332.70
Fixed assets		<b>1,315,742,136.84</b>	1,387,022,719.90
Projects under construction		<b>185,468,564.99</b>	150,772,847.53
Project materials		—	—
Disposal of fixed assets		—	—
Productive biological assets		—	—
Oil and gas assets		—	—
Intangible assets		<b>204,857,326.66</b>	212,462,695.49
Development expenditure		—	—
Business reputation		—	—
Long-term expenditures to be amortized		—	—
Deferred income tax assets		—	—
Other non-current assets		—	—
<b>Total non-current assets</b>		<b><u>2,483,916,522.71</u></b>	<b><u>2,508,678,996.68</u></b>
<b>Total assets</b>		<b><u>4,195,437,194.71</u></b>	<b><u>3,878,028,289.92</u></b>

# Parent Company's Balance Sheet (Continued)

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Liabilities and Shareholders' Equity	Notes	As at 30 June 2015	Balance at the beginning of the year
<b>Current liabilities:</b>			
Short-term borrowing		370,927,586.43	368,567,151.39
Financial liabilities measured at fair value with their variance recorded into current profits and losses		—	—
Notes payable		202,802,291.67	64,370,636.81
Accounts payable		305,471,098.51	263,881,015.66
Accounts received in advance		31,797,526.80	51,782,196.36
Payroll payable		17,275,593.87	31,347,930.41
Taxes and dues payable		11,938,883.31	3,172,246.82
Interest payable		22,783,437.00	587,252.16
Dividends payable		14,456,856.13	5,310,599.53
Other payables		111,609,277.79	155,561,373.47
Non-current liabilities due within one year		435,835,729.33	408,907,645.38
Other current liabilities		4,452,000.00	5,042,000.00
<b>Total current liabilities</b>		<b>1,529,350,280.84</b>	<b>1,358,530,047.99</b>
<b>Non-current liabilities:</b>			
Long-term loans		694,257,844.00	635,948,545.00
Bonds payable		—	—
Long-term payables		66,666,666.67	—
Long-term payroll payable		—	—
Special payables		13,000,000.00	13,000,000.00
Estimated liabilities		—	—
Deferred income		48,521,952.70	55,243,824.43
Deferred income tax liabilities		14,175,478.82	13,242,258.44
Other non-current liabilities		3,561,500.00	3,561,500.00
<b>Total non-current liabilities</b>		<b>840,183,442.19</b>	<b>720,996,127.87</b>
<b>Total liabilities</b>		<b>2,369,533,723.03</b>	<b>2,079,526,175.86</b>
<b>Shareholders' equity:</b>			
Capital Stock		457,312,830.00	457,312,830.00
Other equity instruments		—	—
Capital surplus		527,841,785.86	516,349,785.86
Less: Treasury stock		—	—
Other comprehensive income		167,790,756.50	166,740,455.70
Special reserve		—	—
Surplus reserve		202,871,840.92	202,871,840.92
General risk reserve		—	—
Undistributed profits		470,086,258.40	455,227,201.58
<b>Total of shareholders' equity</b>		<b>1,825,903,471.68</b>	<b>1,798,502,114.06</b>
<b>Total of liabilities and shareholder's equity</b>		<b>4,195,437,194.71</b>	<b>3,878,028,289.92</b>

# Consolidated Income Statement

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
<b>I. Gross revenue</b>		<b>1,948,408,051.58</b>	1,860,412,320.64
Including: Operating revenue	VI (38)	<b>1,948,408,051.58</b>	1,860,412,320.64
<b>II. Total operating cost</b>		<b>1,910,857,985.72</b>	1,830,954,281.11
Including: Operating cost	VI (38)	<b>1,529,865,315.16</b>	1,491,087,121.24
Business taxes and surcharges	VI (39)	<b>16,848,872.41</b>	10,283,758.48
Selling expenses	VI (40)	<b>184,613,300.35</b>	171,375,102.32
Administration expenses	VI (41)	<b>146,438,132.33</b>	125,392,816.13
Financial expenses	VI (42)	<b>37,036,592.74</b>	30,099,897.72
Assets impairment loss	VI (43)	<b>(3,944,227.27)</b>	2,715,585.22
Add:			
Incomes from changes in fair value (losses to be listed with "-")		—	—
Investment incomes (losses to be listed with "-")	VI (44)	<b>2,706,323.45</b>	3,052,466.18
Including: Income from investment into affiliates and joint ventures		—	—
Exchange gain (losses to be listed with "-")		—	—
<b>III. Operating profits (losses to be listed with "-")</b>		<b>40,256,389.31</b>	32,510,505.71
Add:			
Non-operating income	VI (45)	<b>16,357,590.90</b>	34,078,546.72
Including: Gains from disposal of non-current assets		<b>6,298,902.03</b>	252,442.03
Less:			
Non-operating expenditure	VI (46)	<b>12,134,863.65</b>	4,742,012.46
Including: Losses from disposal of non-current assets		<b>7,650,620.06</b>	1,155,020.92
<b>IV. Total profits (total loss to be listed with "-")</b>		<b>44,479,116.56</b>	61,847,039.97
Less: Income tax expense	VI (47)	<b>13,383,052.06</b>	11,666,662.62
<b>V. Net profits (net loss to be listed with "-")</b>		<b>31,096,064.50</b>	50,180,377.35
Net profit which belongs to shareholders of parent company		<b>25,859,577.55</b>	40,093,567.95
Minority interest income		<b>5,236,486.95</b>	10,086,809.40



# Consolidated Income Statement (Continued)

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
<b>VI. Net of tax of other comprehensive income</b>	VI (49)	<b>911,758.51</b>	(2,964,070.97)
Net of tax of other comprehensive income that belongs to the owners of parent company		<b>958,162.49</b>	(2,908,454.43)
(I) Other comprehensive income not subject to reclassification to profit or loss in future		—	—
1. Changes in net indebtedness or net assets subject to remeasurement of defined benefit plans		—	—
2. Shares enjoyed in other comprehensive income not subject to reclassification to loss or profit in investment-receiving company under equity law		—	—
(II) Other comprehensive income to be reclassified to profit or loss in future	VI (49)	<b>958,162.49</b>	(2,908,454.43)
1. Shares enjoyed in other comprehensive income to be reclassified to loss or profit in investment-receiving company under equity law		—	—
2. Profit and loss of change in fair value of financial assets available for sale	VI (49)	<b>1,050,300.80</b>	(2,865,547.20)
3. Profit and loss of held-to-maturity investment reclassified to available-for-sale financial assets		—	—
4. Effective part of cash flow hedging profit and loss		—	—
5. Conversion difference of foreign currency statement	VI (49)	<b>(92,138.31)</b>	(42,907.23)
6. Others		—	—
Net of tax of other consolidated income that belongs to the minority shareholders	VI (49)	<b>(46,403.98)</b>	(55,616.54)
<b>VII. Total comprehensive income</b>		<b>32,007,823.01</b>	47,216,306.38
Total comprehensive income attributable to the shareholders of parent company		<b>26,817,740.04</b>	37,185,113.52
Total comprehensive income attributable to the minority shareholders		<b>5,190,082.97</b>	10,031,192.86
<b>VIII. Earnings per share:</b>			
(I) Basic earnings per share	VI (48)	<b>0.06</b>	0.09
(II) Diluted earnings per share		<b>0.06</b>	0.09

# Parent Company's Income Statement

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
<b>I. Total Operating revenue</b>		<b>1,029,856,799.85</b>	997,833,917.34
Includes: Operating Income	XVI (4)	<b>1,029,856,799.85</b>	997,833,917.34
<b>II. Total Operating Cost</b>		<b>1,012,134,987.34</b>	992,901,063.25
Including: Operating Costs	XVI (4)	<b>837,761,352.17</b>	849,440,242.75
Business taxes and surcharges		<b>9,589,421.58</b>	4,070,819.70
Selling expenses		<b>17,970,722.02</b>	18,400,070.92
Administration expenses		<b>108,164,906.48</b>	89,846,187.63
Financial expenses		<b>38,648,585.09</b>	31,143,742.25
Assets impairment loss		–	–
Add: Incomes from changes in fair value (losses to be listed with “-”)		–	–
Investment Incomes (losses to be listed with “-”)	XVI (5)	<b>2,485,573.93</b>	4,722,779.39
Including: income from investment into affiliates and joint ventures		–	1,779,386.67
Exchange gain (losses to be listed with “-”)		–	–
<b>III. Operating profit (with “-” for loss)</b>		<b>20,207,386.44</b>	9,655,633.48
Add: non-operating income		<b>14,264,517.16</b>	33,734,212.06
Including: Gains from disposal of non-current assets		<b>6,298,902.03</b>	252,442.03
Less: non-operating expenditure		<b>8,390,491.77</b>	2,735,237.73
Including: Losses from disposal of non-current assets		<b>7,650,620.06</b>	1,155,020.92
<b>IV. Total profit (with “-” for total loss)</b>		<b>26,081,411.83</b>	40,654,607.81
Less: Income tax expense		<b>2,076,098.41</b>	5,770,175.19
<b>V. Net profit (with “-” for net loss)</b>		<b>24,005,313.42</b>	34,884,432.62

# Parent Company's Income Statement (Continued)

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
<b>VI. Net of tax of other comprehensive income</b>		<b>1,050,300.80</b>	(2,865,547.20)
Total of comprehensive incomes attributable to the owners of the parent company		<b>1,050,300.80</b>	(2,865,547.20)
(I) Other comprehensive income not subject to reclassification to profit or loss in future		—	—
1. Changes in net indebtedness or net assets subject to remeasurement of defined benefit plans		—	—
2. Shares enjoyed in other comprehensive income not subject to reclassification to loss or profit in investment-receiving company under equity law		—	—
(II) Other comprehensive income to be reclassified to profit or loss in future		<b>1,050,300.80</b>	(2,865,547.20)
1. Shares enjoyed in other comprehensive income to be reclassified to loss or profit in investment-receiving company under equity law		—	—
2. Profit and loss of change in fair value of financial assets available for sale		<b>1,050,300.80</b>	(2,865,547.20)
3. Profit and loss of held-to-maturity investment reclassified to available-for-sale financial assets		—	—
4. Effective part of cash flow hedging profit and loss		—	—
5. Conversion difference of foreign currency statement		—	—
6. Others		—	—
Net of tax of other comprehensive income attributable to minority shareholder		—	—
<b>VII. Total comprehensive income</b>		<b>25,055,614.22</b>	32,018,885.42
<b>VIII. Earnings per share</b>			
(I) Basic earnings per share		<b>0.05</b>	0.08
(II) Diluted earnings per share		<b>0.05</b>	0.08

# Consolidated Cash Flow Statement

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
<b>I. Cash flow from operating activities</b>			
Cash received from sales of goods or rendering services		<b>1,224,837,623.31</b>	1,137,963,436.76
Refunds of taxes and levies		<b>6,447,692.04</b>	21,804,577.16
Other cash received from operating-related activities	VI.50(1)	<b>19,591,002.65</b>	135,235,231.67
<b>Subtotal of cash inflows from operating activities</b>		<b>1,250,876,318.00</b>	1,295,003,245.59
Cash paid for goods purchased and labor services received		<b>645,475,029.76</b>	700,199,323.68
Cash paid to and for employees		<b>229,328,798.08</b>	189,161,509.18
Cash paid for taxes and surcharges		<b>126,503,584.52</b>	79,144,700.31
Other cash paid related to operating activities	VI.50(1)	<b>176,296,982.27</b>	191,079,832.59
<b>Subtotal of cash outflows from operating activities</b>		<b>1,177,604,394.63</b>	1,159,585,365.76
<b>Net cash flow from operating activities</b>		<b>73,271,923.37</b>	135,417,879.83
<b>II. Cash flow generated from investing activities</b>			
Cash received from sales and redemption of investments		<b>10,000,000.00</b>	2,280,000.00
Cash received from returns on investments		<b>2,706,323.45</b>	663,438.74
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>13,202,065.62</b>	1,169,030.00
Net cash received from disposal of subsidiaries and other business entities		—	—
Other cash received related to investing activities		—	—
<b>Subtotal of cash inflows from investing activities</b>		<b>25,908,389.07</b>	4,112,468.74
Cash paid for acquisitions of fixed assets, intangible assets and long-term assets		<b>75,949,011.81</b>	131,224,133.42
Cash paid for acquisitions of investments		—	10,000,000.00
Net cash paid for acquisitions of subsidiaries and other business entities		—	—
Net cash paid for acquisitions of subsidiary and other business entities		—	—
Other cash paid related to investing activities		—	—
<b>Subtotal of cash outflow from investing activities</b>		<b>75,949,011.81</b>	141,224,133.42
<b>Net cash flow from investing activities</b>		<b>(50,040,622.74)</b>	(137,111,664.68)

# Consolidated Cash Flow Statement (Continued)

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
<b>III. Cash flows from financing activities</b>			
Cash received from capital contributions		–	–
Including: Cash received from subsidiaries' absorption of investments from minority shareholders		–	–
Cash received from loans		434,047,847.12	443,160,788.12
Cash received from bond issues		–	–
Other cash received relating to financing activities		–	–
<b>Subtotal of cash inflows from financing activities</b>		<b>434,047,847.12</b>	443,160,788.12
Cash paid for repayment of debts		246,349,208.50	453,110,774.37
Cash paid for distributing dividends and profits or paying interest		16,825,573.89	15,701,948.11
Including: Dividends and profits paid to minority shareholders by subsidiary		–	–
Other cash paid related to financing activities	VI.50(1)	2,564,102.56	1,022,308.63
<b>Subtotal of cash outflows from financing activities</b>		<b>265,738,884.95</b>	469,835,031.11
<b>Net cash flows from financing activities</b>		<b>168,308,962.17</b>	(26,674,242.99)
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>4,516,535.99</b>	773,341.87
<b>V. Net increase in cash and cash equivalents</b>		<b>196,056,798.79</b>	(27,594,685.97)
Add: Cash and cash equivalents at the beginning of the period		281,435,164.77	311,025,740.96
<b>VI. Cash and cash equivalents at the end of the period</b>		<b>477,491,963.56</b>	283,431,054.99

# Parent Company's Cash Flow Statement

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
<b>I. Cash flow from operating activities</b>			
Cash received from sales of goods or rendering services		611,095,409.51	611,123,710.61
Refunds of taxes and levies		3,343,990.72	18,840,448.46
Other cash received from operating-related activities		18,697,741.19	128,983,392.30
<b>Subtotal of cash inflows from operating activities</b>		<b>633,137,141.42</b>	758,947,551.37
Cash paid for goods purchased and labor services received		260,407,138.83	411,066,139.15
Cash paid to and for employees		161,274,694.12	129,779,056.07
Cash paid for taxes and surcharges		47,389,767.62	25,792,583.16
Other cash paid related to operating activities		71,342,924.74	77,491,206.58
<b>Subtotal of cash outflows from operating activities</b>		<b>540,414,525.31</b>	644,128,984.96
<b>Net cash flow from operating activities</b>		<b>92,722,616.11</b>	114,818,566.41
<b>II. Cash flow generated from investing activities</b>			
Cash received from sales and redemption of investments		–	2,280,000.00
Cash received from returns on investments		2,485,573.93	663,392.72
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		13,160,065.62	1,169,030.00
Net cash received from disposal of subsidiaries and other business entities		–	–
Other cash received related to investing activities		–	–
<b>Subtotal of cash inflows from investing activities</b>		<b>15,645,639.55</b>	4,112,422.72
Cash paid for acquisitions of fixed assets, intangible assets and long-term assets		65,445,671.73	117,361,421.21
Cash paid for acquisitions of investments		–	8,000,000.00
Net cash paid for acquisitions of subsidiaries and other business entities		–	–
Net cash paid for acquisitions of subsidiary and other business entities		–	–
Other cash paid related to investing activities		–	6,180,000.00
<b>Subtotal of cash outflow from investing activities</b>		<b>65,445,671.73</b>	131,541,421.21
<b>Net cash flow from investing activities</b>		<b>(49,800,032.18)</b>	(127,428,998.49)

## Parent Company's Cash Flow Statement (Continued)

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
<b>III. Cash flows from financing activities</b>			
Cash received from capital contributions		–	–
Including: cash received from subsidiaries' absorption of investments from minority shareholders		–	–
Cash received from loans		<b>338,395,624.90</b>	428,160,788.12
Cash received from bond issues		–	–
Other cash received relating to financing activities		–	–
<b>Subtotal of cash inflows from financing activities</b>		<b>338,395,624.90</b>	428,160,788.12
Cash paid for repayment of debts		<b>185,213,208.50</b>	438,110,774.37
Cash paid for distributing dividends and profits or paying interest		<b>16,825,573.89</b>	15,395,268.86
Including: dividends and profits paid to minority shareholders by subsidiary		–	–
Other cash paid related to financing activities		<b>2,564,102.56</b>	1,012,500.00
<b>Subtotal of cash outflows from financing activities</b>		<b>204,602,884.95</b>	454,518,543.23
<b>Net cash flows from financing activities</b>		<b>133,792,739.95</b>	(26,357,755.11)
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>3,527,649.81</b>	413,417.29
<b>V. Net increase in cash and cash equivalents</b>		<b>180,242,973.69</b>	(38,554,769.90)
Add: Cash and cash equivalents at the beginning of the period		<b>165,486,227.41</b>	209,696,401.89
<b>VI. Cash and cash equivalents at the end of the period</b>		<b>345,729,201.10</b>	171,141,631.99

# Consolidated Statement of Changes in Shareholder's Equity

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

In the First Half of 2015

Unit: RMB Yuan

Item	Equity assigned to the shareholders of parent company								Minority shareholders' equities	Total of shareholder's equity
	Capital Stock	Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits		
<b>I. Balance at the end of previous year</b>	457,312,830.00	507,192,452.66		164,632,863.45		209,313,480.05		482,238,546.28	91,178,815.24	1,911,868,987.68
Add: Changes in accounting policies										
Corrections of prior period accounting errors										
Business merger under joint control										
Others										
<b>II. Balance at the beginning of current year</b>	457,312,830.00	507,192,452.66		164,632,863.45		209,313,480.05		482,238,546.28	91,178,815.24	1,911,868,987.68
<b>III. Current year increase/decrease (decrease to be listed with "-")</b>		5,900,000.00		958,162.49				11,121,320.95	10,782,082.97	28,761,566.41
(I) Total comprehensive income				958,162.49				25,859,577.55	5,190,082.97	32,007,823.01
(II) Invested and decreased capital of shareholders										
1. Shareholder's contribution capital										
2. Contribution capital of holder of other equity instruments										
3. Amount of share-based payment recognized as share holder's interest										
4. Others										
(III) Profit distribution								(14,738,256.60)	5,592,000.00	(9,146,256.60)
1. Appropriation of surplus reserves										
2. Appropriation of general risk reserve										
3. Distribution to owners (or shareholders)								(14,738,256.60)	5,592,000.00	(9,146,256.60)
4. Others										
(IV) Internal carryover in shareholder's equities										
1. Capital surplus converted to capital										
2. Surplus reserve converted to capital										
3. Surplus reserve to recover losses										
4. Others										
(V) Special reserve										
1. Appropriation in current year										
2. Amount used in current year										
(VI) Others		5,900,000.00								5,900,000.00
<b>IV. Balance at end of current year</b>	457,312,830.00	513,092,452.66		165,591,025.94		209,313,480.05		493,359,867.23	101,960,898.21	1,940,630,554.09



# Consolidated Statement of Changes in Shareholder's Equity (Continued)

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

2014

Unit: RMB Yuan

Item	Equity assigned to the shareholders of parent company							Minority shareholders' equities	Total of shareholder's equity	
	Capital Stock	Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve			Undistributed profits
<b>I. Balance at the end of previous year</b>	457,312,830.00	609,192,452.66		86,557,924.33		206,482,483.65		443,490,488.23	80,314,118.00	1,883,350,296.87
Add: Changes in accounting policies										
Corrections of prior period accounting errors										
Business merger under joint control										
Others										
<b>II. Balance at the beginning of current year</b>	457,312,830.00	609,192,452.66		86,557,924.33		206,482,483.65		443,490,488.23	80,314,118.00	1,883,350,296.87
<b>III. Current year increase/decrease (decrease to be listed with "-")</b>		(102,000,000.00)		78,074,939.12		2,830,996.40		38,748,058.05	10,864,697.24	28,518,690.81
(I) Total comprehensive income				78,074,939.12				50,725,311.05	16,989,921.11	145,790,171.28
(II) Invested and decreased capital of shareholders		(102,000,000.00)								(102,000,000.00)
1. Shareholder's contribution capital										
2. Contribution capital of holder of other equity instruments										
3. Amount of share-based payment recognized as share holder's interest										
4. Others		(102,000,000.00)								(102,000,000.00)
(III) Profit distribution						2,830,996.40		(11,977,253.00)	(6,125,223.87)	(15,271,480.47)
1. Appropriation of surplus reserves						2,830,996.40		(2,830,996.40)		
2. Appropriation of general risk reserve										
3. Distribution to owners (or shareholders)								(9,146,256.60)	(6,125,223.87)	(15,271,480.47)
4. Others										
(IV) Internal carryover in shareholder's equities										
1. Capital surplus converted to capital										
2. Surplus reserve converted to capital										
3. Surplus reserve to recover losses										
4. Others										
(V) Special reserve										
1. Appropriation in current year										
2. Amount used in current year										
(VI) Others										
<b>IV. Balance at end of current year</b>	457,312,830.00	507,192,452.66		164,632,863.45		209,313,480.05		482,238,546.28	91,178,815.24	1,911,868,987.68

# Parent Company's Statement of Changes in Shareholder's Equity

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

In the First Half of 2015

Unit: RMB Yuan

Item	Capital Stock	Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Total of shareholders' equity
<b>I. Balance at the end of previous year</b>	457,312,830.00	516,349,785.86		166,740,455.70		202,871,840.92		455,227,201.58	1,798,502,114.06
Add: Changes in accounting policies									
Corrections of prior period accounting errors									
Others									
<b>II. Balance at the beginning of current year</b>	457,312,830.00	516,349,785.86		166,740,455.70		202,871,840.92		455,227,201.58	1,798,502,114.06
<b>III. Current year increase/decrease (decrease to be listed with "-")</b>		11,492,000.00		1,050,300.80				14,859,056.82	27,401,357.62
(I) Total comprehensive income				1,050,300.80				24,005,313.42	25,055,614.22
(II) Invested and decreased capital of shareholders		5,592,000.00							5,592,000.00
1. Shareholder's contribution capital									
2. Contribution capital of holder of other equity instruments									
3. Amount of share-based payment recognized as share holder's interest									
4. Others		5,592,000.00							5,592,000.00
(III) Profit distribution								(9,146,256.60)	(9,146,256.60)
1. Appropriation of surplus reserves								(9,146,256.60)	(9,146,256.60)
2. Distribution to shareholders									
3. Others									
(IV) Internal carryover in shareholder's equities									
1. Capital surplus converted to capital									
2. Surplus reserve converted to capital									
3. Surplus reserve to recover losses									
4. Others									
(V) Special reserve									
1. Appropriation in current year									
2. Amount used in current year									
(VI) Others		5,900,000.00							5,900,000.00
<b>IV. Balance at end of current year</b>	457,312,830.00	527,841,785.86		167,790,756.50		202,871,840.92		470,086,258.40	1,825,903,471.68

# Parent Company's Statement of Changes in Shareholder's Equity (Continued)

Financial Report Profit and loss account prepared in conformity with PRC Accounting Standards (Unaudited)

2014

Unit: RMB Yuan

Item	Capital Stock	Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Total of shareholders' equity
<b>I. Balance at the end of previous year</b>	457,312,830.00	579,119,077.15		87,538,448.50		200,040,844.52		438,894,490.54	1,762,905,690.71
Add: Changes in accounting policies									
Corrections of prior period accounting errors									
Others									
<b>II. Balance at the beginning of current year</b>	457,312,830.00	579,119,077.15		87,538,448.50		200,040,844.52		438,894,490.54	1,762,905,690.71
<b>III. Current year increase/decrease (decrease to be listed with "-")</b>		(62,769,291.29)		79,202,007.20		2,830,996.40		16,332,711.04	35,596,423.35
(I) Total comprehensive income				79,202,007.20				28,309,964.04	107,511,971.24
(II) Invested and decreased capital of shareholders		(62,769,291.29)							(62,769,291.29)
1. Shareholder's contribution capital									
2. Contribution capital of holder of other equity instruments									
3. Amount of share-based payment recognized as share holder's interest									
4. Others		(62,769,291.29)							(62,769,291.29)
(III) Profit distribution						2,830,996.40		(11,977,253.00)	(9,146,256.60)
1. Appropriation of surplus reserves						2,830,996.40		(2,830,996.40)	
2. Distribution to shareholders								(9,146,256.60)	(9,146,256.60)
3. Others									
(IV) Internal carryover in shareholder's equities									
1. Capital surplus converted to capital									
2. Surplus reserve converted to capital									
3. Surplus reserve to recover losses									
4. Others									
(V) Special reserve									
1. Appropriation in current year									
2. Amount used in current year									
(VI) Others									
<b>IV. Balance at end of current year</b>	457,312,830.00	516,349,785.86		166,740,455.70		202,871,840.92		455,227,201.58	1,798,502,114.06

# Notes to the Financial Statements

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

## I. COMPANY PROFILE

Shandong Xinhua Pharmaceutical Company Limited (hereinafter referred to as “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 was 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. With 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 June 30, 2015 is RMB457,313,000 and the capital structure is as follow:

Class of shares	Quantity of shares	Proportion to total share capital (%)
I. Total number of shares subject to conditions of trading	–	–
Senior management A shares subject to conditions of trading	–	–
II. Total number of shares subject to conditions of trading	457,313	100.00
RMB common stocks (A share)	307,313	67.20
Overseas foreign shares (H share)	150,000	32.80
III. Total number of shares	457,313	100.00

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 the “Shandong Xinhua Group”). The ultimate control company is Hualu Holdings Co., Ltd. (hereinafter referred to as the “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 takes responsibility for the general meeting of shareholders, and executes company’s business decision-making right. Managers take 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.

## II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company involve 14 companies including the Company and Shandong Xinhua Medical Trade Co., Ltd.

# Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

## III. BASIS OF PREPARATION FOR FINANCIAL STATEMENTS

### 1. Preparation basis

The financial statements were prepared in accordance with the Basic Standard of the Accounting Standards for Business Enterprises, Specific Standards of the Accounting Standards for Business Enterprises, the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance on February 15, 2006 and thereafter (hereafter collectively referred to as “the Accounting Standards for Business Enterprises” or “CAS”) and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Rules on Financial Reporting (2014 revised) issued by the China Securities Regulatory Commission.

### 2. Going concern

The Company has a profitable operation history and finance resource support in recent period. The going-concern assumption on which the preparation of the financial statements by the company is based is reasonable.

### 3. Principal accounting policies

- 1) The accounting policies adopted in the Reporting Period are the same as that of the 2014 Annual Report.
- 2) During the Reporting Period, there was no change in accounting policies and accounting estimates.
- 3) The financial statement has been prepared based on accounting policies and estimates described in “Important Accounting Policies and Accounting Estimates” in Note 4.

## IV. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE

### 1. Declaration on compliance with ASBE

The financial statements prepared by the Company meet the requirements of ASBE and truly and fully reflect its financial condition, relevant information such as business performance and cash flow.

### 2. Accounting period

The accounting year of the Company runs from January 1 to December 31.

### 3. Bookkeeping base currency

The Company takes RMB as its recording currency.

### 4. Accountant arrangement methods for business combination under same control and not under same control

As for business combinations under the same control, assets and liabilities acquired by the Company as the combining party from business combination shall be measured based on the book value of the combined party in the final controller’s consolidated statement on the combination date. The difference between the carrying value of the net assets obtained and the carrying value of the consideration is adjusted against the capital reserve; if the capital reserve is not sufficient to offset the difference, the remaining balance is adjusted against retained earnings.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

Identifiable assets, liabilities and contingent liabilities of the combined party acquired in business combination not under the same control are measured at their fair value on the date of acquisition. The combination cost is the fair value, on the date of acquisition, of the assets paid, liabilities incurred or assumed and equity securities issued, plus all directly related costs paid for the combination by the combining party in order to take control of the combined party (as for business combinations not under the same control realized through multiple transactions step by step, the combination cost is equal to the sum of costs of all transactions). The difference between bigger amounts of combination cost than the fair value of identifiable net assets acquired from the combined party on the combining date is recognized as goodwill. In case of combination cost is lower than the fair value of identifiable net assets acquired from the combined party, the measurement of the fair value of identifiable assets, liabilities and contingent liabilities acquired from the combined party as well as the fair value of non cash assets or interest securities issued are reviewed; if the combination cost is still lower than the fair value of identifiable net assets acquired from the combined party upon review, the difference is recognized in non-operating income of the current period.

#### 5. Compilation method of consolidated financial statements

The Company includes all the controlled subsidiaries and structured subjects into the scope of consolidated financial statements.

During preparation of the consolidated financial statement, in the event that accounting policy or accounting period adopted by the subsidiary are not in line with those of the Company, financial statement of the subsidiary shall be adjusted according to the accounting policy and accounting period of the Company.

All major internal transactions, dealings balance, unrealized profits must be offset during the preparation of consolidated financial statement. The part of owners' equity of subsidiaries not attributable to the parent company as well as the amount in the current net profit and loss, other comprehensive income and total comprehensive income attributable to the minority shareholder's equity is recorded as minority shareholders' equity, minority shareholder's profit and loss, other comprehensive income attributable to minority shareholders and total comprehensive income attributable to minority shareholders respectively.

For subsidiaries acquired through business combination under the same control, the business performance and cash flows of such subsidiaries are included in the consolidated financial statements from the beginning of the current combination period. The relevant items of the previous financial statements shall be adjusted when the consolidated final statements are prepared and compared, and the reporting subject after the regarded combination shall exist from the final controller begins to take control.

For subsidiaries acquired through business combination not under the same control, operating results and cash flows of such subsidiaries are included in the consolidated financial statements from the date when the Company obtains the controlling power. When the consolidated financial statements are prepared, financial statements of the subsidiaries are adjusted based on the fair value of the identifiable assets, liabilities or contingent liabilities on the purchasing date.

#### 6. Cash and cash equivalents

Cash showed in the cash flow statement of the Company refers to cash on hand and deposit money which can be paid at any time and Cash Equivalent in the cash flow statement refers to the investment with a term not more than 3 months and strong liquidity, easily converted to known amounts of cash and having low value change risk.

# Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

## 7. Foreign currency business and statement translation

### 7.1 Foreign currency transaction

The Company's foreign currency transactions will be translated to the RMB amount from the foreign currency based on the spot exchange rate on the 1st day of month of the occurred transaction. Monetary items calculated in foreign currency in the balance sheet shall be translated into RMB as per spot rate on the balance sheet day; the exchange difference shall be calculated into the current profit and loss, after disposal of the balance of exchange that is formed by foreign currency loans borrowed for establishing or producing assets which meet with capitalized terms. The difference from translating the foreign currency non-monetary items measured at fair value to the RMB at the spot exchange rate on the date when the fair value is determined is directly recorded in the current profits and losses as the change in the fair value. Foreign currency non-monetary items measured with historical cost are still measured by the spot exchange rate of the transaction day, not changing its amount in RMB.

### 7.2 Conversion of foreign currency financial statements

Such items like assets and liabilities in the balance sheet are translated as per the spot exchange rate on the balance sheet date; For the items under the owner's equity, except for the item "undistributed profit", other items are translated as per the spot exchange rate as they occur. The income and expenditure items in the profit statement are converted at the spot rate of the transaction date. The conversion difference is listed independently under "other comprehensive profit" in the balance sheet. Foreign currency cash flow is converted as per the spot exchange rate on the date when the said cash flow occurs. The affected cash amount arising from the change of exchange rate is presented as a separate item in the cash flow statement.

## 8. Financial assets and financial liabilities

### 8.1 Classification of financial assets:

Financial assets of the Company, in terms of investment purpose and economic essence, are classified into financial assets measured at fair value with their changes recognized in profit & loss of the current period, held-to-maturity investment, loans and receivables and financial assets available for sale.

- (1) The financial assets measured at fair value with their changes recognized in profit & loss of the current period refer to the financial assets held for the purpose of selling within a short term.
- (2) Financial assets available for sale include non-derivative financial asset which is identified to be saleable from the initial confirmation, and financial asset which is not identified to under other categories.
- (3) Loans and receivables refer to non-derivative financial assets which is have no quotation in active markets, and have fixed or determinable return, including bill receivables, account receivables, interests receivables, dividend receivables and other receivables.
- (4) Held to maturity investment refers to non-derivative financial assets which have fixed maturity date, fixed or determinable recoverable amount, and the management has clearly intention and capability to hold until its maturity.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 8.2 Recognition and measuring for financial assets:

Financial assets shall be confirmed in the balance sheet as per fair value when the Company is becoming one of the parties of the financial instrument contract. As to the financial assets measured by fair value and changes of which will be calculated as current profit and loss, the relevant transaction fee happened when gaining it will be calculated as current profit and loss directly; relevant transaction fee of other financial assets will be calculated as initial recognition amount.

Financial assets measured by fair value and changes of which will be put into the current profit and loss, as well as saleable financial assets shall be subsequently measured with the fair value; receivables and investments held to maturity shall be measured with amortized cost by using the effective interest method.

Changes in fair value of financial assets measured at fair value through profit & loss are recorded in current profit & loss as the loss & profit on changes in fair value; interests or cash dividends acquired during asset holding period and disposal gains and losses arising on disposal are recorded in current profit & loss. The differences arising on disposal between the fair value and amount initially recognized are recognized as investment gains & losses, and the gains & losses of changes in fair value are adjusted at the meantime.

Besides the impairment loss and the exchange gain or loss formed from foreign monetary financial assets, changes of fair value of the saleable financial assets will be put into shareholders' equity, the accumulated amount of fair value changes which was directly put into equity won't be transferred into current profit and loss until the derecognition of this financial assets. The saleable debts instrument investment will be calculated as investment income based on calculating the interests as per effective interest method during the holding; saleable equity instrument investment's cash dividends will be calculated as investment income when the company which has received the investment to announce the distribution of dividends.

### 8.3 Decrease of financial assets:

The Company will check the book value of the financial assets on the balance sheet date, except those measured at fair value with their variance recorded as current profits and losses, and the impairment provision shall be drawn if there is objective evidence showing depreciation of the assets occurred.

For the quoted share investment, bond investment and other available for sale financial assets in active market, the Company recognizes the cost by the fair value of the market quotation of these assets on the active market at the year end and comparing the fair value of the consideration for obtaining such assets and the sum of all relevant transaction expenses, and the drop reaches or exceeds 50%. The Company, in view of the drop has last 12 months or more as of the date of balance sheet, records the accumulative impairment provision according to the difference between the cost and fair value at the year end.

When the financial asset measured by amortized cost has decreased in value, the impairment loss will be determined with the balance formed when book value is more than the present value of the expected future cash flow (excluding the future credit loss which has not happened yet). If there is objective evidence showing the value of this financial asset has recovered, and it is objectively related to matters happened after the loss is recognised, the impairment loss previously recognised will be reversed and calculated as current profit and loss.



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

When there is impairment loss of saleable financial assets, the accumulating loss formed due to decreases of the fair value and was directly calculated as shareholders' equity will be reversed and calculated as impairment loss. In respect of saleable debts instrument investments of which impairment loss has been recognised, if its fair value increases later on and it is objectively related to matters happened after recognition of impairment loss, the impairment loss recognised previously will be reversed and calculated as current profit and loss. In respect of saleable equity instrument investment of which impairment loss has been recognised, if its fair value later on increases, it will be calculated towards shareholders' equity.

#### 8.4 Transfer of financial assets:

Financial assets should be derecognized where any of the following conditions is met:

- (1) The contractual right to acquire cash flow of the said financial assets is terminated;
- (2) The financial assets and almost all risks and rewards from the ownership of the said financial assets are transferred to the transferee;
- (3) The financial assets has been transferred and the Company waives its control over the said assets, despite the Company has not transferred or retained any risks and rewards from the ownership of the said financial assets.

Where the company neither transfers nor retains any risks and rewards on the financial asset ownership, if the control over the financial asset is not waived, relevant financial asset should be recognized according to its continuing involvement in the transferred financial asset, and relevant liabilities should be recognized correspondingly. "Continuing involvement in the transferred financial asset" refers to the risk level the enterprise will face due to the change in value of such financial assets.

If the entire transfer of the financial assets meets derecognition conditions, the difference between the book value of transferred financial assets & consideration received from transferring such assets and the sum of accumulative amount of changes in fair value previously recognized in other comprehensive income should be included in current profits and losses.

Where the partial transfer of the financial assets meets derecognition conditions, the carrying amount of the transferred financial assets should be amortized between the derecognized and non-derecognized portions as per their relative fair values respectively; and the balance between the sum of the consideration from the transfer and the accumulative amount of changes in fair value which was previously recognized in other comprehensive income of the derecognized portion and aforesaid carrying amount should be included in current profits and losses.

#### 8.5 Financial liabilities:

Financial liabilities shall be classified into following categories at the initial confirmation: financial liabilities measured by fair value and the changes of which will be calculated as current profit and loss, and other financial liabilities.

Financial liabilities measured by fair value and the changes of which will be calculated as current profit and loss include tradable financial liabilities and financial liabilities which is defined to be measured by fair value and changes of which will be calculated as current profit and loss at the initial confirmation. Financial liabilities are measured at fair value. Profits or losses arising from changes of fair value and dividends and interest expenses in connection with such financial liabilities should be recorded in the current profits and losses.

Other financial liabilities will be measured based on amortized cost with using the effective interest method.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

Where the current obligation of financial liability has been terminated entirely or partly, derecognition shall be identified to this financial liability or part of it. The difference between the book value of the derecognized part and the consideration paid shall be included in current profits and losses.

#### 8.6 Determination methods for fair value of financial assets and financial liabilities

- (1) For the efficient financial assets or financial liabilities in the market, the quotations will be used for determination of their fair value. In an efficient 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. Offer and charge are not occurred for the financial assets or liabilities, but the economic environment has no 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 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.
- (2) When an active market does not exist, the fair value is determined through valuation techniques. Valuation techniques include reference to the prices used by the well-briefed parties which transact out of free will in the latest market transactions, reference to the current fair value of other financial assets which are similar in nature, discounted cash flow technique, and option pricing model.

#### 9. Bad debt provision for receivables

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.

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 with significant single amount and with provisions for bad debts for individual amounts

Criterion or amount standard for determining whether the individual amount is significant	Individual accounts receivable with more than 5 million is seen as a significant receivables
Drawing methods for accounts receivable with significant single amount and with provisions for bad debts for individual amounts	The provision of bad debts should be drawn according to the balance between the present value of expected future cash flow and the book value

## Notes to the Financial Statements (Continued)

(Unless other wise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Accounts receivable with provisions for bad debt drawn according to the combination of credit risks characteristics

#### Basis for determining 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

#### Methods for drawing bad debt provision by combination

Account age combination	Provision bad debts according to the aging analysis
Combination with the relationship between trading partners	Provision bad debts according to other methods
Combination for special accounts	Provision bad debts according to other methods

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

Age	Drawing proportion of accounts receivable (%)	Drawing proportion of other accounts receivable (%)
Within 1 year	0.5	0.5
1-2 years	20	20
2-3 years	60	60
More than 3 years	100	100

2) Accounts receivable with provision for bad debts drawn by other method:

Combination with the relationship between trading partners	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

# Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

## (3) Accounts receivable with amount not significant but drawn bad debt provision on single item

Reasons for individual 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
Drawing methods for bad debts provision	The provision of bad debts should be drawn according to the balance between the present value of expected future cash flow and the book value

## 10. 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; estimates the actual cost by using the weighted average method when purchasing or sending inventories; and using the initial cost to amortize the low-value consumable products and packing material.

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 that 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.

## 11. Long-term equity investment

Long-term equity investment comprises the Company's equity investments in subsidiaries, joint venture and consortium.

The Company determines the common control based on the control by all participants or combined participants of this arrangement, and the activity policy related to the arrangement must be subject to the unanimous consensus of the participants who collectively control such arrangement.

Confirmation basis for significant influence mainly includes: where the Company, directly or indirectly through subsidiaries, holds more than 20% (including 20%) but less than 50% of the voting shares of the invested party, the Company shall be confirmed to have significant influence on the invested party unless clear evidences are available to prove that the Company cannot participate in the production and operation decisions of the invested party under such conditions, thus constituting no significant influence.

If an invested company is controlled by the Company, it shall be regarded as a subsidiary of the Company. For long-term equity investment acquired through business combinations under the same control, the share in the book value of owner's equity of the combined party in the final controller's consolidated statement which is acquired at the date of combination is recognized as initial investment cost of the long-term equity investment. If the book value of the net assets combined party on the date of acquisition is negative, the cost of long-term equity investment is determined as zero.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

The long-term equity investment obtained through the enterprise combination not under the same common shall have the combination cost as the initial investment cost.

Besides the abovementioned long-term equity investments acquired through business combination, for those acquired through cash payment, the purchase price actually paid is recognized as the investment cost; for those obtained by issuing equity securities, the fair value of the issued equity securities is identified as the investment cost; while for those acquired from investors, the price of investment contract or agreed value is recognized as the investment cost; and for those obtained from debt restructuring and exchange of non-monetary assets, etc., its investment cost is confirmed in line with the provisions of the relevant accounting standards.

The investment made by the Company in subsidiaries is accounted for using the cost method, and the investment in joint venture and consortium is accounted for using the equity method.

The long-term equity investment calculated by the cost method in the follow-up measurement shall have the book value of the cost of long-term equity investment based on the fair value of the paid cost arising from the investment increment as well as the related transaction fees. The cash dividends or profits distribution declared by the investee are recognized as investment income of the current period based on the due amount.

The long-term equity investment measured by employing the equity method in the follow-up measurement shall have its book value increased or reduced based on the change in the owner's equity of the investee. The Company shall, on the basis of the fair value of all identifiable assets of the invested entity when it obtains the investment, in accordance with the accounting policies and accounting period, and with elimination of the profits or losses arising from intra-group transactions between the associated enterprise and joint venture to the extent of the investing enterprise (while the loss due to internal transaction belonging to asset impairment loss shall be recognized in full) recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity.

For the disposal of long-term equity investment, the difference between the book value and the price actually obtained shall be included in current investment profits and losses. For the long-term equity investment calculated by equity method which has been included in the owner's equity due to other changes in owner's equity (excluding the net profit or loss) of the invested entities, when disposed, the part which has been included in the owner's equity of such investment shall be transferred to current profits and losses according to certain proportion.

If the common control or significant influence on the investee is lost due to the disposal of some invested equity, the remaining equity after the disposal can be accounted by the financial assets for sale instead, and the difference between the fair value and book value of the remaining equity on the date of loss of common control or significant influence is recorded as the profit and loss of the current period. Other comprehensive income of the original equity investment recognized as the equity method shall be treated by the approach that is the same for direct disposal of the relevant assets or liabilities of the investee when the equity method is not used any longer.

If the Company loses the controlling power over the investee due to the disposal of some of the long-term equity investments but the remaining equity after disposal can exert joint control or significant influence on the investee, the equity method should be applied instead. The differences between book value and actual prices obtained after the disposal shall be recorded in investment income, and the remaining long-term equity investment shall be adjusted as initial adoption of equity method. The remaining equity after disposal that cannot exert common control over or significant influence on the subsidiary is treated otherwise according to relevant provisions of financial assets available for sale: the difference between the book value of the disposed equity and the disposed consideration is recorded in investment income, and the difference of the fair value and book value of the remaining equity on the date of control loss shall be charged to the current investment profit and loss.

# Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

## Financial Report (Prepared in Accordance with PRC Accounting Standards)

All transactions of the Company with regard to the step by step disposal of equity leading to the loss of controlling power are not a package of transactions, each transaction shall be subject to the accounting treatment individually; if they are a package of transactions, they shall be treated by an accounting approach as a transaction of subsidiary disposal and loss of control power. However, before the loss of controlling power, the difference between the payment of each transaction and the book value of the long-term equity investment corresponding to the disposed equity is recognized as other comprehensive income, and converted to the current profit and loss when the controlling power is lost.

### 12. Investment real estate

The Company's investment real estate includes land use right and buildings which have already been rented.

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 by using straight-line basis. The estimated life span, net residual rate and annual rate of depreciation (amortization) of investment real estate are as follows:

Category	Period of depreciation (year)	Expected residual value Rate (%)	Annual rate of depreciation (%)
Land usage right	Year of benefit transfer	0	–
Premises and buildings	20 years	5	4.75

When investment real estate is converted for self-use, such real estate shall be changed into fixed assets or intangible assets since the date of conversion. When real estate for self-use is converted for gaining rental income or capital increase, fixed assets or intangible assets shall be changed into investment real estate since the date of conversion. The carrying amount of the assets immediately before the change will be adopted as the cost immediately after the change.

If an investment real estate is disposed or withdrawn permanently from use and no economic benefit can be obtained from the disposal, the recognition of the investment real estate shall be terminated. The disposal income from selling, transferring, discarding or damaging of investment real estate shall be deducted by the book value thereof and relevant taxes and then included in current profits and losses.

### 13. Fixed assets

#### 13.1 Recognition principles and measurement method 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, rental, or 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.

Classification of Fixed assets: fixed assets are classified into premises & buildings, machinery and equipment, transportation equipment, office equipment and other equipment.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

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 by the value which is stipulated in the investment contract or agreement, in the circumstance of unfair value occurred the auditors should records the fair value that stipulated in the contract in accordance with the regulations that addressed in the contracts. Recorded value of a fixed asset obtained by finance lease is the lower of the fair value of the leased asset at the commencement of the lease term and the present value of the minimum lease payments.

#### 13.2 The depreciation methods and period of fixed assets

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 is 5%. Depreciation of a fixed asset shall be provided for monthly and, depending on the purpose for which the fixed asset is used, shall either be included as part of the cost of the related assets or recognized in profit or loss for the current period. The estimated useful life and rate of depreciation are as follows:

Category	Period of depreciation (year)	Annual rate of depreciation (%)
Premises and buildings	20	4.75
Machinery and equipment	10	9.50
Electronic instrument	5	19.00
Office equipment and vehicles	5	19.00

#### 13.3 Subsequent expenditure and disposal of fixed assets

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.

At the end of the year, recheck the service life, expected net salvage value and depreciation method of the fixed assets. Any change shall be handled as changes in accounting estimates.

Confirmation of derecognized the fixed assets when fixed assets are disposed, or through the use or disposal cannot be expected to produce any economic benefits. The disposal income from selling, transferring, discarding or damaging of fixed assets shall be deducted by the book value thereof and relevant taxes and then included in current profits and losses.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 13.4 Recognition principles, measurement and depreciation method for assets held under finance leases

Recognition principle of fixed assets held under finance leases: A lease is classified as a finance lease if it transfers effectively all the risks and rewards incidental to ownership. Situations that would normally lead to a lease being classified as a finance lease include one or more than one of the following:

- (1) The lease transfers ownership of the asset to the lessee by the end of the lease term;
- (2) the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- (3) Even if title is not transferred, the lease term will represent most parts of the economic life of the asset;
- (4) The present value of the minimum lease payment for the lessee at the inception of the lease nearly equals to the fair value of the leased asset at the inception of the lease; and/or
- (5) The lease assets are of a specialised nature such that only the lessee can use them unless major modifications are made.

Valuation methods of fixed assets held under finance leases: the initial value of a fix asset held under a finance lease should be the lower of the fair value of the leased asset at the inception of the lease and the present value of the minimum lease payment of the asset, which should be the recorded value.

The subsequent valuation adopted for making provisions for depreciation and impairment losses in respect of assets held under finance leases shall be consistent with the depreciation policy for other fixed assets owned by it.

### 14. Projects under construction

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 labour cost, and direct construction expenses. The determination of the cost of constructing work is according to amount paid to the contractor. The determination of the cost of equipment installation is subject 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.

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.



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 15. Borrowing costs

Borrowing costs include borrowing interest, amortization of discount or premium, auxiliary expenses and exchange difference caused by foreign currency loans. The borrowing costs for construction or production, which can be directly included in assets satisfying capitalization conditions, shall begin capitalization when the expenditures of the assets and the borrowing costs occur and construction or production activities necessary for making the assets available for predicted use or selling begin. The construction or production assets which satisfy capitalization conditions shall stop capitalization when the assets are available for predicted use or selling. Other borrowing costs should be determined as expenditures when incurred.

When funds are borrowed under a specific purpose, the interest of borrowing amount to be capitalized is the actual interest expense incurred in the certain time less the interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. The weighted average interest rate of general borrowing shall be determined as per the weighted average of which the accumulative asset expenditures exceed special borrowing asset expenditures multiplied capitalization rate of general borrowing used. Capitalization rate shall be calculated by weighted average interest rate of general borrowing.

The assets in compliance with capitalization conditions refer to the fixed assets, investment real estate and inventory that require considerable long time (usually referred as more than one year) of construction or production to reach their intended usable and marketable condition.

If assets satisfying capitalization conditions are suspended in construction or production for more than three months continuously, the capitalization of the suspended borrowing costs shall stop until the to restart of construction and production of the assets.

### 16. Intangible assets

#### 16.1 The pricing method of intangible assets:

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

#### 16.2 Amortization of intangible assets:

The right of using land is amortized evenly over the whole period of the right. The right of using software 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 estimates as five years of the company according to the law. 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.

**16.3** For an intangible asset with a finite useful life, the Company should verify and adjust the useful life by using amortization method at the end of each financial year. 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.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

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### 17. 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 which had incurred. Expenditure on the development phase is recognized as an intangible asset when all of the following conditions are satisfied: 1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; 2) the intention to complete the intangible asset and use or sell it; 3) there is a market for the output of the intangible asset or the intangible asset itself; 4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; 5) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure on the development phase does not meet all the above conditions should be recorded in the profit or loss in the period 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 use.

### 18. Impairment for non-financial assets

The Company will assess the long-term equity investment fixed assets, construction-in-progress, finite useful life of intangible assets at each balance sheet date, furthermore will conduct the measurement of impairment if there is any indication shows that an asset may be impaired. 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 to the group 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. The recoverable amount of assets is the net amount that the fair value of assets deducts disposal fees, or current value of estimated future cash flow of the assets, whichever is higher.

The following are indications that an asset may be impaired: 1) market value of the asset has declined rapidly and exceed the estimated decrease due to common range of the passage of time and normal use; 2) there are significant changes in technology, economic or legal environment in the current period or near future which will take an adverse effect on the Company; 3) 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; 4) evidence of obsolescence or physical damage of an asset is available; 5) an asset has become or is becoming idle, the Company discontinues using an asset or plans to dispose of an asset before the previous expected date; 6) 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; 7) other indication showing that an asset may be impaired.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

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### 19. Goodwill

Goodwill is the amount at the acquisition date or purchasing date, of the investment cost or cost of business merger under same 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.

### 20. Payroll

The staff remuneration of the Company includes the short-term remuneration, post-leaving benefits and dismissal benefits.

The short-term remuneration mainly includes staff wages and worker welfare funds. During the accounting period of an employee's service, the occurred short-term remuneration recognized as a liability, and included in the current profits and losses or costs of related assets according to the benefit object.

The post-leaving benefits mainly include the basic endowment insurance and unemployment insurance premium, and are classified into the defined contribution plan and defined benefit plan according to the risks and obligations of the Company. For the defined contribution plan, the funds drawn for the benefit of the individual subject in exchange for the employee's service during the accounting period on the date of balance sheet are recognized as the liability, and recorded as the current profits and losses or costs of related assets according to the benefit object. The Company has no defined benefit plan.

When the Company cannot unilaterally withdraw the demission benefits because of the termination of employment relationship plan or dismissal suggestion, or when the costs or expenses (whichever is earlier) with regard to the restructuring of the payment of the demission benefits is recognized, the employee compensation liabilities arising from the demission benefits are recognized and included in profit or loss for the current period.

### 21. Estimated liabilities

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, satisfies all of the following conditions: 1) the obligation is a present obligation of the Company; 2) it is probable that an outflow of economic benefits will be required to settle the obligation; 3) the amount of the obligation can be measured reliably.

Measurement of provision: A provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation, considering 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.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 22. Method for 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, relatively economic benefit will flow into the Company and the following conditions can be satisfied, further details are as following:

#### 22.1 The recognition principles of the revenue from selling goods:

the significant risks and rewards of ownership of the goods have been transferred to the buyer; the Company retains neither continuous management right that usually keeps relation with the ownership nor the effective control over sold goods; the amount of the revenue can be measured in a reliable way; the relevant economic benefits are likely to flow into the enterprise; the relevant costs incurred or to be incurred can be measured in a reliable way.

#### 22.2 Recognition principles of rendering labour services:

The income by providing services shall be recognized when the total income and cost of services of the Company can be reliably measured, the economic benefit can flow to the Company, and the completion level of services can be reliably determined. Revenue for provision of services which started and completed in the same accounting year shall be recognized upon completion of such service; in the event that the provision of services is not completed in one accounting year, revenue for such service shall be recognized based on the completion percentage at the balance sheet date, provided that results of service can be reliably estimated.

#### 22.3 Principles for recognition of revenue from transferring the right to use assets:

Revenue from transferring the right to use assets shall be recognized when economic benefits related to the transaction can flow to the Company, and the amount of revenue can be measured in a reliable way.

### 23. Government subsidy

Government subsidy indicates the Company acquired monetary assets or non-monetary assets from the government without compensation. Government subsidy is recognized when the Company complies with the conditions attaching to the subsidy and the Company is able to receive the subsidy.

If the government subsidy is the form of a transfer of monetary assets, it is measured by the received amount; if the government subsidy is allocated with norm criteria, or the Company has sufficient evidence to show it confirms the conditions related to financial support policies, it is measured by the receivable amount. If the government subsidy is in a form of a non-monetary asset, it is measured at the fair values; if the fair values are not reliably given, they will be calculated at the nominal amounts of RMB1.

The Company's government subsidies are classified as related to assets or related to income. Government subsidy related to asset means the subsidy the Company acquires and uses for construction or other ways that create long-term assets. Government subsidy related to income mean subsidy excluding government subsidy related to assets. If there is no explicit object of grant indicated in the government document, the Company will estimate grants based on the criterion described above.

Asset-related government subsidy shall be recognized as deferred revenues, and it shall be distributed evenly during the useful life of related asset and be charged to current profits and losses. The revenues-related government subsidy used to compensate for related charges or losses at the future periods should be recognized as deferred revenues, and it should be charged to profits and losses at the period when it is recognized; while those used to compensate for the incurred related charges or losses of the enterprise should be charged to current profits or losses directly.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

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### 24. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities shall be recognized by calculating the difference (temporary difference) between the tax base and book value thereof. As to taxable income with deductible loss and tax deduction that can be deducted in the future as specified by tax laws, corresponding deferred tax assets shall be recognized as per temporary differences. Deferred tax assets and deferred tax liabilities on balance sheet date shall be valued according to applicable tax rate during anticipated period for withdrawing such assets or during period for paying off such liabilities.

The Company recognizes the corresponding deferred tax assets arising from other deductible temporary differences to the extent that the amount of taxable income to be offset by the deductible temporary difference is likely to be obtained by the Company. The carrying amount of deferred tax assets shall be reviewed; if it is unlikely to acquire sufficient taxable income that may be used to offset the interests of deferred tax assets, the carrying amount of the deferred tax assets shall be reduced. Any such reduction in amount is reversed to the extent if it becomes probable that sufficient taxable profits will be available.

### 25. Accounting of income tax

The accounting treatment of corporate income tax will be conducted by using balance sheet liability method. Income tax expenses include current income tax and deferred income tax. Except for income tax for the year and deferred income tax related to transactions and issues directly included in shareholder's equity which are included in shareholder's equity and the book values of the goodwill adjusted based on the deferred income tax generated from business combination, the residual income tax for the year and deferred income tax expenses or earnings shall be included in current profit and loss.

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 end of year recognized in the method of debit in using balance sheet liability method.

### 26. Important accounting policy and accounting estimate change

In the first half of 2015, there was no important accounting policy and account estimate change for the Company.

### 27. Finance leases

The Company's financing lease business is mainly composed of assets held under finance leases.

The Company entered, at commencement of the lease term, the lower of the fair value of the asset held under finance lease and its present value of the minimum lease payment as the recorded value of the leased asset, and entered the value of the minimum lease payment as the recorded value for long-term payables, and the difference of the two as unrecognized finance charge.

Unrecognized finance charges were amortized during the lease period with the adoption of the effective interest method and was recorded as finance expenses. Initial direct costs incurred by the Company were recorded towards the value of the leased assets.

# Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

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## V. TAXES

Main taxes and their rates applicable for the Company:

### 1. Income tax

According to the approval of the Lu-Ke-Zi [2015] No. 33 of Department of Science and Technology, Department of Finance of Shandong Province, Shandong State Taxation Bureau and Shandong Local Taxation Bureau, the Company was identified as a high-tech enterprise, and the Company has obtained the certificate of high-tech enterprises on 31 October, 2014 (GR201437000377) with the validity period of 3 years. According to the provisions of Enterprise Income Tax Law of the People's Republic of China, the Company enjoys the preferential tax policy of 15% enterprise income tax. The year of 2014 is a tax preferential year for the Company, and the applicable income tax rate is 15%.

According to the approval of the Lu-Ke-Zi [2015] No. 33 of Department of Science and Technology, Department of Finance of Shandong Province, Shandong State Taxation Bureau and Shandong Local Taxation Bureau, the subsidiary of the Company, Shandong Zibo Xincat Pharmaceutical Company Limited (Xincat Pharm) was identified as a high-tech enterprise, and Xincat Pharm has obtained the certificate of high-tech enterprises on 31 October, 2014 (GR201437000570) with the validity period of 3 years. Based on Enterprise Income Law of the People's Republic of China, XINCAT PHARM shall enjoy a preferential tax rate of 15% for business income tax. The year of 2015 is the preferential tax period of XINCAT PHARM, and the applicable income tax rate is 15%.

The business income tax rates of the Company's subsidiaries, Shandong Xinhua Pharmaceutical (Europe) Company Limited and Shandong Xinhua Pharmaceutical (American) Company Limited, adopt that provided under the respective local tax laws.

The applicable tax rate of business income tax for other subsidiaries of the Company is 25%.

### 2. Value-added tax

The value added tax is applicable to the Company's commodity sales revenue, of which the rate for the commodities sold domestically is 17% or 13%, and exported products enjoy the method of "VAT tax exemption, offset and refund". The export tax rebate rates are divided into 3 levels, being 9%, 13%, and 15% respectively.

The input added-value tax of payment for purchase of raw materials can be used to deduct output tax, with the tax rate of 17% generally.

The added-value tax payable is the current output tax less current input tax.

### 3. Business tax

The business tax of the Company shall be calculated based on the design fee, and the applicable tax rate is 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.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 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%.

## VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENT

Unless otherwise indicated the terms of, 'beginning of the year' refers to 1 January, 2015, 'end of the year' refers to 30 June, 2015. 'Current year' refers to period from January 1 to 30 June, 2015. 'Last year' refers to period from 1 January to 30 June 2014. In the following notes the financial statements all figures are stated in RMB1,000.

### 1. Currency funds

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original currency	Exchange rate	Translated into RMB	Original currency	Exchange rate	Translated into RMB
Cash on hand	-	-	251	-	-	234
Including: USD	8	6.1136	46	7	6.1190	42
EURO	1	6.8699	8	4	7.4556	30
HKD	15	0.78861	12	15	0.788870	12
JPY	66	0.0501	3	66	0.051371	3
Bank deposit	-	-	377,241	-	-	284,051
Including: USD	9,080	6.1136	55,511	6,961	6.1190	42,608
EURO	1	6.8699	7	105	7.4556	781
HKD	4	0.78861	3	3	0.78887	2
GBP	510	9.6422	4,917	648	9.5437	6,185
Other currency funds	-	-	128,556	-	-	44,485
<b>Total</b>	<b>-</b>	<b>-</b>	<b>506,048</b>	<b>-</b>	<b>-</b>	<b>328,769</b>

At the end of the year, the bank acceptance security deposits in other monetary fund balance is RMB25,206,000, the BG/SBLC deposit RMB3,350,000 and structural deposit RMB100,000,000.

The monetary fund balance at the end of the period increased compared with the initial period, mainly because that the Company acquired a bank loan of RMB80,000,000 and acquired a loan of RMB100,000,000 via finance lease arrangements, whereas the corresponding expenditure has not yet incurred.

### 2. Notes receivable

Type of note	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bill	156,106	126,184
Commercial Acceptance Bill	4,686	2,699
<b>Total</b>	<b>160,792</b>	<b>128,882</b>

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

(1) By the end of 30 June, in respect of the balance of notes receivable, there were no bills having been pledged.

(2) **Endorsed but undue notes receivable on the date of balance sheet at the year end**

Item	Derecognized amount at the year end	Not derecognized amount at the year end
Bank acceptance bill	<b>455,657</b>	–

(3) As of 30 June, 2015, the Company has no outstanding bank acceptance bill which has been discounted.

### 3. Accounts receivable

(1) **Risk classification of account receivables**

Item	Balance at the end of the year			
	Amount	Proportion %	Provision for bad debts	Proportion %
Accounts receivable with significant single amount but drawn bad debt provision on single item	<b>50,313</b>	<b>9.75</b>	<b>50,313</b>	<b>100.00</b>
Accounts receivable with provision for bad debts drawn by combination	–	–	–	–
Account age combination	<b>449,960</b>	<b>87.22</b>	<b>3,150</b>	<b>0.70</b>
Combination with the relationship between trading partners	<b>9,752</b>	<b>1.89</b>	<b>0</b>	<b>0.00</b>
Combination for special accounts	<b>328</b>	<b>0.06</b>	<b>0</b>	<b>0.00</b>
Combination sub-total	<b>460,040</b>	<b>89.18</b>	<b>3,150</b>	<b>0.68</b>
Accounts receivable with insignificant single amount but drawn bad debt provision on single item	<b>5,511</b>	<b>1.07</b>	<b>5,511</b>	<b>100.00</b>
Total	<b>515,864</b>	–	<b>58,974</b>	–



## Notes to the Financial Statements (Continued)

(Unless other wise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

Item	Balance at the beginning of the year		Provision for bad debts	
	Amount	Proportion %	Amount	Proportion %
Accounts receivable with significant single amount but drawn bad debt provision on single item	54,257	14.47	54,257	100.00
Accounts receivable with provision for bad debts drawn by combination	–	–	–	–
Account age combination	310,737	82.86	3,009	0.97
Combination with the relationship between trading partners	3,438	0.92	0	0.00
Combination for special accounts	784	0.21	0	0.00
Combination sub-total	314,959	83.98	3,009	0.96
Accounts receivable with insignificant single amount but drawn bad debt provision on single item	5,811	1.55	5,811	100.00
<b>Total</b>	<b>375,027</b>	<b>–</b>	<b>63,077</b>	<b>–</b>

- 1) Accounts receivable with significant amount but drawn bad debt provision on single item at the end of year.

Unit Name	Book balance	Amount of bad debts	Drawing proportion (%)	Drawing reason
Shandong Xin Kang Qi Pharmaceutical Co., Ltd. *	40,590	40,590	100	Consider the solvency and full provision
Zibo Hua Bang Pharmaceutical Co., Ltd.	9,723	9,723	100	Consider the solvency and full provision
<b>Total</b>	<b>50,313</b>	<b>50,313</b>	<b>–</b>	<b>–</b>

- \* Shandong Xin Kang Qi Pharmaceutical Co., Ltd. (hereinafter referred to as Xin Kang Qi) and Zibo Huabang Pharmaceutical Sales Co., Ltd. (hereinafter referred to as Huabang) which have guarantee relationship between each other are unable to make payments to the Pharmaceutical and Trading Company, one of the subsidiaries of the Company, because of Xin Kang Qi's operation is in the abnormal condition and capital chain breaks off. The Company records the full preparation for the impairment of above accounts receivable.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

- 2) In combination, accounts receivable with provisions for bad debt drawn by aging analysis:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion %	Provision for bad debts	Amount	Proportion %	Provision for bad debts
Within 1 year	447,975	0.5	1,781	308,517	0.5	1,542
1-2 years	385	20	77	524	20	105
2-3 years	773	60	464	835	60	501
More than 3 years	828	100	828	861	100	861
Total	449,961	-	3,151	310,737	-	3,009

- 3) In combination, accounts receivable with provision for bad debts drawn by other method:

Combination name	Book balance	Amount of bad debts
Combination with the relationship between trading partners	9,752	-
Combination for special accounts	328	-
Total	10,080	-

- 4) Accounts receivable with insignificant amount but drawn bad debt provision on single item at the end of the year

Unit Name	Book balance	Amount of bad debts	Withdrawal proportion %	Drawing reason
Shandong Xin Bao Pharmaceutical Co., Ltd. *	1,891	1,891	100	Consider the solvency and full provision
Shandong Xinhua Industry & Trade Company	1,150	1,150	100	Consider the solvency and full provision
Shandong Heng An Pharmaceutical Co., Ltd.	965	965	100	Consider the possibility of loan repayment
Shandong Hua Yao Pharmaceutical Co., Ltd.	1,373	1,373	100	Consider the possibility of loan repayment
Shandong Haiwang Yinhe Pharmaceutical Co., Ltd.	132	132	100	Consider the possibility of loan repayment
Total	5,511	5,511	-	-

\* Shandong Xinbao Pharmaceutical Co., Ltd. (hereinafter referred to as Xinbao) and Xin Kang Qi which have guarantee relationship between each other are unable to make payments to the Pharmaceutical and Trading Company, one of the subsidiaries of the Company, because of Xin Kang Qi's operation is in the abnormal condition and capital chain breaks off. The Company records the full preparation for the impairment of above accounts receivable.

## Notes to the Financial Statements (Continued)

(Unless other wise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Drawn and reversed (or recovered) provision for the bad debts in the year

There was no provision for bad debts of the current year, and the reversed or recovered provision for the bad debt in the current year amounts to RMB3,944,000.

The reversed or recovered provisions for bad debts in the current year mainly include:

Unit Name	Reversal (or recall) in the current year	Basis for determining the original bad debt reserves	Reason for reversal (or recall) in the current year
Shandong Xin Kang Qi Pharmaceutical Co., Ltd.	3,944	Consider the solvency	Cash recover

### (3) Actual write-off accounts receivable during the year

The accounts receivable to be written off in the current year is RMB159,000, which is the bad debt owed by Yantai Longchang Pharmaceutical Co., Ltd. as a result of the cancellation of industrial and commercial registration. The Company has written it off.

(4) The balance of the accounts receivable at the year end does not contain the arrearage owed by shareholders holding more than 5% (including 5%) of the voting rights in the Company.

### (5) Top five debtors of unpaid amount of year-end balance of accounts receivable

Unit Name	Ending balance	Age	Proportion of the total balance of the accounts receivable the end of the year (%)
Shandong Xin Kang Qi Pharmaceutical Co., Ltd.	40,590	More than 3 years	7.87
F.Hoffmann-La Roche AG	30,697	Within 1 year	5.95
Zibo Central Hospital	23,517	Within 1 year	4.56
Naturex Ingredientes Naturais Ltd	13,599	Within 1 year	2.64
The People's Hospital of Gaoqing County	12,488	Within 1 year	2.42
Total	120,891		23.44

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

- (6) In the total of the accounts receivable at the year end, the amount of the accounts receivable due by the affiliates is RMB10,901,000, accounting for 2.12% of the balance of accounts receivable, with the details as follows:

Unit Name	Relation with the Company	Amount	Proportion to total sum (%)
Hualu Group Corporation Limited	Other related party	6,169	1.20
Perrigo Company	Other related party	3,551	0.69
Shandong Xinhua Industry & Trade Company	Other related party	1,150	0.22
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	31	0.01
Total		10,901	2.12

- (7) Accounts receivable include the balance of the following foreign currency:

Foreign currency name	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	31,715	6.1136	193,894	24,464	6.1190	149,698
EURO	-	-	-	51	7.4556	381
GBP	418	9.6422	4,028	317	9.5437	3,022
Total	-	-	197,922	-	-	153,101

- (8) All accounts receivable with provision for bad debt drawn by aging analysis:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion %	Provision for bad debts	Amount	Proportion %	Provision for bad debts
Within 1 year	458,054	0.5	1,781	312,739	0.5	1,542
1-2 years	385	20	77	524	20	105
2-3 years	773	60	464	835	60	501
More than 3 years	56,652	100	56,652	60,929	100	60,929
Total	515,864	-	58,974	375,027	-	63,077

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 4. Prepayments

#### (1) Aging of prepayments

Item	Balance at the end of the year		Balance at the beginning of the year	
	Amount	Proportion %	Amount	Proportion %
Within 1 year	27,534	63.74	42,363	99.79
1–2 years	15,662	36.25	85	0.20
2–3 years	2	–	2	–
More than 3 years	5	0.01	5	0.01
Total	43,203	100.00	42,455	100.00

#### (2) Top five advance payments at the year end by the object:

Unit Name	Amount	Age	Proportion (%)	Reasons for not settled
Land prepayment	15,400	Within 2 year	35.65	Land certification is handling
Jiangsu QiAn Construction Group Co., Ltd.	3,915	Within 1 year	9.06	Project not yet completed
Tibet Shenwei Pharmaceutical Co., Ltd.	1,954	Within 1 year	4.52	Goods not yet reached
State grid Zibo power supply company of Shandong Province	1,801	Within 1 year	4.17	Goods not yet reached
Shandong Tiantai Construction Co. Ltd.	1,133	Within 1 year	2.62	Project not yet completed
Total	24,203		56.02	

(3) The balance of the advance payment at the year end does not contain the payment from shareholders holding more than 5% (including 5%) of the voting rights in the Company.

#### (4) Foreign currency balance in the advance payment

Foreign currency name	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	183,850	6.1136	1,123,989	807	6.1190	4,939

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 5. Other accounts receivable

#### (1) Classification of other receivables

Item	Balance at the end of the year			
	Amount	Proportion %	Provision for bad debts	Proportion %
Other receivables with significant amount but drawn bad debt provision on single item	25,924	27.52	22,624	87.27
Other receivables with provision for bad debts drawn by combination	–	–	–	–
Account age combination	45,325	48.12	9,388	20.71
Combination with the relationship between trading partners	8	0.01	–	–
Combination for special accounts	20,114	21.36	–	–
Combination sub-total	65,447	69.49	9,388	14.34
Other receivables with insignificant amount but drawn bad debt provision on single item	2,815	2.99	2,815	100.00
Total	94,186	–	34,827	–

Item	Balance at the beginning of the year			
	Amount	Proportion %	Provision for bad debts	Proportion %
Other receivables with significant amount but drawn bad debt provision on single item	25,924	34.35	22,624	87.27
Other receivables with provision for bad debts drawn by combination	–	–	–	–
Account age combination	28,025	37.13	9,388	33.50
Combination with the relationship between trading partners	8	0.01	–	–
Combination for special accounts	18,709	24.78	–	–
Combination sub-total	46,742	61.92	9,388	20.08
Other receivables with insignificant amount but drawn bad debt provision on single item	2,815	3.73	2,815	100.00
Total	75,481	–	34,827	–

The increase of other receivables at the end of the period is mainly due to the increase of payments of various kinds of security deposits such as that for financing leases.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

- 1) Other accounts receivable with significant amount but drawn bad debt provision on single item at the end of the year

Unit Name	Book balance	Amount of bad debts	Drawing proportion (%)	Drawing reason
Nanjing Huadong Pharmaceutical Co., Ltd.	6,600	3,300	50.00	Consider of possibility of recovery
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324	100.00	Consider the solvency and full provision
Compensation payment for the land of Houzhen Project Area*	8,000	8,000	100.00	Consider of possibility of recovery
Total	25,924	22,624		

\* The payment for the land of Houzhen Project Area is the one-time compensation payment for the western part of the land and the attachments thereon as agreed between the subsidiary of the Company, Xinhua Pharmaceutical (Shouguang) Co., Ltd. and Houzhen Project Area in 2011. As the financial funds of Houzhen Project Area are in shortage with the age, the payment is difficult to be recovered, the provision for bad debt had been drawn for all of this payment in 2014.

- 2) In combination, other receivables of bad debt reserves are drawn by aging analysis:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion %	Provision for bad debts	Amount	Proportion %	Provision for bad debts
Within 1 year	32,966	0.5	53	15,789	0.5	79
1-2 years	3,754	20	751	3,633	20	727
2-3 years	54	60	33	52	60	31
More than 3 years	8,551	100	8,551	8,551	100	8,551
Total	45,325	-	9,388	28,025	-	9,388

- 3) In combination, accounts receivable with provision for bad debts drawn by other method:

Combination name	Book balance	Amount of bad debts
Combination with the relationship between trading partners	8	-
Total of combination for special accounts	20,114	-
Total	20,122	-

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

- 4) Other accounts receivable with insignificant amount but drawn bad debt provision on single item at the end of year

Unit Name	Book balance	Amount of bad debts	Withdrawal Proportion %	Drawing reason
Harbin Pharmaceutical Group Holding Shi Yi Tang Bai Chuan Trading Co., Ltd.	795	795	100	Long aging and irrecoverable
Linyi Mingyao Chemical Co., Ltd.	652	652	100	Unable to be recovered as the legal judgment determines, and provision to be withdrawn for all of the payment
Jiangsu EnhuaHerun Medicine Co., Ltd.	308	308	100	Long aging and irrecoverable
Shandong Haiwang Yinhe Pharmaceutical Co., Ltd.	213	213	100	Long aging and irrecoverable
Xinjiang Shenzhou Pharmaceutical Co., Ltd.	186	186	100	Long aging and irrecoverable
Shandong Kangyuan Medicine Co., Ltd.	164	164	100	Long aging and irrecoverable
Lianyungang Kanion Trading Pharmaceutical Co., Ltd.	116	116	100	Long aging and irrecoverable
Linyi Renhua Pharmaceutical Co., Ltd.	95	95	100	Long aging and irrecoverable
Heze Peony Pharmaceutical Co., Ltd.	68	68	100	Long aging and irrecoverable
Pingyuan County Pharmaceutical Co., Ltd.	52	52	100	Long aging and irrecoverable
Anhui Huashi Pharmaceutical Co., Ltd.	52	52	100	Long aging and irrecoverable
Harbin Zhenbaodao Medical Trading Co., Ltd.	28	28	100	Long aging and irrecoverable
Shandong Yiyuan Medical Co. Ltd.	25	25	100	Long aging and irrecoverable
Hainan Hailing Pharmaceutical Co., Ltd.	20	20	100	Long aging and irrecoverable
Jiangxi Hui ren Pharmaceutical Co., Ltd.	15	15	100	No transaction, full provision
Jiangxi Jiangzhong Medical Trading Co., Ltd.	8	8	100	No transaction, full provision
Linyi Zhongrui Medical Co., Ltd.	7	7	100	No transaction, full provision
Jiangxi Zhongxing Hanfang Pharmaceutical Co., Ltd.	4	4	100	No transaction, full provision
Shandong Guoying Medical Co., Ltd.	4	4	100	Long aging and irrecoverable
Shandong Kangda Medical Co., Ltd.	2	2	100	No transaction, full provision
Zhangye Zhongxing Pharmaceutical Co., Ltd.	1	1	100	No transaction, full provision
Total	2,815	2,815	-	-



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

**(2) Accrual, reversal or recall of bad debt reserves in the current year**

There was no provision for bad debts for the period; there was no recall or reversal of provisions for bad debts for the period.

**(3) Other accounts receivable actually written off in the current year**

No other accounts receivable were actually written off in the current year.

**(4)** The balance of the accounts receivable at the year end of 2014 does not contain the arrearage owed by shareholders holding more than 5% (including 5%) of the voting rights in the Company.

**(5) Classification of other accounts receivable by nature**

Nature of payment	Ending book balance	Book balance at beginning of year
Cash deposit and guarantee deposit	12,746	3,122
Open credit	53,867	39,113
Accounts receivables and tax deductible	20,770	18,973
Advanced R&D fee and consulting fees	1,723	5,473
Others	5,080	8,800
Total	94,186	75,481

**(6) Top five debtors of unpaid amount of year-end balance of other accounts receivable**

Unit Name	Amount	Age	Proportion (%)	Year end balance of the provision for bad debts	Property contents
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	More than 3 years	12.02	11,324	Long-term credit payment transfer-in
Ping An International Finance Lease Co., Ltd.	8,000	Within 1 year	8.49	-	Open credit
Compensation Payment for the land of Houzhen Project Area	8,000	More than 3 years	8.49	8,000	Compensation payment receivable
Nanjing Huadong Pharmaceutical Co., Ltd.	6,600	Within 2 year	7.01	3,300	Payment of claims
Value-added tax	5,738	Within 1 year	6.09	-	Export output tax amount
Total	39,662		42.11	22,624	

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

- (7) In the balance of other accounts receivable at the year end, the amount of the accounts receivable due by the affiliates is RMB11,332,000, accounting for 12.03%. The details are as follows:

Unit Name	Relation with the Company	Amount	Proportion to total sum (%)
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	11,324	12.02
Shandong Xinhua Industry & Trade Company	Other related party	8	0.01
Total		<u>11,332</u>	<u>12.03</u>

- (8) The aging of accounts payable based on their recording dates is analysed below:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion %	Provision for bad debts	Amount	Proportion %	Provision for bad debts
Within 1 year	51,287	0.5	53	35,532	0.5	78
1-2 years	8,404	20	4,051	9,198	20	4,027
2-3 years	54	60	33	1,374	60	1,353
More than 3 years	34,441	100	30,690	29,376	100	29,368
Total	<u>94,186</u>	-	<u>34,827</u>	<u>75,480</u>	-	<u>34,826</u>

- (9) Other receivables consists of the following foreign currency balance:

Foreign currency name	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	7.4556	12
USD	95,345	6.1136	582,903	3,958	6.1190	24,219

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 6. Provision for inventory falling price

#### (1) Classifications of inventories

Item	Balance at the end of the year			Balance at the beginning of the year		
	Book balance	Falling price reserves	Book value	Book balance	Falling price reserves	Book value
Raw materials	63,623	1,054	62,569	67,944	1,054	66,891
Products in process	123,310	137	123,173	192,554	137	192,417
Goods in stock	309,331	4,604	304,727	319,234	4,832	314,402
Low-value consumables	11,029	–	11,029	13,338	–	13,338
Licensed reserved materials	1,840	–	1,840	1,840	–	1,840
Total	509,133	5,795	503,338	594,910	6,022	588,888

#### (2) Provision for inventory falling price

Classifications of inventories	Balance at the beginning of the year	Withdrawal in current period	Decrease in Reversed amount	Current Period Write-off amount	Balance at the end of the year
Raw materials	1,054	–	–	–	1,054
Products in process	137	–	–	–	137
Goods in stock	4,831	–	–	227	4,604
Total	6,022	–	–	227	5,795

Provision for inventory falling price is detailed in “Important Accounting Policy and Estimate 10. Inventory” of the Note IV.

#### (3) Accrual of Provision for inventory write-down

Item	Basis to account and draw provision for inventory falling price	Causes for reversal provision for inventory falling price in current period	Proportion of amount reversed to end balance of inventories in current period
Raw materials	Book value is lower than the net realizable value	–	–
Products in process	Book value is lower than the net realizable value	–	–
Goods in stock	Book value is lower than the net realizable value	–	–
Finished products	Book value is lower than the net realizable value	–	–

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 7. Other current assets

Item	Balance at the end of the year	Balance at the beginning of the year	Type
Enterprise income tax prepayment	4,386	482	Enterprise income tax prepayment
Government bonds reverse repurchase	10,552	20,334	
Total	14,938	20,816	

### 8. Financial assets available for sale

#### (1) Condition of available-for-sale financial assets

Item	Ending Balance			Balance at beginning of the year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Equity instrument available-for-sale	251,826	30,000	221,826	250,591	30,000	220,591
Measured by fair value	218,626	–	218,626	217,391	–	217,391
Measured by cost	33,200	30,000	3,200	33,200	30,000	3,200

The balance of the financial assets available for sale increases at the year end mainly due to rising stock prices and the rise in the fair value of the equity instruments available for sale which is measured by fair value.

#### (2) Financial assets available for sale measured by the fair value at the year end

Item	Equity instruments available for sale (measured by fair value)
Cost of equity instruments	21,225
End fair value	218,626
Changed amount of the fair value accumulatively included in other comprehensive income	197,401
Provision for impairment	–

## Notes to the Financial Statements (Continued)

(Unless other wise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (3) Financial assets available for sale measured by the cost at the end of the year

Invested entities	Beginning	Book balance		End
		Increase in current year	Decrease in current year	
Ruiheng Pharmaceutical Technology Investment Company	3,200	–	–	3,200
Tiantong Securities	30,000	–	–	30,000
Total	33,200	–	–	33,200

Invested entities	Beginning	Provision for impairment			Shareholding proportion in the invested entities (%)	Cash bonus in current year
		Current year Increase	Current year Decrease	End		
Ruiheng Pharmaceutical Technology Investment Company	–	–	–	–	2.91	175
Tiantong Securities	30,000	–	–	30,000	–	–
Total	30,000	–	–	30,000	–	175

### (4) Provision for impairment of financial assets available for sale

Classification of the financial assets available for sale	Equity instruments available for sale (measured by fair value)	Equity instrument available-for-sale (measured by amortized cost)	Total
Amount drawn for the impairment at the beginning of the year	–	30,000	30,000
Drawing in current year	–	–	–
Including: transferred in from other comprehensive income	–	–	–
Decrease in Current Year	–	–	–
Including: fair value transferred back after the period	–	–	–
Provision for impairment at the end of the year	–	30,000	30,000

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 9. Investment real estate

#### (1) Investment real estate measured by cost

Item	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
<b>Original price</b>	94,983	20,525	–	<b>115,508</b>
Premises and buildings	86,207	17,078	–	<b>103,285</b>
Land usage right	8,776	3,448	–	<b>12,224</b>
<b>Total accumulated depreciation and amortization</b>	25,398	2,333	–	<b>27,731</b>
Premises and buildings	24,520	2,187	–	<b>26,708</b>
Land usage right	878	146	–	<b>1,023</b>
<b>Net book value</b>	69,585	–	–	<b>87,777</b>
Premises and buildings	61,687	–	–	<b>76,577</b>
Land usage right	7,898	–	–	<b>11,200</b>
<b>Provision for impairment</b>	–	–	–	<b>–</b>
Premises and buildings	–	–	–	<b>–</b>
Land usage right	–	–	–	<b>–</b>
<b>Book Value</b>	69,585	–	–	<b>87,777</b>
Premises and buildings	61,687	–	–	<b>76,577</b>
Land usage right	7,898	–	–	<b>11,200</b>

The depreciation and amortization amount of the year is RMB2,333,000.

(2) The Property Title Certificates for the Research Centre No. 1 and Xinhua Mansion are under way.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 10. Fixed assets

#### (1) Detail list of fixed assets

Item	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the term
<b>Original price</b>				
Premises and buildings	1,139,773	8,152	18,643	<b>1,129,282</b>
Machinery equipment	1,964,708	25,654	11,663	<b>1,978,699</b>
Transportation equipment	24,144	3,209	326	<b>27,027</b>
Office equipment and miscellaneous	58,919	3,031	54	<b>61,896</b>
Total	<u>3,187,544</u>	<u>40,046</u>	<u>30,686</u>	<u><b>3,196,904</b></u>
<b>Accumulated depreciation</b>				
Premises and buildings	317,989	28,054	353	<b>345,690</b>
Machinery equipment	835,208	76,016	9,435	<b>901,789</b>
Transportation equipment	17,973	1,188	276	<b>18,885</b>
Office equipment and miscellaneous	38,302	3,174	52	<b>41,424</b>
Total	<u>1,209,472</u>	<u>108,432</u>	<u>10,116</u>	<u><b>1,307,788</b></u>
<b>Net book value</b>				
Premises and buildings	821,784	–	–	<b>783,592</b>
Machinery equipment	1,129,500	–	–	<b>1,076,910</b>
Transportation equipment	6,171	–	–	<b>8,142</b>
Office equipment and miscellaneous	20,617	–	–	<b>20,472</b>
Total	<u>1,978,072</u>	<u>–</u>	<u>–</u>	<u><b>1,889,116</b></u>
<b>Provision for impairment</b>				
Premises and buildings	–	–	–	<b>–</b>
Machinery equipment	2,121	–	–	<b>2,121</b>
Transportation equipment	–	–	–	<b>–</b>
Office equipment and miscellaneous	7	–	–	<b>7</b>
Total	<u>2,128</u>	<u>–</u>	<u>–</u>	<u><b>2,128</b></u>
<b>Book Value</b>				
Premises and buildings	821,784	–	–	<b>783,592</b>
Machinery equipment	1,127,379	–	–	<b>1,074,789</b>
Transportation equipment	6,171	–	–	<b>8,142</b>
Office equipment and miscellaneous	20,610	–	–	<b>20,465</b>
Total	<u>1,975,944</u>	<u>–</u>	<u>–</u>	<u><b>1,886,988</b></u>

Among the increased fixed assets, there were no transferred from projects under construction. Among the accumulated depreciation added during this year, the depreciation charge for the year was RMB108,432,000.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Temporarily idle fixed assets

Item	Original book value	Accumulated depreciation	Provision for impairment	Net book value	Remarks
Premises and buildings	3,864	839	–	3,025	
Machinery equipment	20,158	14,294	2,121	3,743	
Office equipment and miscellaneous	219	206	7	6	
Total	24,241	15,339	2,128	6,774	

### (3) Fixed assets whose title certificates are not obtained yet

Name of Properties	Original value	Net value	The time expected to complete the title documents
Premises and buildings	467,842	411,090	handling

### (4) Fixed assets acquired by finance lease

Item	Original book value	Accumulated depreciation	Net book value
Machinery equipment	102,726	39,604	63,122

## 11. Projects under construction

### (1) Details of projects under construction

Item	Balance at the end of the year			Balance at the beginning of the year		
	Book balance	Provision for impairment	Net book value	Book balance	Provision for impairment	Net book value
Innovation Park – Xinhua Building	677	–	677	63	–	63
Innovation Park – Annex Building	5,855	–	5,855	4,088	–	4,088
Innovation Park – R & D centre 1#	2,387	–	2,387	2,233	–	2,233
Innovation Park – R & D centre 2#	753	–	753	753	–	753
Xinhua Shouguang III east industrial park project	15,986	–	15,986	12,218	–	12,218
Project of Hutian	44,084	–	44,084	19,076	–	19,076
Chemical and pharmaceutical industrialization center of Hutian (Tribendimidine project)	983	–	983	131	–	131
Public works of Hutian	8,598	–	8,598	2,816	–	2,816
Barbitone, TMP, CPC product relocation	4,032	–	4,032	3,959	–	3,959
Public works of pentamine series products of Hutian	108	–	108	19,713	–	19,713
GMP transformation project	6,987	–	6,987	6,737	–	6,737
Others	127,989	–	127,989	105,995	–	105,995
Total	218,439	–	218,439	177,782	–	177,782



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Changes in major projects under construction

Name of Project	Balance at the beginning of the year	Decrease in Current Year			Balance at the end of the year
		Increase in current year	Fixed assets transferred	Other decreases	
Innovation Park – Xinhua Building	63	614	–	–	677
Innovation Park – Annex Building	4,088	1,767	–	–	5,855
Innovation Park – R & D centre 1#	2,233	154	–	–	2,387
Innovation Park – R & D centre 2#	753	–	–	–	753
Xinhua Shouguang III east industrial park project	12,218	3,858	–	90	15,986
Project of Hutian	19,076	25,905	–	897	44,084
Chemical and pharmaceutical industrialization center of Hutian (Tribendimidine project)	131	952	–	100	983
Public works of Hutian	2,816	5,782	–	–	8,598
Barbitone, TMP, CPC product relocation	3,959	73	–	–	4,032
Public works of pentamine series products of Hutian	19,713	95	–	19,700	108
GMP transformation project	6,737	250	–	–	6,987
Others	105,995	21,994	–	–	127,989
<b>Total</b>	<b>177,782</b>	<b>61,444</b>	<b>–</b>	<b>20,787</b>	<b>218,439</b>

Name of Project	Budget	Proportion of project investment in the budget (%)	Engineering schedule	Accumulated amount of capitalized interest	Including:		Financial resource
					Amount of capitalization of interest in current year	Rate of interest in current year (%)	
Innovation Park – Xinhua Building	79,700	111.14	In progress	–	–	–	Own funds
Innovation Park – Annex Building	16,160	101.73	In progress	–	–	–	Own funds
Innovation Park – R & D centre 1#	16,850	76.18	In progress	–	–	–	Own funds
Innovation Park – R & D centre 2#	25,000	112.61	In progress	–	–	–	Own funds
Xinhua Shouguang III east industrial park project	383,098	4.17	In progress	–	–	–	Own funds
Project of Hutian	677,000	76.36	In progress	–	–	–	Outside financing
Chemical and pharmaceutical industrialization center of Hutian (Tribendimidine project)	45,000	102.25	In progress	–	–	–	Own funds
Public works of Hutian	32,000	150.33	In progress	–	–	–	Own funds
Barbitone, TMP, CPC product relocation	55,000	96.97	In progress	–	–	–	Own funds
Public works of pentamine series products of Hutian	28,000	70.74	In progress	–	–	–	Own funds
GMP transformation project	28,300	24.69	In progress	–	–	–	Own funds

- (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.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 12. Intangible assets

#### (1) Intangible assets

Item	Balance at the beginning of the year	Increase in current period	Decrease in current period	Balance at the end of the year
<b>Original price</b>	387,665	5,550	11,891	<b>381,324</b>
Land usage right	354,307	5,527	11,839	<b>347,995</b>
Software usage right	7,423	23	52	<b>7,394</b>
Non-patent technology	23,496	–	–	<b>23,496</b>
Others *	2,439	–	–	<b>2,439</b>
<b>Accumulated amortization</b>	74,703	6,249	1,733	<b>79,219</b>
Land usage right	52,943	3,948	1,733	<b>55,158</b>
Software usage right	5,201	362	–	<b>5,563</b>
Non-patent technology	15,588	1,694	–	<b>17,282</b>
Others	971	245	–	<b>1,216</b>
<b>Net book value</b>	312,962	–	–	<b>302,105</b>
Land usage right	301,364	–	–	<b>292,837</b>
Software usage right	2,222	–	–	<b>1,831</b>
Non-patent technology	7,908	–	–	<b>6,214</b>
Others	1,468	–	–	<b>1,223</b>
<b>Provision for impairment</b>	–	–	–	<b>–</b>
Land usage right	–	–	–	<b>–</b>
Software usage right	–	–	–	<b>–</b>
Non-patent technology	–	–	–	<b>–</b>
Others	–	–	–	<b>–</b>
<b>Book Value</b>	312,962	–	–	<b>302,105</b>
Land usage right	301,364	–	–	<b>292,837</b>
Software usage right	2,222	–	–	<b>1,831</b>
Non-patent technology	7,908	–	–	<b>6,214</b>
Others	1,468	–	–	<b>1,223</b>

\* Other indicated client resources purchased by the Company from Eastwest United Group Inc.

Among the accumulated amortization added during this year, the amortization charge for the year was RMB6,249,000.

(2) The Company got a loan of RMB12,548,000 from the China Construction Bank, Zibo branch by mortgaging two lands in Hutian town, Zhangdian with property numbers of “state-owned (2009), NO. 15409” and “state-owned (2009) NO. 15408” to the bank. (Please see details in Note 25 – Non-current assets due within one year Note 6 of the consolidated financial statement). The mortgaged lands cover a total area of 187,930 square meters, with original book value of RMB73,109,000 and net book value of RMB64,458,000.

(3) The following certificates of land use right of our Company are in progress:

Land Location	Net Value of land
Land use right	11,101

(4) There exists no impairment of value in the intangible assets in the Company at the year-end, hence there is no provision for it.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 13. Goodwill

#### (1) Original value of business reputation

Name of Invested Entities	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Xinhua Pharmaceutical (Gaomi) Company Limited	2,716	–	–	2,716

#### (2) Provision for impairment of goodwill

Name of Invested Entities	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Xinhua Pharmaceutical (Gaomi) Company Limited	2,716	–	–	2,716

### 14. Deferred income tax assets

#### (1) Confirmed deferred income tax assets

Item	Balance at the end of the year	Balance at the beginning of the year
Provision for bad debts of subsidiaries	17,902	18,494
Provision for decline in value of inventories of subsidiaries	573	573
Provision for decline in value of fixed assets of subsidiaries	88	88
Unpaid salaries of subsidiaries	1,057	1,057
Estimated debt of the subsidiary	–	1,416
Unrealized internal profits on sales and purchase with subsidiaries	7,841	4,243
Total	27,461	25,871

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Temporary differences corresponding to asset items that potentially cause temporary differences

Deductible temporary difference items	Balance at the end of the year	Balance at the beginning of the year
Provisions for bad debts of the subsidiary	71,801	75,745
Provision for decline in value of inventories of subsidiaries	2,293	2,293
Provision for decline in value of fixed assets of subsidiaries	351	351
Unpaid salaries of subsidiaries	4,229	4,229
Estimated debt of the subsidiary	–	9,440
Unrealized internal profits on sales and purchase with subsidiaries	45,903	23,605
Total	<b>124,577</b>	<b>115,663</b>

### 15. Details of provision for impairment of assets

Item	Balance at the beginning of the year	Decrease in Current Year			Balance at the end of the year
		Increase in current year	Reversed amount	Other transfer	
Provision for bad debts	97,904	–	3,944	159	93,801
Provision for inventory falling price	6,022	–	–	227	5,795
Provision for impairment of fixed assets	2,128	–	–	–	2,128
Provision for impairment of financial assets available for sale	30,000	–	–	–	30,000
Provision for impairment of goodwill	2,716	–	–	–	2,716
Total	<b>138,770</b>	<b>–</b>	<b>3,944</b>	<b>386</b>	<b>134,440</b>

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 16. Short-term borrowing

Category	Balance at the end of the year	Balance at the beginning of the year
Credit loans	470,928	288,567
Guaranteed loan	–	141,412
Pledge loans	–	–
Total	470,928	429,979

The reason for the increase in short-term loans at the end of the year in the Company was mainly due to the new loans in order to make up for the cash flow.

### 17. Notes payable

Type of note	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bill	83,161	117,672
Commercial Acceptance Bill	3,641	4,503
Total	86,802	122,175

Notes payable at the end of the year that expire 31st December, 2015 amount to RMB86,802,000.

### 18. Accounts payable

#### (1) Accounts payable

	Balance at the end of the year	Balance at the beginning of the year
Within 1 year	435,747	352,986
1–2 years	3,464	2,744
2–3 years	1,184	1,574
More than 3 years	4,118	3,799
Total	444,513	361,103

(2) Balance of the accounts payable at the end of the year includes not the accounts of shareholders that behold more than 5% (5% inclusive) voting right of the Company.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (3) Accounts payable include the following foreign currency balance:

Foreign currency name	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	4,433	6.1139	27,104	2,506	6.1190	15,333

## 19. Accounts received in advance

### (1) Accounts received in advance

	Balance at the end of the year	Balance at the beginning of the year
Advances from customers	38,695	34,417
Including: above 1 year	2,727	1,302

(2) Balance of the accounts payable at the end of the year doesn't include the accounts of shareholders that behold more than 5% (5% inclusive) voting right of the Company.

### (3) Accounts received in advance include the following foreign currency balance:

Foreign currency name	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	3,423	6.1136	20,925	7,974	6.1190	48,794
EURO	11	6.8699	76	11	7.4556	82

## 20. Payroll payable

### (1) Classification of payroll payable

Item	Balance at beginning of the year	Increase in current year	Decrease in current year	Ending balance
Short-term wages	36,288	211,810	227,232	20,866
Welfare after leaving				
– Defined contribution plan	–	26,617	26,617	–
Termination benefits	–	85	85	–
Total	36,288	238,512	253,934	20,866

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Short-term wages

Item	Balance at beginning of the year	Increase in current year	Decrease in current year	Ending balance
Salary, bonus, allowance and subsidy	27,313	179,261	194,773	11,801
Employee welfare expenses	543	10,461	10,461	543
Social insurance charges	–	11,135	11,135	–
Including: Medical insurance premiums	–	9,015	9,015	–
Employment injury insurance premium	–	1,217	1,217	–
Childbirth insurance premium	–	903	903	–
Housing fund	303	8,087	8,077	313
Labor union expenditure & personnel education fund	8,129	2,866	2,786	8,209
Total	36,288	211,810	227,232	20,866

The large decrease of short-term wages at the end of the period was mainly a result of payment in this year of year-end bonus and other bonuses provided for at the end of the previous year.

### (3) Defined contribution plan

Item	Balance at beginning of the year	Increase in current year	Decrease in current year	Ending balance
Basic endowment insurance	–	25,331	25,331	–
Unemployment insurance premium	–	1,286	1,286	–
Total	–	26,617	26,617	–

## 21. Taxes and dues payable

Categories of Tax	Balance at the end of the year	Balance at the beginning of the year
Value-added tax	7,524	(1,594)
Business tax	263	151
Income tax payable	2,750	6,516
City maintenance and construction tax	2,006	515
Personal income tax	941	590
House property tax	2,866	2,565
Land use tax	3,904	3,698
Stamp duty	119	347
Educational surcharge	1,455	368
Local Water Conservancy Construction Fund	290	74
Total	22,118	13,230

The large increase of tax payable was mainly due to larger amount of value-added tax remained at the beginning of last year.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 22. Interest payable

Item	Balance at the end of the year	Balance at the beginning of the year
Interest of long-term loans for which interest paid in installment, principal to pay when due	<b>22,783</b>	587

### 23. Dividends payable

Item	Balance at the end of the year	Balance at the beginning of the year
Dividend of ordinary share	9,146	–
Others	5,311	5,311
Total	<b>14,457</b>	5,311

### 24. Other payables

#### (1) Other payables

Item	Balance at the end of the year	Balance at the beginning of the year
Equipment project fund payable	110,242	151,582
Cash deposit and guarantee deposit	12,407	13,156
Power expenses, freight and consulting fee	3,039	4,992
Investment payable	4,628	4628
Others	15,188	9,693
Total	<b>145,504</b>	184,051
Including: above 1 year	<b>22,319</b>	23,548

(2) Balance of the accounts payable at the end of the year includes not the accounts of shareholders that behold more than 5% (5% inclusive) voting right of the Company.



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (3) Other large-sum accounts payable at the end of the year

Item	Amount	Age	Property or contents
Shandong Antai Construction Engineering Co., Ltd.	4,166	Within 1 year	Project transaction
Shandong Zijian Group Co., Ltd. Fifth Branch	2,698	Within 1 year	Project transaction
Ji'nan Century Ai'neng Technology Co.,Ltd.	2,685	Within 1 year	Project transaction
Jiangsu Leke Thermodynamics Science and Technology Co., Ltd.	2,431	Within 1 year	Project transaction
Jiangsu Saideli Pharmaceutical Machinery Manufacturing Co., Ltd.	2,388	Within 1 year	Project transaction
Total	14,368		

### (4) Other payables include the following foreign currency balance:

Foreign currency name	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	-	-	-	15	7.4556	113
USD	91	6.1136	558	13	6.1190	82

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

### (1) Non-current liabilities due within one year

Item	Balance at the end of the year	Balance at the beginning of the year
Long-term loans due within one year	402,502	408,908
Finance lease loans due within one year	36,720	-
Unrecognized finance fees due within one year	(3,386)	-
Total	435,836	408,908

### (2) Classification of long-term loans due within one year

Category	Balance at the end of the year	Balance at the beginning of the year
Guaranteed loan	179,454	181,192
Credit loans	210,500	211,620
Mortgage loans	12,548	16,096
Total	402,502	408,908

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

Credit loans that expire within one year include a loan of RMB200,000,000 from the ultimate holding company Hualu Holdings Co., Ltd. with commission charge of RMB300,000 paid in advance.

Mortgage loans due within one year refers to the accounts of the loan provided by China Construction Bank Zibo Branch to the Company that should be returned in 2015 according to the repayment schedule. (See details in Notes "VI. Combined Financial Statement Principal Item Note (12) Intangible Assets")

#### (3) Details of the long-term loans due within one year

Loans from	Starting date of loan	End date of loan	Currency	Rate of interest	Balance at the end of the year	Balance at the beginning of the year
Qingdao Branch of Nanyang Commercial Bank (China) Limited	2013-12-06	2015-01-06	USD	5.00%	–	1,420
Loans in relation to key construction project	2009-06-30	2017-06-29	RMB	5.35%	6,800	6,800
Zibo Branch of Bank of China	2013-10-15	2016-10-15	RMB	6.15%	2,000	2,000
Zibo Branch of Bank of China	2014-03-31	2017-03-31	RMB	6.15%	2,000	2,000
Qingdao Branch of the Export-Import Bank of China	2014-01-17	2015-07-17	RMB	4.20%	150,000	150,000
Hualu Holdings Co., Ltd.	2013-01-01	2015-12-31	RMB	6.40%	199,700	199,400
Zibo Branch China Construction Bank	2011-03-04	2016-03-03	RMB	6.45%	12,548	16,096
Zibo Branch China Construction Bank	2012-10-30	2017-04-29	RMB	6.40%	3,493	3,493
Zibo Branch China Construction Bank	2013-01-14	2017-04-29	RMB	6.40%	3,493	3,493
Zibo Branch China Construction Bank	2013-03-07	2017-04-29	RMB	6.40%	3,259	3,842
Zibo Branch China Construction Bank	2013-08-12	2017-04-29	RMB	6.40%	5,775	6,930
Zibo Branch China Construction Bank	2013-09-09	2017-04-29	RMB	6.40%	4,003	4,003
Zibo Branch China Construction Bank	2013-11-11	2017-04-29	RMB	6.40%	9,431	9,431
Total					402,502	408,908

#### 26. Other current liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Deferred income carried over in one year	4,452	5,042

Deferred income carried over in one year referred to 3000 ton Bunuofen project grants, technology centre creativity construction project, Aspirin product GMP modification project, MVR power saving technological transformation project, Aspirin optimal variety cultivation project, Aspirin series product technological transformation project and recycling project of waste heat from incinerators and the eastern zone carried over within one year.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 27. Long-term loans

#### (1) Classification of long-term loans

Category	Balance at the end of the year	Balance at the beginning of the year
Guaranteed loan	98,108	31,966
Credit loans	596,150	599,800
Mortgage loans	–	4,183
Total	694,258	635,949

(2) The granted loan was guaranteed by Hualu Holdings Co., Ltd., the ultimate holding company for the Company (see details in “XI. Relationship of related party and its transaction (II) connected transaction 5. Guarantee acceptance”).

(3) Credit loans include a loan of RMB500,000,000 from the ultimate controlling company Hualu Holdings Co., Ltd. with commission charge of RMB2,250,000 paid in advance.

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

Loans from	Starting date of loan	End date of loan	Currency	Rate of interest	Balance at the end of the year	Balance at the beginning of the year
Key project construction loan	2009-6-30	2017-6-29	RMB	5.35%	6,400	9,800
Bank of China Zibo Branch	2013-10-15	2016-10-15	RMB	6.15%	92,000	93,000
China Construction Bank Zibo Branch	2011-3-4	2016-3-3	RMB	6.45%	–	4,183
China Construction Bank Zibo Branch	2012-10-30	2017-4-29	RMB	6.40%	1,029	2,776
China Construction Bank Zibo Branch	2013-1-14	2017-4-29	RMB	6.40%	2,156	3,902
China Construction Bank Zibo Branch	2013-3-7	2017-4-29	RMB	6.40%	2,676	4,014
China Construction Bank Zibo Branch	2013-8-12	2017-4-29	RMB	6.40%	4,930	7,240
China Construction Bank Zibo Branch	2013-9-9	2017-4-29	RMB	6.40%	2,180	4,182
China Construction Bank Zibo Branch	2013-11-11	2017-4-29	RMB	6.40%	5,137	9,852
The Export-Import Bank of China Qingdao Branch	2013-1-1	2015-12-31	RMB	3.40%	80,000	–
Hualu Holdings Co., Ltd.	2011-12-30	2016-12-30	RMB	5.83%	497,750	497,000
Total					694,258	635,949

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 28. Special payables

Item	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year	Remarks
Chemical and pharmaceutical technological innovation *	13,000	–	–	13,000	

\* In accordance to the Circular on Indexes of Budgets for Provincial State-Owned Capital Including Key Technological Innovation and Industrialization Projects (LCQZ [2013] No. 109) released by Shandong Province Finance Bureau, Hualu Holdings Co., Ltd., the ultimate holding company of the Company has received a special fund of technological innovation of RMB32,000,000, among which some RMB13,000,000 was accrued to the Company through the “chemical and pharmaceutical technological innovation program” according to the Circular on Releasing Distribution and Operational Program of the Special Fund for Technological Innovation (HLKGF [2014] No. 21), mainly for transformation of technical labs and purchasing of instrument and equipment.

### 29. Estimated liabilities

Item	Ending balance	Balance at beginning of the year	Causes
Pending action	–	9,440	*

\* A contingency that recognized as estimated liability by Shandong Zibo Xincat Pharmaceutical Co., Ltd. had been judged in this year, and relevant funds had been paid.

### 30. Deferred income tax liabilities

#### (1) Components of deferred tax liabilities after netting off

Item	Balance at the end of the year		Balance at the beginning of the year	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Fair value variation of financial assets available for sale	100,091	15,573	95,300	14,997

## Notes to the Financial Statements (Continued)

(Unless other wise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Offset details of deferred income tax assets and liabilities

Item	Temporary difference	Amount of deferred income tax of current year
<b>Deferred income tax assets</b>		
Bad debts reserves of parent company	21,356	3,203
Provision for decline in value of inventories of parent company	2,527	379
Provision for impairment of financial assets available for sale of parent company	30,000	4,500
Unpaid salaries of parent company	25,131	3,770
Unpaid expense drawn in advance of parent company	5,222	783
Unamortized deferred income over five years of parent company	18,662	2,799
<b>Subtotal</b>	<b>102,898</b>	<b>15,434</b>
<b>Deferred income tax liabilities</b>		
Fair value variation of financial assets available for sale of parent company	197,401	29,610
Assets assessment appreciation	5,588	1,397
<b>Subtotal</b>	<b>202,989</b>	<b>31,007</b>
<b>Net amount after offset</b>	<b>100,091</b>	<b>15,573</b>

### 31. Deferred income

#### (1) Categories of deferred income

Item	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year	Causes
Government subsidy	55,244	4,610	11,332	48,522	

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Items for government subsidies

Items for government subsidies	Balance at the beginning of the year	Newly increased amount of subsidy of the current year	Amount of non-business income of the current year	Other changes	Balance at the end of the year	Asset-related/revenue-related
Compensation for relocation <sup>1</sup>	20,845	-	5,025	-	15,820	Asset-related
3,000-ton Ibuprofen project <sup>2</sup>	2,213	-	295	590	1,918	Asset-related
High-tech industrialization project of Tribendimidine	4,080	-	(1,230)	5,310	-	Asset-related
Program for developing innovation abilities in technical center <sup>3</sup>	3,333	-	250	500	3,083	Asset-related
Project of transformation of aspirin series products GMP <sup>4</sup>	8,418	-	609	1,217	7,809	Asset-related
Special fund for MVR energy-saving technical transformation <sup>5</sup>	320	-	20	40	300	Asset-related
Cultivation of quality medicine varieties of aspirin <sup>6</sup>	10,338	-	713	1,425	9,625	Asset-related
Project of technical transformation of aspirin series products <sup>7</sup>	767	-	50	100	717	Asset-related
Special fund for MVR energy-saving technical transformation <sup>8</sup>	4,080	-	240	480	3,840	Asset-related
Recycling project of waste heat from incinerators and the eastern zone <sup>9</sup>	850	-	50	100	800	Asset-related
Integrated control against atmosphere pollution in the recycling project of organic gases including dichloromethane <sup>10</sup>	-	4,610	-	-	4,610	Asset-related
<b>Total</b>	<b>55,244</b>	<b>4,610</b>	<b>6,022</b>	<b>9,762</b>	<b>48,522</b>	

Other variation represents the governmental subsidies expected to be transferred into income in 2015 and the amount would be shown in "Other current liabilities".

\*1. According to the "Shandong Province Zibo City Eastern Chemical Area Relocation Plan" issued in September, 2008, some products of the Company were listed into the unified relocation plan. In light of this, Zibo City Finance Bureau granted some funds as compensation for the relocation in accordance with documents ZiCaiQi [2009] No. 29, No. 33 and No. 55 on financial companies in the city. Actual loss in the relocation of the Company in this year amounted to RMB5,025,000 and have been transferred into Non-operating Revenue accordingly.

\*2. According to the document No. 157 on guidance to Shandong financial construction released by Shandong Province Financial Bureau in 2009, the Company has received subsidies of RMB5,900,000 for project of the 3,000 tons of Ibuprofen. The loss and gain are brought forward by the Company as per 10-year period. Upon disclosure in 2014, the amount predicted to be brought forward to income in 2015 shall be reclassified and presented in Other Current Liabilities. The balance failing to be carried over in the subsidy is still presented in Other Non-current Liabilities.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

- \*3. According to document No. 1247 on high-technology released by National Development and Reform Commission in 2011, the Company has received a governmental subsidy of RMB5,000,000 for project of developing innovation abilities in technical center. The loss and gain are brought forward by the Company as per 10-year period. Upon disclosure in 2015, the amount predicted to be brought forward to income in 2015 shall be reclassified and presented in Other Current Liabilities. The balance failing to be carried over in the subsidy is still presented in Other Non-current Liabilities.
- \*4. According to ZFGF [2012] No. 253 Document issued by Zibo Development and Reform Commission and Zibo Economy and Informatization Commission, the Company has received government subsidies for reconstruction project upon GMP of Aspirin series in 2012, which amounted to RMB12,170,000. The loss and gain are brought forward by the Company as per 10-year period. Upon disclosure in 2014, the amount predicted to be brought forward to income in 2015 shall be reclassified and presented in Other Current Liabilities. The balance failing to be carried over in the subsidy is still presented in Other Non-current Liabilities.
- \*5. According to ZZGBZ [2012] No. 73 Document issued by Zibo People's Government Office, the Company has received special funds for MVR energy-saving technical transformation in 2012, which amounted to RMB400,000. The loss and gain are brought forward by the Company as per 10-year period. Upon disclosure in 2014, the amount predicted to be brought forward to income in 2015 shall be reclassified and presented in Other Current Liabilities. The balance failing to be carried over in this subsidy is still presented in Other Non-current Liabilities.
- \*6. According to ZCJZ [2013] No. 41 Document issued by Zibo Finance Bureau and Zibo Science and Technology Bureau, LKZ [2012] No. 187 Document issued by Administrative Office of Shandong Science and Technology Department and ZKF [2012] No. 61 Document issued by Zibo Science and Technology Bureau, the Company has received the subsidy for cultivation of quality medicine varieties of aspirin in 2013, which amounted to RMB14,250,000. The loss and gain is brought forward by the Company as per 10-year period. Upon disclosure in 2014, the amount predicted to be brought forward to income shall be reclassified and presented in Other Current Liabilities. The balance failing to be carried over in this subsidy is still presented in Other Non-current Liabilities.
- \*7. According to ZGXGF [2013] No. 11 Document issued by Zibo High-tech Industrial Development Zone Administration Commission, the Company received the funds for technical transformation project of the Aspirin series in 2013, which amounted to RMB1,000,000. The loss and gain are brought forward by the Company as per 10-year period. Upon disclosure in 2014, the amount predicted to be brought forward to income in 2015 shall be reclassified and presented in Other Current Liabilities. The balance failing to be carried over in this subsidy is still presented in Other Non-current Liabilities.
- \*8. According to LFGTZ [2014] No. 553 Document issued by Shandong Development and Reform Commission and Shandong Economy and Informatization Commission, the Company has received special funds for MVR energy-saving technology transformation in 2014, which amounted to RMB4,800,000. The loss and gain are brought forward by the Company as per 10-year period. Upon disclosure in 2014, the amount predicted to be brought forward to income in 2015 shall be reclassified and presented in Other Current Liabilities. The balance failing to be carried over in this subsidy is still presented in Other Non-current Liabilities.
- \*9. According to ZGXF [2014] No. 1 Document issued by Zibo High-tech Industrial Development Zone Working Committee, the Company received the subsidy for incinerator waste heat recycling project for the 7,000 tons Metamizole products and comprehensive waste heat recycling project of east park zone, which amounted to RMB1,000,000. The loss and gain are brought forward by the Company as per 10-year period. Upon disclosure in 2014, the amount predicted to be brought forward to income in 2015 shall be reclassified and presented in Other Current Liabilities. The balance failing to be carried over in this subsidy is still presented in Other Non-current Liabilities.
- \*10. According to ZCQZ [2015] Document No. 9 issued by Bureau of Finance of Zibo City, the Company received provincial level funds for atmospheric pollution control, which amounted to RMB4,610,000. The project is yet to be completed.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 32. Other non-current liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Specially approved reserving fund	3,562	3,562

### 33. Capital Stock

Item	Balance at the beginning of the year	Increase (+)/Decrease (-) of Shareholding in the period					Subtotal	Balance at the end of the year	Shareholding %
		Issue of new share	Share allotment	Capital reserve converting into capital stock	Others				
<b>1. Shares with sale limitation</b>									
State shareholding	-	-	-	-	-	-	-	-	
State-owned legal person shareholding	-	-	-	-	-	-	-	-	
Other domestic shareholding	-	-	-	-	-	-	-	-	
Including: Domestic legal person shareholding	-	-	-	-	-	-	-	-	
Domestic natural person holding shares	-	-	-	-	-	-	-	-	
Foreign shareholding	-	-	-	-	-	-	-	-	
Including: Foreign legal person shareholding	-	-	-	-	-	-	-	-	
Foreign natural person shareholding	-	-	-	-	-	-	-	-	
Total stocks with trading limit condition	-	-	-	-	-	-	-	-	
<b>2. Shares without sale limitation</b>									
RMB common stocks	307,313	-	-	-	-	-	307,313	67.20	
Domestic listed foreign shares	-	-	-	-	-	-	-	-	
Overseas listed foreign share (H Shares)	150,000	-	-	-	-	-	150,000	32.80	
Others	-	-	-	-	-	-	-	-	
Total stocks without trading limit condition	457,313	-	-	-	-	-	457,313	100.00	
Total shares	457,313	-	-	-	-	-	457,313	100.00	



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 34. Capital surplus

Item	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Capital appreciation from revaluation	60,910	-	-	<b>60,910</b>
Capital stock premium	424,084	-	-	<b>424,084</b>
Accepted donation	1,158	-	-	<b>1,158</b>
Other capital reserves	21,040	5,900	-	<b>26,940</b>
Total	<u>507,192</u>	<u>5,900</u>	<u>-</u>	<u><b>513,092</b></u>

### 35. Other comprehensive income

Item	Balance at beginning of the year	Amount incurred this year before income tax	Amount incurred in current year		Attributing to the parent after tax	Attributing to minor shareholders after tax	Ending balance
			Less: income tax expense	Less: Amount recorded into other comprehensive income in early stage transferred to loss and gain in current period			
I. Other comprehensive income which cannot be reclassified into loss and gain in future	-	-	-	-	-	-	-
II. Other comprehensive income to be reclassified into loss and gain in future	164,633	1,097	-	185	958	(46)	165,591
Fair value variation of financial assets available-for-sale	166,741	1,236	-	185	1,050	-	167,791
Difference arising from translation of foreign currency statements	(2,108)	(139)	-	-	(92)	(46)	(2,200)
Other comprehensive incomes in total	<u>164,633</u>	<u>1,097</u>	<u>-</u>	<u>185</u>	<u>958</u>	<u>(46)</u>	<u>165,591</u>

### 36. Surplus reserve

Item	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Statutory surplus reserves	144,517	-	-	<b>144,517</b>
Discretionary surplus reserves	64,796	-	-	<b>64,796</b>
Total	<u>209,313</u>	<u>-</u>	<u>-</u>	<u><b>209,313</b></u>

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 37. Undistributed profits

Item	Current year	Last year
<b>Amount at the end of last year</b>	<b>482,239</b>	443,490
Add: Adjustment for undistributed profit at the beginning of the year	–	–
<b>Amount at the beginning of the year</b>	<b>482,239</b>	443,490
Add: Net profits attributable to the parent company's shareholders in the current year	<b>25,859</b>	50,726
Less: Appropriation of statutory surplus reserve	–	2,831
Appropriation of discretionary surplus reserves	–	–
Withdrawal of provision for general risk	–	–
Common stock dividends payable	<b>14,738</b>	9,146
Common stock dividends turned into capital stock	–	–
<b>Amount at the end of this year</b>	<b>493,360</b>	482,239

On 24 June 2015, the 2014 Annual General Meeting of the Company passed profits distribution plan for the year of 2014. According to this plan, cash bonus of RMB0.02 per share (including tax) would be paid to all shareholders based on total capital stock of 457,312,830 shares after appropriation of 10% statutory surplus reserve.

### 38. Operating revenue and cost

#### (1) Operating revenues and costs

Item	Amount of Current Year	Amount of Last Year
Main business income	<b>1,922,090</b>	1,844,736
Other operating revenue	<b>26,318</b>	15,676
<b>Total operating revenues</b>	<b>1,918,408</b>	1,860,412
Cost of main operations	<b>1,501,638</b>	1,469,797
Other operating costs	<b>28,227</b>	21,290
<b>Total operating costs</b>	<b>1,529,865</b>	1,491,087

#### (2) Main operating income and cost – classified as per product

Product Category	Amount of Current Year		Amount of Last Year	
	Income	Cost	Income	Cost
BPC	<b>802,117</b>	<b>642,112</b>	821,203	679,855
Including: Export of BPC	<b>547,728</b>	<b>481,614</b>	577,562	488,238
Preparations	<b>488,868</b>	<b>276,624</b>	477,380	291,086
Chemical and other	<b>149,161</b>	<b>123,067</b>	160,142	133,376
Sub-total of medical industry	<b>1,772,929</b>	<b>1,041,803</b>	1,458,725	1,104,317
Commercial Distribution	<b>481,944</b>	<b>459,835</b>	386,011	365,480
Total	<b>1,922,090</b>	<b>1,501,638</b>	1,844,736	1,469,797

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (3) Operating incomes of the top five clients

Client name	Amount of Current Year	Proportion to all operating income (%)
Mitsubishi Corporation	70,897	3.69
Perrigo Company	59,595	3.10
Shandong Tianshili Medicine Co., Ltd.	48,290	2.51
F.Hoffmann-La Roche AG	39,039	2.03
Hualu Holding Group Company Limited	29,268	1.52
Total	247,089	12.86

### 39. Business taxes and surcharges

Item	Contribution proportion	Amount of Current Year	Amount of Last Year
Business tax	5%	194	198
City maintenance and construction tax	7%	8,968	5,434
Educational surcharge	5%	6,406	3,875
Local Water Conservancy Construction Fund	1%	1,281	777
Total		16,849	10,284

### 40. Selling expenses

Item	Amount of current year	Amount of last year
Salary	35,393	34,033
Market promotion expenses	17,554	13,013
Transport charges	21,570	19,315
Travel expense	8,535	8,693
Office expenses	1,073	1,096
Export commission	702	1,126
Business propagandize fee	77,345	77,539
End sales expenses	18,217	11,235
Others	4,224	5,325
Total	184,613	171,375

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 41. Administration expenses

Item	Amount of current year	Amount of last year
Salary and welfare expenses	26,966	25,661
Five insurances and housing fund and labour union expenditure	7,502	6,308
Other welfare expenses	6,211	7,188
Labour protection fees	687	580
Insurance expenses	1,119	1,301
Depreciation cost	8,337	7,229
Repair charge	1,092	924
Amortization of intangible assets	5,812	5,252
Amortization of low value articles	175	415
Inventory shortage and spoilage	48	8
Business entertainment expenses	2,390	2,045
Travel expense	1,530	1,348
Office expenses	1,625	1,713
Tax	13,623	9,451
Legal cost	2,199	615
Agency fee	463	745
Research and development expenditure	43,542	29,631
Sewage charges	188	315
Others	22,929	24,665
Total	146,438	125,393

### 42. Financial expenses

Item	Amount of current year	Amount of last year
Interest expenditure	40,817	33,823
Less: Interest income	890	1,514
Plus: Loss incurred from foreign exchange	(5,623)	(4,119)
Plus: Others	2,733	1,910
Total	37,037	30,100

### 43. Assets impairment loss

Item	Amount of current year	Amount of last year
Bad debt losses	(3,944)	–
Loss from goodwill impairment	–	2,716
Total	(3,944)	2,716

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 44. Income from investment

Source of investment income	Amount of current year	Amount of last year
Investment income acquired during the period of holding marketable financial assets	2,394	–
Investment income from the disposal of available-for-sale financial assets	–	2,280
Others	312	772
Total	2,706	3,052

The others are financing incomes received from the Company's participation in the banking financing business and national debts repurchase business.

### 45. Non-operating revenue

#### (1) Details of non-operating revenue

Item	Amount of Current Year	Amount of Last Year	Amount recorded in current non-recurring profits and losses
Gains from disposal of non-current assets	6,299	252	6,299
Including: gains from disposal of fixed assets	939	252	939
Gains from disposal of intangible assets	5,360	–	5,360
Government subsidy	6,882	33,215	6,882
Others	3,177	612	3,177
Total	16,358	34,079	16,358

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Details of government subsidies:

Type of Subsidy	Amount of current year	Amount of last year	Source and Basis	Asset-related/revenue-related
<b>Government subsidy received in this year</b>				
Government subsidy for introduction of foreign smart project at provincial level	40	-	ZRSZ [2014] No. 240	Revenue-related
Subsidy for introduction of high-end foreign expert	500	-	WZF [2014] No. 48	Revenue-related
Subsidy for "gold-blue collar" cultivation in 2014	274	-	ZRSZ [2014]1 No. 186	Revenue-related
Harness mud filling of Xiaoqinghe River Basin appraisal and reward funds in 2013	20	-	ZCQZ [2015] No. 5	Revenue-related
Subsidy for renovation and abandonment of old vehicles	26	-	Zibo City high-tech Zone Finance Bureau	Revenue-related
Model enterprise prize on transformation and upgrading of foreign trade	-	50	ZCQ [2013] No. 101	Revenue-related
Subsidy for technology upgrading and transformation of Aspirin active ingredients	-	443	WKYZXGB [2011] No. 93-203-001-01	Revenue-related
Comprehensive control of atmospheric pollution support fund	-	30,000	ZCQ [2014] No. 24	Revenue-related
Subtotal	<b>860</b>	30,493		
<b>Amortized government subsidy in this year</b>				
Transfer-in of deferred income from 3,000 tibuprofen	295	295	LCJZ (2009) No. 157	Asset-related
Amortization of compensations for relocation	5,025	490	ZZBZ [2009] No. 10	Asset-related
Government subsidy for innovation capability construction project of technology center	250	250	FGBGJ [2011] No. 1247	Asset-related
Government subsidy for high-tech industrialization project - tribendimidine	(1,230)	295	ZFGF [2011] No. 94	Asset-related
Government subsidy for GMP reconstruction project about Aspirin series	609	609	ZFGF [2012] No. 253	Asset-related
Cultivation of quality medicine varieties of Aspirin	713	713	LKZ [2012] No. 187, ZKF [2012]	Asset-related
Special funds for MVR energy saving technology transformation	20	20	ZZBZ [2012] No.72	Asset-related
Technology transformation for Aspirin series	50	50	ZGXGF [2013] No. 11	Asset-related
Special funds for MVR energy saving technology transformation	240	-	ZJXJZ[2014]No.29	Asset-related
Recycling project of waste heat from incinerators and the eastern zone	50	-	ZGXF [2014] No. 1	Asset-related
Subtotal	<b>6,022</b>	2,722		
Total	<b>6,882</b>	33,215		

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 46. Non-operating expenses

Item	Amount of current year	Amount of last year	Amount recorded in current non-recurring profits and losses
Losses from disposal of non-current assets	7,651	1,155	7,651
Including: losses from disposal of fixed assets	7,651	1,155	7,651
Losses from disposal of intangible assets	–	–	–
Penalty and late fees	289	202	289
Compensation	–	1,400	–
Abnormal losses	–	–	–
Others	4,195	1,985	4,195
Total	12,135	4,742	12,135

Larger increase in non-operating expenditures this year was due to larger increase in abandonment loss of non-current liabilities caused by park relocation.

### 47. Income tax expense

#### (1) Income tax expenses

Item	Amount of current year	Amount of last year
Current income tax expense	14,583	13,103
Deferred income tax expense	(1,200)	(1,436)
Total	13,383	11,667

#### (2) Adjustment process of accounting profits and income tax

Item	Amount incurred in current year	Amount incurred in last year
Total combined profits this year	44,479	61,847
Income tax calculated as per statutory/applicable tax rate	6,672	9,277
Effect from subsidiaries applicable to various tax rate	3,593	2,803
Effect from adjusting income tax in previous periods	3,452	(31)
Effect from non-taxable income	(1,542)	(394)
Effect from non-deductible costs, expenses and losses	1,257	500
Effect from deductible losses of unconfirmed deferred income tax assets in early stage of use	(98)	(1,629)
Effect from deductible temporary difference or deductible losses of unconfirmed		
Deferred income tax assets in this year	49	1,140
Income tax expense	13,383	11,666

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 48. Computation of basic earnings per share and diluted earnings per share

Item	S/N	Amount of current year	Amount of last year
Net profit which belongs to shareholders of parent company	1	25,860	40,094
Non-recurring profit and loss attributable to the parent company	2	10,408	26,918
Net profit belongs to shareholders of the parent company after deduction of non-recurring profit and loss	3=1-2	15,452	13,176
Total number of shares at the beginning of the year	4	457,313	457,313
Number of shares increased due to conversion of accumulated fund to capital or assignment of stock dividend (I)	5	-	-
Number of shares increased due to issue of new shares or debt to equity (II)	6	-	-
Increased Shares (II) Accumulated number of months from the beginning of next month to the end of this year	7	-	-
Decreased shares due to repurchase, etc.	8	-	-
Decreased shares Accumulated number of month from the beginning of next month to the end of this year	9	-	-
Decreased shares due to reduction in the number of shares	10	-	-
Number of months of the report period	11	6	6
Weighted average of outstanding common stocks	12=4+5+6×7÷11-8×9÷11-10	457,313	457,313
Basic earnings per share (I)	13=1÷12	0.06	0.09
Basic earnings per share (II)	14=3÷12	0.03	0.03
Interest of the dilutive potential common stock which has been recognized as expenses	15	-	-
Conversion cost	16	-	-
Income tax rate	17	15%	15%
Weighted average common shares increased by equity warranty, option exercise, convertible securities, etc.	18	-	-
Diluted earnings per share (I)	19=[1+(15-16)×(1-17)]÷(12+18)	0.06	0.09
Diluted earnings per share (II)	19=[3+(15-16)×(1-17)]÷(12+18)	0.03	0.03

### 49. Other comprehensive income

See Explanations on major Items of Consolidated Financial Statements – 35. Other Comprehensive Income in Note VI for details.



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 50. Cash Flow Statement

#### (1) Received/paid cash relating to other operating/financing activities

##### 1) Other cash received related to operating activities

Item	Amount of current year	Amount of last year
Government subsidy	5,470	43,050
Interest income	868	1,878
Guarantee deposit for acceptance bill	11,232	78,184
Others	2,021	12,122
Total	19,591	135,234

##### 2) Other cash paid for relating operating activities

Item	Amount of current year	Amount of last year
Office expenses	3,855	2,655
Travel expense	6,863	6,130
Annual listing fee, audit fee and BOD fee	1,690	1,933
Sewage charges	188	966
Advertisement and market development expenses	95,252	82,079
Transportation expense	15,741	23,182
Business entertainment expenses	2,498	2,127
Technology development expenses	8,444	10,911
Bank acceptance bill, security money for mortgaged borrowings	17,872	2,158
Others	23,894	58,939
Total	176,297	191,080

##### 3) Other cash paid relating to financing activities

Item	Amount of current year	Amount of last year
Financing procedure expenses	2,564	1,022

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Further information of consolidated cash flow statement

Item	Amount of current year	Amount of last year
<b>1. Reconciliation of net profit to cash flows from operation:</b>		
Net Profit	31,096	50,180
Add: Provision for impairment of assets	(3,944)	2,716
Depreciation of fixed assets	110,766	84,395
Amortization of intangible assets	6,249	5,521
Loss from disposal of fixed assets, intangible assets and other long-term assets	1,352	902
Losses on retirement of fixed assets	—	—
Losses and profits from changes in fair value	—	—
Financial expenses	35,194	29,705
Investment loss	(2,706)	(3,052)
Decrease of deferred income tax assets	(1,590)	(1,780)
Increases of deferred income tax liabilities	576	(884)
Decrease of inventory	85,549	108,237
Decreases of operational receivables	(196,505)	(158,079)
Increases of operating payables	7,235	17,557
Net cash flow from operating activities	73,272	135,418
<b>2. Significant investment and financing activities not related to cash deposit and withdrawal:</b>		
Conversion of debt into capital	—	—
Convertible company bonds due within one year	—	—
Fixed assets hired under finance leases	—	—
<b>3. Net change of cash and cash equivalents:</b>		
Ending balance of cash	477,492	283,431
Less: Initial balance of cash	281,435	311,026
Add: Ending balance of cash equivalent	—	—
Less: Initial balance of cash equivalents	—	—
Net increase in cash and cash equivalent	196,057	(27,595)

### (3) Net cash paid for acquisition of subsidiaries in that year

### (4) Cash and cash equivalents presented in the statement of cash flow including:

Item	Balance at the end of the year	Balance at the beginning of the year
Cash	477,492	281,435
Including: Cash on hand	251	234
Bank deposit available for payments at any time	377,241	271,401
Funds in other currencies available for payments at any time	100,000	9,800
Cash equivalents	—	—
Balance of cash and cash equivalent at the end of the period	477,492	281,435
Including: Restricted cash and cash equivalents used by parent company and subsidiaries of the company	—	—

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 51. Assets with limited ownership or use right

Item	Book value at the end of the year	Cause for Limitation
Currency funds	28,556	Security money pledge
Intangible assets	64,457	Mortgage loans

### 52. Foreign Currency Items

#### (1) Foreign Currency Items

Item	Foreign currency balance at the end of the year	Exchange rate	Balance of RMB after conversion at the end of the year
<b>Currency funds</b>			
Including: USD	9,087	6.1136	55,557
EURO	2	6.8699	15
HKD	18	0.788861	14
GBP	510	9.6422	4,917
JPY	66	0.0501	3
<b>Accounts receivable</b>			
Including: USD	31,715	6.1136	193,894
GBP	418	9.6422	4,028
<b>Other accounts receivable</b>			
Including: USD	95	6.1136	583
<b>Accounts payable</b>			
Including: USD	4,433	6.1136	27,104
<b>Advances from customers</b>			
Including: USD	3,423	6.1136	20,925
EURO	11	6.8699	76
<b>Other payables</b>			
Including: USD	91	6.1136	558

#### (2) Overseas operating entities

Subsidiary	Place of main operation	Bookkeeping base currency	Selection basis for base currency
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Rotterdam, Netherlands	EURO	Statutory currency of place of operation
Shandong Xinhua Pharmaceutical (U.S.A.) Co., Ltd.	Los Angeles, USA	USD	Statutory currency of place of operation

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### VII. CHANGES IN MERGER SCOPE

There is no change in merger scope of the Company in the current year.

### VIII. EQUITIES IN OTHER ENTITIES

#### Equities in subsidiaries

##### (1) Constitution of the enterprise group

Name of Subsidiary	Place of Main Operation	Registration place	Natures of business	Proportion of Shareholding (%)		Acquisition mode
				Direct	Indirect	
Shandong Xinhua Medical Trade Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Medical and chemical sales	100	-	Establishment
Shandong Xinhua Pharmaceutical Export & Import Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Medical and chemical sales	100	-	Establishment
Shandong Xinhua Pharmaceutical Chemical Design Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Medical and chemical sales	100	-	Establishment
Zibo Xinhua Drug Store Chain Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Medical and chemical sales	100	-	Establishment
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Rotterdam, Netherlands	Rotterdam, Netherlands	Medical and chemical sales	65	-	Establishment
Zibo Xinhua-Eastwest Pharmaceutical Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Medical and chemical manufacturing	75	-	Establishment
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Medical and chemical manufacturing	50.1	-	Establishment
Shandong Xinhua Pharmaceutical (Shouguang) Company Limited	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Medical and chemical manufacturing	100	-	Establishment
Xinhua (Zibo) Properties Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Real estate development	100	-	Establishment
Xinhua Pharmaceutical (Gaomi) Company Limited	Gaomi City, Shandong Province	Gaomi City, Shandong Province	Medical and chemical manufacturing	100	-	Purchase
Shandong Xinhua Pharmaceutical (USA) Company Limited	Los Angeles, USA	Los Angeles, USA	Medical and chemical sales	100	-	Establishment
Shandong Xinhua Electromechanical Engineering Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Electric installation	100	-	Establishment
Shandong Zibo Xincat Pharmaceutical Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Medical and chemical manufacturing	60	-	Merger

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

#### 1) Shandong Xinhua Medical Trade Company Limited

Shandong Xinhua Medical Trade Company Limited (hereafter referred to as Medical 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), who held 98% and 2% of the registered capital in Medical Trade, respectively. In March 2005, the registered capital of Medical Trade increased by RMB43,498,900, among which, RMB42,628,900 was contributed by the Company in kind, and RMB870,000 was contributed by Zibo Xinhua Drug Store Chain Company Limited in cash.

On November 9, 2009, the Company entered into an equity transfer agreement with Zibo Xinhua Drug Store Chain Company Limited whereby the 2% equity interests in Medical Trade held by Zibo Xinhua Drug Store Chain Company Limited was transferred to the Company at a consideration of RMB1,053,614. The Medical 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, who held 98% and 2% of equity interests in Xinhua Export and Import respectively. The principle operation of Xinhua Export & Import is exporting & importing of goods and technology, and carrying out re-export & counter trade business.

On 30 April, 2009, it was resolved in the shareholders meeting of Xinhua Export & Import that the registered capital be changed from 3 million to 5 million. Also, such capital increase had been verified by Audit Report LXYZ (2009) No. 21 issued by Shandong Xin Cheng CPA Co., Ltd.

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

On 4 January, 2010, the Company entered into an equity transfer agreement with Shandong Xinhua Medical Trade Company Limited whereby the 98% equity interests held Shandong Xinhua Medical Trade Company Limited was transferred to the Company at a consideration of RMB5,350,000.

#### 3) Shandong Xinhua Pharmaceutical Chemical Design Company Limited

Shandong Xinhua Pharmaceutical Chemical Design Company Limited (originally known as Zibo Xinhua Pharmaceutical Design Institute, which was changed to the present name in July 2013, hereinafter referred to as the Xinhua Design) was formed in March 2002 with a registered capital of RMB2,000,000, by the Company and Xinhua Pharmaceutical Group Company Limited (hereinafter referred to as Shandong Xinhua Group), who held 90% and 10% of the registered capital of Xinhua Design respectively.

On 30 July, 2009, the Company signed a property rights exchange agreement with Shandong Xinhua Group whereby Shandong Xinhua Group transferred its 10% equity interests in Xinhua Design to the Company 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 Xinhua Design. The increase of capital has been verified by Shandong PuHua Accounting Firm, by way of issuing a verification report PHYZ [2009] No. 098. Thereafter the registered capital of Xinhua Design was increased to RMB3 million. On December 31, 2009, Xinhua Design is a wholly-owned subsidiary of the Company.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

4) Zibo Xinhua Drug Store Chain Company Limited

Zibo Xinhua Drug Store Chain Company Limited (originally known as Zibo Xinhua Drug Store Company Limited, which was changed to the present name in December 2003, hereafter referred to as the Zibo Drug Store) was incorporated in July, 1999. Its registered capital was RMB1,000,000 contributed as of 82% and 12% by the Company and Shandong Xinhua Group respectively. The registered capital was increased to RMB2,000,000 in September 2002.

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

5) Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.

Shandong Xinhua Pharmaceutical (Europe) Co., Ltd. (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% equity interests, while Mr. LIPENG owns 30% thereof. The registered address of Xinhua European is in Rotterdam, Netherlands. Its reporting currency is Euro. In July 2006, the registered capital of Xinhua European was changed to EURO650,000 according to the resolution of its Board of Directors', 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, LK & K Trading Co., Ltd. signed a cooperation agreement with Mr. Lipeng, by which Mr. Lipeng transferred all the shares held by him in Xinhua European to LK & K Trading Co. Ltd. After the transfer, the shares of Xinhua European held by the Company and LK & K Trading Co. Ltd are 76.90% and 23.10% respectively.

On 8 September, 2009, in the first general meeting of Xinhua European, the resolution that LK & K Trading Co, Ltd. was to inject a sum of EUR119,000 to Xinhua European was passed. The fund was received on 20 October, 2009. The verification report was obtained on 10 November, 2009. After such capital increase, the registered capital of Xinhua European was EURO769,000. The Company contributed EURO500,000 accounting for 65%; LK & K Trading Co., Ltd. contributed EURO269,000, accounting for 35%.

6) Zibo Xinhua – Eastwest Pharmaceutical Company Limited

Zibo Xinhua – Eastwest Pharmaceutical Company Limited (hereafter referred to as Xinhua – Eastwest) was established on 15 November, 2005 with a registered capital of USD1.5 million, by the Company and Eastwest United Group, Inc., who hold 75% and 25% of equity interests respectively. On 26 June, 2006, the Company and West United Group, Inc. injected USD1,125,000 and USD375,000 in cash respectively into Xinhua–Eastwest. The principle operation of Xinhua – Eastwest is production and sales of Calcium Polycarbophil materials.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

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 pursuant to the Joint Venture Agreement Amendment Agreement. The Company holds 50.1% shares in Xinhua – Perrigo.

8) Shandong Xinhua Pharmaceutical (Shouguang) Company Limited

Shandong Xinhua Pharmaceutical (Shouguang) Company Limited, originally named as Shandong Dadi Xinhua Chemical Company Limited (hereinafter referred to as Dadi Xinhua), 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 an additional RMB6,000,000 to Dadi Xinhua and increased its registered capital to RMB32,000,000 in November 2007. The Company invested a total of RMB18.74 million and held 58.5628% equity interest in Dadi Xinhua. In 2008, the Company purchases all the shares of Dadi Xinhua held by Shandong Dadi Salt Chemical Group Company Limited, at a consideration of RMB13,972,368.00 and renamed Dadi Xinhua as Shandong Xinhua Pharmaceutical (Shouguang) Company Limited (hereinafter referred to as Xinhua Shouguang), the Company also contributed an additional capital of RMB48 million. After the capital injection, the registered capital of Xinhua Shouguang was RMB80 million and became a wholly owned subsidiary of the Company.

The Company increased the capital of Xinhua Shouguang by RMB6 million in December 2008 and RMB44 million in April 2009. The capital increase was verified by Shouguang Shencheng Certified Public Accountants with verification report (Shou Shencheng CPA 2009 No. 21).

In 2010 the Company injected further capital of RMB100 million to Xinhua Shouguang. The capital increase has been recognized by Shouguang Shengcheng Certified Public Accountants by the document of SSCKSYZ (2010) No. 010 verification report, and on August 26, 2010 Xinhua Shouguang obtained the Enterprise legal person business license after such alternation. After the capital increase, Xinhua Shouguang has registered capital of RMB230 million.

Main businesses of Xinhua Shouguang include the production and sales of chemical products (excluding dangerous chemicals).

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 was wholly contributed in cash by the Company. It is therefore a wholly owned subsidiary of the Company. Such establishment capital was verified by Shandong PuHua Accounting Firm with capital verification report (PHYZ [2010] No. 191) on 14 December, 2010.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

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 a separation in July 2011. On 16 January, 2012, the Company acquired the entire equity interests of Tianda Pharmaceutical held by its original Shareholders (Zhu Zhenhua and Zhang Peng) with its own funds of RMB22,000,000 (excluding the value of the current assets). Upon completion of the merger, the Company holds 100% stake in Tianda Pharmaceutical.

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

In May 2012, Xinhua Gaomi applied to increase the registered capital of RMB13,000,000. Gaomi Hongce Joint Accounting Firm issued the capital verification report for the capital increase of issued (HCNYZ [2012] No. 12). The registered capital of Xinhua Gaomi has changed to RMB19,000,000.

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 the Xinhua American Company) was established in January 2013 in Los Angeles of America, with a registered capital of USD1.5 million, which was wholly contributed in cash by the Company, so it is a wholly owned subsidiary of the Company. The business scope of Xinhua American Company includes the import and export of medical, chemical and health care products.

12) Shandong Xinhua Electromechanical Engineering Company Limited

Shandong Xinhua Electromechanical Engineering Company Limited (hereinafter referred to as the Xinhua Electromechanical Company) was established in April 2014, with a registered capital of RMB8 million, which was wholly contributed in cash by the Company, so it is a wholly owned subsidiary of the Company. The registered capital of Xinhua Electromechanical Company has been verified by the Verification Report of LZMYZ [2014] No. 3005 issued by Shandong Zhongming Accounting Firm Company Limited. The main business scope of this company includes the installation and debugging of electromechanical device and chemical equipment as well as the sale of electromechanical device and hardware & electrical equipment.



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

#### 13) Shandong Zibo Xincat Pharmaceutical Company Limited

Xincat Pharm was founded in 1993 by Shandong Xinhua Pharmaceutical Factory (by way of contributing its plant and equipment) and Hongkong Zhida Trading Company, with a registered capital of USD2.5 million, of which Shandong Xinhua Pharmaceutical Factory and Hongkong Zhida Trading Company contributed 75% and 25% respectively.

The capital of Xincat Pharm was increased to USD2.625 million in 1996, the contribution by Shandong Xinhua Pharmaceutical Factory was USD1.575 million and that by Hongkong Zhida Trading Company was USD1.05 million, which accounted for 60% and 40% of the registered capital respectively. Before H-shares of the Company were listed in 1996, Shandong Xinhua Pharmaceutical Factory had transferred its stock rights in Xincat Pharm to Shandong Xinhua Group.

In 1997, the name of Hongkong Zhida Trading Company was changed to America LHA Chemical and Pharmaceutical Company Limited. In 1998, Shandong Xinhua Group and America LHA Chemical and Pharmaceutical Company Limited jointly increased the capital of Xincat Pharm in the sum of USD250,000, with their shareholding ratio remained unchanged.

On 20 July, 2001, America LHA Chemical and Pharmaceutical Company Limited entered into an equity transfer agreement with a German Company named HARVEST TRADING GMBH Company (hereinafter referred to as "Germany HTG") to transfer all its stock rights in Xincat Pharm to Germany HTG. After that Shandong Xinhua Group and Germany HTG became the shareholders of Xincat Pharm with a shareholding ratio of 60% and 40% respectively.

In 2002, it was resolved in the third meeting of fourth board meeting of Xincat Pharm that Zibo Zhongxing Investment Company Limited (hereinafter referred to as "Zhongxing Investment Company") was to invest USD230,700 into Xincat Pharm. After that the registered capital of Xincat Pharm was increased to USD310,570, contributed as 55.6%, 37% and 7.4% by Shandong Xinhua Group, Germany HTG and Zhongxing Investment Company respectively.

On November 1, 2004, it was approved in the eighth meeting of fourth board meeting of Xincat Pharm that Germany HTG was to transfer all its stock rights in Xincat Pharm to Zhongxing Investment Company, which was approved by GXJWZF [2004] No.100 "Approval of the Stock Right Transfer of Shandong Zibo Xincat Pharmaceutical Company Limited" issued by the Economic Development Bureau of Zibo High-tech Industrial Development Zone. After the transfer of stock right, the paid-up capital of Xincat Pharm was RMB26.92875 million contributed as 55.54% and 44.46% by Shandong Xinhua Group and Zhongxing Investment Company respectively.

On 30 May, 2007, an equity transfer agreement was approved and signed on the special board meeting of Xincat Pharm that Zibo Zhongxing Investment Company Limited transferred 24.46% of its stock rights (44.46%) in Xincat Pharm to Shandong Xinhua Group, and 20% to the Company. After that Shandong Xinhua Group held 80% equity rights of Xincat Pharm, while the Company owned 20%.

On 4 November, 2011, Xincat Pharm capitalized the undistributed profit of RMB58 million to the registered capital, the paid-up capital of Xincat Pharm was then increased to RMB84.93 million, held as to 80% and 20% by Shandong Xinhua Group and the Company respectively.

On 21 February, 2012, Shandong Xinhua Group transferred 80% of its stock rights in Xincat Pharm to Hualu Holding Company at nil consideration pursuant to a document named LGZCQH [2012] No. 16 issued by Shandong SASAC. After that Hualu Holding Company held 80% equity rights of Xincat Pharm, while the Company held 20%.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

On 29 September, 2014, the Company signed a property exchange agreement with Hualu Holding Company pursuant to which 40% state-owned property right in Xincat Pharm was transferred to the Company at a consideration of RMB102 million. On 23 October, 2014, Xincat Pharm completed the industrial and commercial change registration. After that the Company held 60% equity rights in Xincat Pharm, while Hualu Holding Company held 40%.

The main business scope of Xincat Pharm includes the production and sales of troche, hard capsule (containing cephalosporins, penicillin, antineoplastic), granula, dry suspension (containing cephalosporins, penicillin), bulk drug (Mitiglinide Calcium Hydrate Tablets), freeze-dried powder injection (antineoplastic) (the production certificate will be valid until 31 December, 2015).

### (2) Important non-wholly-owned subsidiaries

Name of Subsidiary	Shareholding ratio of minority shareholders	Profit and loss attributed to the minority shareholders of the year	Dividend declared to be distributed to minority Shareholders of the year	Equity balance of minority shareholders at the end of the year
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	35%	476	–	3,893
Zibo Xinhua – Eastwest Pharmaceutical Company Limited	25%	63	–	3,227
Zibo Xinhua – Perrigo Pharmaceutical Company Limited	49.9%	1,545	–	33,847
Shandong Zibo Xincat Pharmaceutical Company Limited	40%	3,152	–	60,995

### (3) Main financial information of the important non-wholly-owned subsidiaries

Name of Subsidiary	Ending Balance						Balance at beginning of the year					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	38,720	–	38,720	27,259	–	27,259	84,198	–	84,198	73,964	–	73,964
Zibo Xinhua – Eastwest Pharmaceutical Company Limited	9,330	3,643	12,973	65	–	65	9,404	4,005	13,409	755	–	755
Zibo Xinhua – Perrigo Pharmaceutical Company Limited	31,490	41,577	73,067	5,222	–	5,222	28,803	41,604	70,407	5,658	–	5,658
Shandong Zibo Xincat Pharmaceutical Company Limited	119,243	61,034	180,277	51,991	–	51,991	119,801	65,002	184,803	49,366	9,440	58,806

Name of Subsidiary	Amount incurred in current year				Amount incurred in previous year			
	Operating revenue	Net Profit	Total comprehensive income	Cash flow generated in operating activities	Operating revenue	Net Profit	Total comprehensive income	Cash flow generated in operating activities
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	39,779	1,359	1,227	71,938	39,817	159	–	(3,789)
Zibo Xinhua – Eastwest Pharmaceutical Company Limited	2,655	254	254	(2,111)	306	(1,036)	(1,036)	515
Zibo Xinhua – Perrigo Pharmaceutical Company Limited	59,290	3,096	3,096	5,360	69,408	5,852	5,852	3,587
Shandong Zibo Xincat Pharmaceutical Company Limited	123,148	7,881	7,881	3,388	124,512	9,212	9,212	15,706

# Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

Main financial instruments of the Company include loan, receivables, payables, available-for-sale financial assets and trading financial liabilities, etc., details can be seen in Note VI. Risks related to these financial instruments as well as management policies applied by the Company to reduce such risk can be seen below. The Company's management will manage and supervise these risk exposures to make sure the above risks are controllable.

### 1. Risk management objectives and policies

The risk management objectives of the Company are to get balance between risk and earnings, minimize the negative effects of these risks on the operation performance of the Company, and maximum the benefit of shareholders and other equity investors. Therefore the basic risk management policies of the Company are to confirm and analyze various risks faced by the Company, determine the bearing limit, manage the risks, supervise all risks in a timely manner and in a cautious way, and control the risks to be within a specific extent.

#### (1) Market risk

##### 1) Foreign exchange risk

The foreign exchange risk refers to the risk of loss caused by fluctuation in exchange rate. The foreign exchange risk of the Company is mainly related with U.S. dollar, Euro, Hong Kong dollar and pound sterling. Certain receivables, deposit in bank, liquid balance and loans of the Company are counted in currencies other than the functional currency of the Group. Up to 30 June 2015, all assets and liabilities of the Company are in RMB balance except for the assets and liabilities of the following table respectively in U.S. dollar, Euro, Hong Kong dollar, pound sterling and Japanese Yen whose foreign exchange risk may have effect on the operation performance of the Company.

Item	30 June, 2015	31 December, 2014
<strong>Assets</strong>		
– pound sterling	8,945	9,207
– U.S. dollar	266,223	224,578
– Euro	15	1,205
– Hong Kong dollar	14	14
– Japanese yen	3	3
<strong>Liabilities</strong>		
– pound sterling	–	–
– U.S. dollar	63,652	165,608
– Euro	76	195
– Hong Kong dollar	–	–

Currently the Company has no foreign currency hedging policy, but the management supervises the foreign currency exchange risk and will consider a hedge against major foreign currency risks when necessary.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

#### 2) Interest rate risk

The interest rate risk of the Company is caused by bank loan and liability relating to interest-bearing shareholder loan. The financial liability with floating interest rate will cause cash flow IRR, and the financial liability with fixed rate will cause fair value IRR to the Company. Up to 30 June, 2015, the main interest-bearing liabilities of the Company include the loan contract with floating interest rate in RMB and USD (RMB419,310,000 in total) and fixed rate contract in RMB and USD (RMB1,148,378,000 in total).

The risk of fair value changes of financial instruments caused by interest rate change relates to bank loans with fixed rate. The target of the Company is to maintain the floating interest rate for the loans with fixed rate.

The risk of cash flow changes of financial instruments caused by interest rate change relates mainly with bank loans with floating interest rate. The policy of the Company is to maintain the floating rate of the loan to reduce the risk of fair value changes caused by interest rate change.

#### 3) Price risk

The Company sells chemical raw medicine, preparations and chemical product at market prices, so it is affected by fluctuations in these prices.

### (2) Credit risks

Up to 30 June, 2015, the maximum credit risk exposure which may cause financial loss to the Company was the failure of the other party in performing its obligations, such as:

Book amount of financial assets determined in the consolidated balance sheet; for the financial instruments measured with fair value, the book value can reflect the risk exposure, but not the maximum risk exposure which may change with the variation of future fair value.

To minimize the credit risk, the management level has appointed a team to prepare credit line, credit approval and other supervising procedures to make sure to track actions and take back the overdue loan. In addition, the Company will check the recoverable amount of some trading loans at the end of the report period to provide sufficient loss of decrease in value to the non-recoverable amount. Therefore the management level believes that the credit risk of the Company is decreased greatly.

The working fund of the Company is deposited in the bank with high credit rating, so the credit risk of working fund is low.

The Company applies necessary policies to make sure all trade debtors have a good credit record. The Company has no major credit concentration risk except the top 5 receivables.

The total top 5 receivables are RMB120,891,000.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (3) Liquidity risk

Liquidity risk refers to the risk of the Company's failure in performing its financial obligations on the due dates. The Company controls the liquidity risk by ensuring the capital liquidity to pay the matured debts to prevent unacceptable loss or damages on corporate reputation. The Company analyzes the liabilities structure and due dates regularly to make sure the capital is sufficient. The management is responsible for supervising the utilization of bank loans and making sure terms of the loan agreement are complied with, and also conducting financing negotiations with financial institutions to keep the line of credit at a certain level and reduce the liquidity risk.

Up to 30 June, 2015, the financial assets and debts held by the Company before the due date of non-discounted outstanding contractual obligations were as follows:

Item	Within one year	1–5 years	More than five years	Total
<b>Financial assets</b>				
Currency funds	506,048	–	–	506,048
Notes receivable	160,792	–	–	160,792
Accounts receivable	456,890	–	–	456,890
Prepayments	43,203	–	–	43,203
Other accounts receivable	59,359	–	–	59,359
<b>Financial debts</b>				
Short-term borrowing	470,928	–	–	470,928
Notes payable	86,802	–	–	86,802
Accounts payable	444,513	–	–	444,513
Advances from customers	38,695	–	–	38,695
Other accounts payable	145,504	–	–	145,504
Dividends payable	14,457	–	–	14,457
Interest payable	22,783	–	–	22,783
Payroll payable	20,866	–	–	20,866
Non-current liabilities due within one year	402,502	–	–	402,502
Long-term loans	–	694,258	–	694,258

## 2. Fair value

### (1) Financial instruments not measured with fair value

The financial assets and debts not measured with fair value include receivables, short-term loans, payables and long-term loans.

The difference between the book value of the above financial assets and debts not measured with fair value and the fair value is small.

# Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

## (2) Financial instruments measured with fair value

The financial instruments measured with fair value refer to the available-for-sale financial assets.

The estimate on fair value is made according to relevant market information and financial instrument data at a specific period of time, it is subjective and related to uncertain factors or events which require judgments, so the estimate are uncertain as well. When the assumptions applied change, the estimate will be affected as a result.

The fair value of financial assets and debts is determined in the following ways:

The fair value of financial assets and debts with standard clauses and conditions as well as active market is determined based on the current bid and ask prices of corresponding active markets;

The fair value of other financial assets and debts (excluding derivative instruments) is determined according to the common pricing model based on future discount cash flow method or the observable current market transaction price;

The fair value of derivative instruments is determined according to the public offer of active market. If there is no public offer, the fair value of derivative financial instruments without options is estimated and determined according to the applicable revenue curve with the future discount cash flow method; the fair value of derivative financial instruments with options is calculated and determined according to the option pricing model.

## 3. Sensitivity analysis

The Company applies sensitivity analysis technique to analyze the possible effect of reasonable and possible changes in risk variables on current profit and loss or owner's equity. No risk variable will change independently, and the relationship among these variables will have great influence on the final affected amount of changes in certain risk variables, so the following content assumes that all variables are changed independently.

### (1) Sensitivity analysis on foreign exchange risk

Sensitivity analysis and assumption on foreign exchange: all net investment hedge and cash-flow hedge operated overseas are highly effective.

The after-tax effect of possible and reasonable changes in exchange rate on the current profit and loss and equities are as follows when other variables remain unchanged based on the above assumptions:

Item	Fluctuation in Exchange Rate	Six months ended June 30, 2015		Year 2014	
		Effect on Net Profit	Effect on Owner's Equity	Effect on Net Profit	Effect on Owner's Equity
All foreign currencies	5% appreciation on RMB	726	726	2,048	2,048
All foreign currencies	5% depreciation on RMB	(726)	(726)	(2,048)	(2,048)

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Sensitivity analysis on interest rate risk

The sensitivity analysis on interest rate risk is carried out based on following assumptions:

Changes in market interest rate have influence on the interest revenue or cost of financial instruments with variable rate;

For the financial instruments with fixed rate and measured with fair value, changes in market interest rate only have influence on their interest revenue or cost;

Changes in the fair value of derivative financial instruments and other financial assets and liabilities are calculated with the discount cash flow method according to the market interest rate on the balance sheet date.

The after-tax effect of possible and reasonable changes in exchange rate on the current profit and loss and equities are as follows when other variables are unchanged based on the above assumptions:

Item	Fluctuation in Interest Rate	Six months ended June 30, 2015		Year 2014	
		Effect on Net Profit	Effect on Owner's Equity	Effect on Net Profit	Effect on Owner's Equity
Loan with floating interest rate	Increasing by 1%	(358)	(358)	(1,165)	(1,165)
Loan with floating interest rate	Decreasing by 1%	358	358	1,165	1,165

## X. DISCLOSURE OF FAIR VALUE

### 1. Assets and liabilities measured with fair value and the fair value measurement level at the end of the year

Item	First Fair Value Measurement Layer	End fair value			Total
		Second Fair Value Measurement Layer	Third Fair Value Measurement Layer		
Continuing fair value measurement	—	—	—	—	
Financial assets available for sale	—	—	—	—	
Equity tools investment	218,626	—	—	218,626	
Total assets continuously measured with fair value	218,626	—	—	218,626	

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 2. Determination basis of the market price of the items on continued first fair value measurement level

Items of the Company measured with fair value is the stocks of the Bank of Communications and China Pacific Insurance held by the Company, and the fair value at the end of the year is determined based on the closing price on the last trading day of June 2015.

## XI. RELATIONSHIP WITH RELATED PARTIES AND TRANSACTIONS THEREOF

### (I) Related party relationships

#### 1. Controlling shareholder and ultimate controlling party

##### (1) Controlling shareholder and ultimate controlling party

Name of controlling shareholder	Relation with the Company	Type of enterprise	Address of Registration	Main businesses	Legal Representative	Organization Code
Shandong Xinhua Pharmaceutical Group Company Limited	Parent company of the Company	state-owned Sole proprietorship	No. 14, Dongyi Road, Zhangdian District, Zibo city, Shandong province	Invest in construction engineering design, real estate development and catering services, etc.	Zhang Daiming	164132472
Hualu Group Corporation Limited	Controlling shareholder of the parent company	state-owned Sole proprietorship	No. 1, Bangpeng Street, Jinan city, Shandong province	Invest and manage chemical fertilizer and petrochemical industries, etc.	Cheng Guanghui	771039712

##### (2) Registered capital of the controlling shareholder and changes in these capital

Name of the Controlling Shareholder	Balance at the beginning of the year	Increase in Current Year	Decrease in Current Year	Balance at the end of the year
Shandong Xinhua Pharmaceutical Group Company Limited	298,500	–	–	298,500

##### (3) Shares held by the controlling shareholder and changes in these shares

Name of the Controlling Shareholder	Share Amount		Proportions of Shares	
	Amount of Current Year	Amount of Last Year	Proportion of Current Year	Proportion of Last Year
Shandong Xinhua Pharmaceutical Group Company Limited	157,588	160,445	34.46	35.08

The reduction in the shares held (and so the reduced shareholding) by the controlling shareholders in the Company is caused by the decrease of shares held by the controlling shareholder of Shandong Xinhua Group.



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 2. Subsidiary

Details of the subsidiaries can be seen in Note VIII – Equities in other Entities.

### 3. Other related party

Names of related parties	Association Relationship	Transaction Content Related with the Company	Organization Code
Shandong Xinhua Industry & Trade Company	Controlled by the same controlling shareholder	Sale of power and the three wastes, procurement of raw materials	164113351
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Controlled by the same controlling shareholder	Procurement of raw materials	720705295
DSM Sinochem Pharmaceuticals Zibo Co., Ltd.	Joint stock company of the parent company	Sale of power and procurement of raw materials	613291664
Hualu Group Corporation Limited	Subsidiary of the ultimate controlling party	Sale of raw materials	–
America Perrigo Company	Joint stock shareholder of the subsidiary	Sales of BPC	–
America Eastwest Company Limited	Joint stock shareholder of the subsidiary	Sales of BPC	–
Shandong Hualu Hengsheng Chemical Limited Liability Company	Subsidiary of the ultimate controlling party	Procurement of raw materials	723286858

## (II) Related party transaction

### 1. Pricing policy

Market price shall be the basis on which the prices of our products sold to related parties and raw materials purchased from related parties are determined.

### 2. Material procurement

Names of related parties	Nature of trade	Amount of Current Year		Amount of Last Year	
		Amount	Proportion %	Amount	Proportion %
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Chemical Materials	20,871	3.30	17,722	2.50
DSM Sinochem Pharmaceuticals Zibo Co., Ltd.	Preparations Materials	7,616	1.20	11,621	1.64
Shandong Hualu Hengsheng Chemical Limited Liability Company	Chemical Materials	14,981	2.37	17,754	2.50

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 3. Sale of goods

Names of related parties	Nature of trade	Amount of Current Year		Amount of Last Year	
		Amount	Proportion %	Amount	Proportion %
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of power	895	6.56	711	5.29
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of the wastes (water, gas, solid)	708	12.32	1,943	54.11
DSM Sinochem Pharmaceuticals Zibo Co., Ltd.	Sale of power	3,482	25.63	3,345	24.88
Hualu Group Company Limited	Sale of active pharmaceutical ingredients	29,268	3.64	–	–
Perrigo Company	Sale of active pharmaceutical ingredients	60,815	7.55	75,923	7.77

### 4. Payment of loan interest and underwriting expense

Names of related parties	Content of related transaction	Amount of Current Year	Amount of Last Year
Hualu Holding Group Company Limited	Loan interest	20,538	20,538
Hualu Holding Group Company Limited	Underwriting fee	1,050	1,050

### 5. Acceptance of guarantee

#### (1) Loan guarantee

The Company has entered into a loan agreement with a principal amount of RMB150,000,000 with Qingdao branch of Export-Import Bank of China for a period from 17 January, 2014 to 17 July, 2015. The loan is guaranteed by the ultimate controlling shareholder, Hualu Holdings.

The Company has entered into a loan agreement with a principal amount of RMB63,158,000 with Zibo branch of China Construction Bank for a period from 30 October, 2012 to 29 April, 2017. The loan is guaranteed by the ultimate controlling shareholder, Hualu Holding.

The Company has entered into a loan agreement with a principal amount of RMB80,000,000 with Qingdao branch of Export-Import Bank of China for a period from 30 June, 2015 to 30 December, 2016. The loan is guaranteed by the ultimate controlling shareholder, Hualu Holding.

## Notes to the Financial Statements (Continued)

(Unless other wise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 6. Loans between related parties

Names of related parties	Borrowing/Lending	Loan amount	From	Due date
Hualu Holding Group Company Limited	Borrowing	497,750	2011-12-30	2016-12-30
Hualu Holding Group Company Limited	Borrowing	199,700	2013-1-1	2015-12-31

### 7. Other transactions

#### (1) Royalty for trademark

Names of related parties	Content of related transaction	Amount of Current Year	Amount of Last Year
Shandong Xinhua Pharmaceutical Group Company Limited	Royalty for Trademark	5,000	5,000

In accordance with provisions in “trademark licensing agreement” signed by the Company and the parent company Shandong Xinhua Group on 7 December, 1996, Shandong Xinhua Group granted the Company the exclusive right to use Xinhua trademark for existing and future products in and outside 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 at RMB1,100,000. This agreement shall continue to take effect within the valid period of the trademark until the agreement is terminated.

The Company has signed a supplemental agreement (“supplemental agreement”) of the trademark licensing agreement with parent company Shandong Xinhua Group on 23 March, 2012. The duration of agreement is from 1 April, 2012 to 31 December, 2014. In accordance with the supplemental agreement, the annual fee for using the trademark of “Xinhua” shall be changed to RMB10,000,000, while other terms in the trademark licensing agreement shall remain unchanged.

The Company has signed a supplemental agreement (“supplemental agreement”) of the trademark licensing agreement with parent company Shandong Xinhua Group on 27 October, 2014. The duration of agreement is from January 1, 2015 to 31 December, 2017. In accordance with the supplemental agreement, the annual fee for using the trademark of “Xinhua” shall be changed to RMB10,000,000, while other terms in the trademark licensing agreement shall remain unchanged.

#### (2) Provide labour services

Names of related parties	Content of related party transaction	Amount of Current Year	Amount of Last Year
DSM Sinochem Pharmaceuticals Zibo Co., Ltd.	Maintenance Service	32	–

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 8. Salaries of key management

Item Name	Amount of Current Year	Amount of Last Year
Salaries of Key management*	<b>1,053</b>	1,135

\* Salaries of key management are wages of members of the board of directors, members of board of supervisors and senior management.

### (III) Balance of transactions with related parties

#### 1. Balance of transactions with related parties – assets

Related Parties (Item)	Balance at the end of the year		Balance at the beginning of the year	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
<b>Accounts receivable</b>				
Shandong Xinhua Industry & Trade Company Limited	1,150	1,150	1,150	1,150
Hualu Group Company Limited	6,169	–	–	–
America Perrigo Company	3,551	–	5,124	–
DSM Sinochem Pharmaceuticals Zibo Co., Ltd.	–	–	96	–
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	31	–	34	–
Total	<b>10,901</b>	<b>1,150</b>	<b>6,404</b>	<b>1,150</b>
<b>Prepayments</b>				
Shandong HuaLu Hengsheng Chemical & Industrial Company Limited	984	–	377	–
Total	<b>984</b>	<b>–</b>	<b>377</b>	<b>–</b>
<b>Other accounts receivable</b>				
Shandong Xinhua Industry & Trade Company Limited	8	–	8	–
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324	11,324	11,324
Total	<b>11,332</b>	<b>11,324</b>	<b>11,332</b>	<b>11,324</b>

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 2. Balance of transactions with related parties – liabilities

Names of related parties	Balance at the end of the year	Balance at the beginning of the year
<b>Accounts payable</b>		
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	4,000	2,000
DSM Sinochem Pharmaceuticals Zibo Co., Ltd.	2,779	4,358
Total	<u>6,779</u>	<u>6,358</u>
<b>Other payables</b>		
America Eastwest Company Limited	–	–
<b>Long-term loans</b>		
Hualu Holding Group Company Limited	<u>697,450</u>	<u>696,400</u>

## XII. CONTINGENCIES

### 1. Contingent liability caused by pending litigation

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

On December 31, 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 March 12, 2012. Soon after, Baisheng Steel cashed the bank acceptances.

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

On December 6, 2013, Medical 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 December 12, 2013, RMB7,000,000 of Huadong Pharm.'s bank deposit was frozen. The freeze order on the said RMB7,000,000 was renewed on November 27, 2014 and the freeze order will expire on May 26, 2015.

The freeze order on the said RMB7,000,000 was renewed on May 14, 2015 and the freeze order will expire on November 13, 2015.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

After seeking legal opinion, the Company believes the bank acceptances paid to Huadong Pharm. from Medical Trade were legal bills without defects. 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.

- The Company did not have other significantly contingent matters as of 30 June, 2015, except the above contingent matters.

### XIII. COMMITMENTS

#### 1. Capital commitments

As of 30 June, 2015, major capital expenditures required of the Company in relation to buildings and production facilities under construction are shown below:

Projects	30 June 2015	30 June 2014
Capital commitments contracted for but are not yet required to be included in the balance sheet	66,785	89,981
Capital commitments approved by the management but have not yet contracted for	30,000	85,000
Total	96,785	174,981

Details of capital commitments contracted for but are not yet required to be included in balance sheet are as follow:

Projects	Amount of Commitment	Outstanding Balance
Project of Analginum Series Products in Hutian Park	90,073	6,304
Project of Innovative Park	74,431	10,936
Project of Aspirin in Hutian Park	38,789	279
Wastewater Treatment Project in Hutian Park	33,861	10,755
Medicine Industrialization Center of Modern Chemistry in Hutian Park	22,879	4,439
Quality Inspection Office Building in Hutian Park	11,562	292
Project of Penta-ammonia in Hutian Park	74,170	11,296
Project of Propyphenazone	26,325	1,866
Others	79,230	20,618
Total	451,320	66,785

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 2. Operating lease commitments

#### 2.1 The Company as lessee

According to the irrevocable operating lease contracts signed, the Company's future minimum lease payments would be as follows:

Item	30 June 2015	31 December 2014
Within 1 year	1,378	2,408
Within 2-5 years	31	378
Total	1,409	2,786

#### 2.2 The company as lessor

According to the irrevocable operating lease contracts signed, the minimum lease payments to be received by the Company in future would be as follows:

Item	30 June 2015	31 December 2014
Within 1 year	7,360	2,408
Within 2-5 years	30,336	5,268
Above 5 years	7,245	–
Total	44,971	8,634

3. Save for the above commitments, the Company did not make other significant commitments as of 30 June, 2015.

## XIV. POST BALANCE SHEET DATE EVENTS

The Company did not have other post balance sheet date events that should be disclosed as of 30 June, 2015.

# Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

## XV. OTHER MAJOR MATTERS

### 1. Segment information

#### (1) The basis and accounting policy of reportable 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 Company according to Chinese Accounting Standard No. 36 Segment Report determines the reportable segment.

The Group's reportable segments are as follows:

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

Information regarding the above segments is reported below.

#### (2) Reportable segments financial information of the current year

Segment information as at and for six months ended June 30, 2015 is as follow:

Item	Bulk pharmaceuticals	Preparations	Commerce circulations	Chemical and other products	Unallocated	Elimination	Total
Operating revenue	804,772	710,415	504,302	314,582	-	(411,981)	1,922,090
Include: Revenue from external customers	802,117	488,868	481,944	149,161	-	-	1,922,090
Inter-segment sales	2,655	221,546	22,358	165,422	-	(411,981)	-
Operating cost	668,015	468,369	482,433	294,802	-	(411,981)	1,501,638
Include: Cost of external customers	642,112	276,624	459,835	123,067	-	-	1,501,638
Cost of inter-segment	25,903	191,745	22,598	171,735	-	(411,981)	-
Selling and distribution expenses	23,114	141,872	14,914	4,713	-	-	184,613
Interest income	266	459	22	144	-	-	891
Interest costs	29,389	10,341	-	1,087	-	-	40,817
Share of profit of associates and joint ventures	-	-	-	-	-	-	-
Asset impairment losses	-	(3,944)	-	-	-	-	(3,944)
Depreciation and amortisation	73,210	14,826	1,031	27,948	-	-	117,015
Total profit	21,738	13,326	5,328	4,086	-	-	44,478
Income tax expense	2,060	10,141	851	331	-	-	13,383
Net profit	19,678	3,185	4,478	3,755	-	-	31,096
Segment asset	2,107,016	568,702	230,028	725,368	-	-	3,631,114
Unallocated corporate assets	-	-	-	-	858,051	-	858,051
Consolidated assets	-	-	-	-	-	-	4,489,165
Segment liabilities	461,460	125,392	221,751	111,473	-	-	920,076
Unallocated corporate liabilities	-	-	-	-	1,628,460	-	1,628,460
Consolidated liabilities	-	-	-	-	-	-	2,548,536



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

**Financial Report** (Prepared in Accordance with PRC Accounting Standards)

Segment information for six months ended June 30, 2014 and as at December 31, 2014 is as follow (unaudited):

Item	Bulk pharmaceuticals	Preparations	Commer circulations	Chemical and other products	Unallocated	Elimination	Total
Operating revenue	821,509	627,451	448,339	331,681	-	(384,244)	1,844,736
Include: Revenue from external transactions	821,203	477,380	386,011	160,142	-	-	1,844,736
Inter-segment sales	306	150,071	62,328	171,539	-	(384,244)	-
Operating cost	693,215	441,201	427,808	291,817	-	(384,244)	1,469,797
Include: Cost of external transactions	679,855	291,086	365,480	133,376	-	-	1,469,797
Inter-segment cost	13,360	150,114	62,328	158,442	-	(384,244)	-
Selling and distribution expenses	18,707	132,398	14,659	5,612	-	-	171,376
Interest income	295	20	3	100	-	-	418
Interest cost	5,727	-	-	-	-	-	5,727
Share of profit of associates and joint ventures	-	-	-	-	-	-	-
Asset impairment losses	-	2,716	-	-	-	-	2,716
Loss arising from depreciation and amortisation	60,210	5,566	931	23,503	-	-	90,210
Total profit	38,330	9,052	3,668	10,797	-	-	61,847
Income tax expense	6,421	767	733	3,746	-	-	11,667
Net profit	31,909	8,285	2,935	7,051	-	-	50,180
Segment asset	1,905,386	718,567	208,437	747,127	-	-	3,579,517
Unallocated corporate assets	-	-	-	-	665,633	-	665,633
Consolidated assets	-	-	-	-	-	-	4,245,150
Segment liabilities	406,893	128,753	143,187	151,900	-	-	830,733
Unallocated corporate liabilities	-	-	-	-	1,502,548	-	1,502,548
Consolidated liabilities	-	-	-	-	-	-	2,333,281

2. There was no other major matters need to be disclosed of the Company as at 30 June 2015 except reportable segments.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### XVI. NOTES TO MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS

#### 1. Accounts receivable

##### (1) Classification of accounts receivable

Item	Balance at the end of the year		Provision for bad debts	
	Amount	Proportion %	Amount	Proportion %
Accounts receivable with significant single amount and drawn bad debt provision individually	-	-	-	-
Accounts receivable with provision for bad debts drawn by combination	-	-	-	-
Account age combination	229,886	47.78	986	0.43
Combination with the relationship between trading partners	250,078	51.98	-	-
Combination for special accounts	-	-	-	-
Combination sub-total	479,964	99.76	986	0.21
Accounts receivable with insignificant single amount but drawn bad debt provision individually	1,150	0.24	1,150	100.00
<b>Total</b>	<b>481,114</b>	<b>-</b>	<b>2,136</b>	<b>-</b>

Item	Balance at the beginning of the year		Provision for bad debts	
	Amount	Proportion %	Amount	Proportion %
Accounts receivable with significant single amount and drawn bad debt provision individually	-	-	-	-
Accounts receivable with provision for bad debts drawn by combination	-	-	-	-
Account age combination	156,074	46.10	986	0.63
Combination with the relationship between trading partners	181,314	53.56	-	-
Combination for special accounts	-	-	-	-
Combination sub-total	337,388	99.66	986	0.29
Accounts receivable with insignificant single amount but drawn bad debt provision individually	1,150	0.34	1,150	100.00
<b>Total</b>	<b>338,538</b>	<b>-</b>	<b>2,136</b>	<b>-</b>

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

- 1) In combination, accounts receivables with provisions for bad debt drawn by aging analysis:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion %	Provision for bad debts	Amount	Proportion %	Provision for bad debts
Within 1 year	229,660	0.5	831	155,551	0.5	778
1-2 years	79	20	16	394	20	79
2-3 years	16	60	10	–	60	–
More than 3 years	129	100	129	129	100	129
Total	229,885	–	986	156,074	–	986

- 2) In combination, accounts receivable with provision for bad debts drawn by other method:

Unit Name	Book balance	Amount of bad debts	Drawing proportion (%)	Drawing reason
Combination with the relationship between trading partners	250,078	–	–	–

- 3) Accounts receivables with insignificant amount but drawn bad debt provision individually at the end of the year

Unit Name	Book balance	Amount of bad debts	Drawing proportion (%)	Drawing reason
Shandong Xinhua Industry & Trade Company Limited	1,150	1,150	100	Considered the solvency and full provision

### (2) Drawn and reversed (or recovered) provision for the bad debts in the year

There is no bad debt provision that has been drawn in this year; no accounts receivable that have been written off after verification of previous year have been recovered in this year.

- (3) There is no account receivable have been written off this year.
- (4) The balance of the accounts receivable at the year end does not include the receivable due from shareholders holding more than 5% (including 5%) of the voting rights in the Company.

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (5) Top five debtors of unpaid amount based on year-end balance of accounts receivable

Unit Name	Amount	Age	Proportion (%)
F.Hoffmann-La Roche AG	30,697	Within 1 year	6.38
Shandong Xinhua Pharmaceutical (America) Company Limited	14,758	Within 2 years	3.07
NATUREX INGREDIENTES NATURAIS LTDA.	13,599	Within 1 year	2.83
Mitsubishi Corporation	11,735	Within 1 year	2.44
PEPSI COLA SALES & DISTRIBUTION	10,965	Within 1 year	2.28
Total	81,754	–	17.00

### (6) The accounts receivable attributable to related parties amounted to RMB257,684,000 in total, representing 53.56% of the balance of amounts receivable at the year end. Details are as follows:

Unit Name	Relation with the Company	Amount	Proportion to Total Sum %
Shandong Xinhua Medical Trade Company Limited	Subsidiary	222,877	46.33
Shandong Xinhua Pharmaceutical (Shouguang) Company Limited	Subsidiary	10,766	2.24
Shandong Xinhua Pharmaceutical (Europe) Company Limited	Subsidiary	306	0.06
Shandong Xinhua Pharmaceutical (America) Company Limited	Subsidiary	14,758	3.07
Shandong Xinhua Electromechanical Engineering Co., Ltd.	Subsidiary	1,361	0.28
Shandong Xinhua Industry & Trade Company Limited	Other related party	1,150	0.24
Hualu Holding Group Company Limited	Other related party	6,169	1.28
Shandong Zibo Xincat Pharmaceutical Company Limited	Subsidiary	9	–
American Perrigo Company	Other related party	288	0.06
Total		257,684	53.56

### (7) Accounts receivable includes the balance of the following foreign currency:

Foreign currency name	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	25,226	6.1136	154,220	20,273	6.1190	124,048
GBP	418	9.6422	4,028	317	9.5437	3,022

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### 2. Other accounts receivable

#### (1) Classification of other accounts receivable

Item	Balance at the end of the year			
	Amount	Proportion %	Provision for bad debts	Proportion %
Other receivables with significant amount and drawn bad debt provision individually	11,324	2.28	11,324	100.00
Other receivables with provision for bad debts drawn by combination	—	—	—	—
Account age combination	21,653	4.37	7,896	36.47
Combination with the relationship between trading partners	454,435	91.69	—	—
Combination for special accounts	8,190	1.65	—	—
Combination sub-total	484,278	97.72	7,896	1.63
Other receivables with insignificant amount but drawn bad debt provision individually	—	—	—	—
<b>Total</b>	<b>495,602</b>	<b>—</b>	<b>19,220</b>	<b>—</b>

Item	Balance at the beginning of the year			
	Amount	Proportion %	Provision for bad debts	Proportion %
Other receivables with significant amount but drawn bad debt provision individually	11,324	2.36	11,324	100.00
Other receivables with provision for bad debts drawn by combination	—	—	—	—
Account age combination	16,381	3.41	7,896	48.20
Combination with the relationship between trading partners	443,883	92.35	—	—
Combination for special accounts	9,017	1.88	—	—
Combination sub-total	469,281	97.64	7,896	1.68
Other receivables with insignificant amount but drawn bad debt provision individually	—	—	—	—
<b>Total</b>	<b>480,605</b>	<b>—</b>	<b>19,220</b>	<b>—</b>

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

### Financial Report (Prepared in Accordance with PRC Accounting Standards)

- 1) Other accounts receivable with significant amount and drawn bad debt provision individually at the end of the year

Unit Name	Book balance	Amount of bad debts	Drawing proportion (%)	Drawing reason
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324	100.00	Considered the solvency and full provision

- 2) In combination, other receivables of bad debt reserves are drawn by aging analysis:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion %	Provision for bad debts	Amount	Proportion %	Provision for bad debts
Within 1 year	12,094	0.5	34	6,821	0.5	34
1-2 years	2,100	20	420	2,101	20	420
2-3 years	42	60	25	42	60	25
More than 3 years	7,417	100	7,417	7,417	100	7,417
Total	21,653	-	7,896	16,381	-	7,896

- 3) In combination, accounts receivable with provision for bad debts drawn by other method:

Combination name	Book balance	Amount of bad debts
Combination with the relationship between trading partners	454,435	-
Combination for special accounts	8,190	-
Total	462,625	-

#### (2) Accrual, reversal (or recover) of bad debt reserves in the current year

There is no bad debt provision that has been drawn in this year; there is no bad debt provision that has been recovered or reversed in this year.

- (3) The balance of the accounts receivable at the year end does not contain the receivable due from shareholders holding more than 5% (including 5%) of the voting rights in the Company.

## Notes to the Financial Statements (Continued)

(Unless other wise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (4) Classification of other accounts receivable by nature

Nature of payment	Year end book balance	Book balance at beginning of year
Cash deposit and guarantee deposit	8,847	899
Current account	472,872	460,874
Accounts receivables and tax deductible	11,934	11,814
Advanced R&D fee and consulting fees	609	3,838
Others	1,339	3,180
Total	495,601	480,605

### (5) Top five debtors of unpaid amount of year-end balance of other accounts receivable:

Unit Name	Amount	Age	Proportion to total Sum %	Year end balance of the provision for bad debts	Nature or contents
Shandong Xinhua Pharmaceutical (Shouguang) Company Limited	299,911	Within 3 years and more than 3 years	60.51	–	Current account
Shandong Xinhua Medical Trade Company Limited	76,484	Within 3 years and more than 3 years	15.43	–	Current account
Xinhua (Zibo) Properties Company Limited	57,930	Within 3 year	11.69	–	Current account
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	More than 3 years	2.28	11,324	Long term trade receivable
Zibo Xinhua Drug Store Chain Company Limited	8,641	Within 3 years and more than 3 years	1.74	–	Current account
Total	454,289		91.66	11,324	

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

- (6) **Among the balance of other accounts receivable at the year end, the amount of the accounts receivable due by the related parties is RMB465,758,000, accounting for 93.97% of other account receivables in total. The details are as follows:**

Unit Name	Relationship with the Company	Amount	Proportion to Total Sum (%)
Xinhua Pharmaceutical (Shouguang) Company Limited	Subsidiary	299,911	60.51
Shandong Xinhua Medical Trade Company Limited	Subsidiary	76,484	15.43
Shandong (Zibo) Real Estate Company Limited	Subsidiary	57,930	11.69
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	11,324	2.28
Zibo Xinhua Drug Store Chain Company Limited	Subsidiary	8,641	1.74
Xinhua Pharmaceutical (Gaomi) Company Limited	Subsidiary	5,745	1.16
Shandong Zibo Xincat Pharmaceutical Company Limited	Subsidiary	5,592	1.13
Shandong Xinhua Electrical and Mechanical Engineering Co., Ltd.	Subsidiary	131	0.03
Total		<u>465,758</u>	<u>93.97</u>

### 3. Long-term equity investment

#### (1) Classifications of long-term equity investment

Item	Year end Balance			Balance at the beginning of the year		
	Book balance	Provision for impairment	Book Value	Book balance	Provision for impairment	Book Value
Investment in subsidiaries	468,245	-	468,245	468,245	-	468,245
Investment in joint venture and consortium	-	-	-	-	-	-
Total	<u>468,245</u>	<u>-</u>	<u>468,245</u>	<u>468,245</u>	<u>-</u>	<u>468,245</u>



## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Investment in subsidiaries

Invested entities	Balance at the beginning of the year	Increase in current Year	Decrease in current Year	Year end balance	Provision for impairment drawn in current year	Year end balance of impairment provision
Shandong Xinhua Medical Trade Company Limited	48,582	-	-	48,582	-	-
Shandong Xinhua Pharmaceutical Chemical Design Company Limited	3,038	-	-	3,038	-	-
Zibo Xinhua Drug Store Chain Company Limited	2,159	-	-	2,159	-	-
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	4,597	-	-	4,597	-	-
Zibo Xinhua-Eastwest Pharmaceutical Company Limited	9,008	-	-	9,008	-	-
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	24,877	-	-	24,877	-	-
Shandong Xinhua Pharmaceutical (Shouguang) Company Limited	230,713	-	-	230,713	-	-
Shandong Xinhua Pharmaceutical Export & Import Company Limited	5,501	-	-	5,501	-	-
Xinhua (Zibo) Properties Company Limited	20,000	-	-	20,000	-	-
Xinhua Pharmaceutical (Gaomi) Company Limited	35,000	-	-	35,000	-	-
Shandong Xinhua Pharmaceutical (America) Company Limited	9,371	-	-	9,371	-	-
Shandong Xinhua Electromechanical Engineering Co., Ltd.	8,000	-	-	8,000	-	-
Shandong Zibo Xincat Pharmaceutical Company Limited	67,399	-	-	67,399	-	-
<b>Total</b>	<b>468,245</b>	<b>-</b>	<b>-</b>	<b>468,245</b>	<b>-</b>	<b>-</b>

## 4. Operating revenue and cost

### (1) Operating revenues and costs

Item	Amount of Current Year	Amount of Last Year
Main business revenue	1,004,251	976,525
Other operating revenue	25,606	21,309
Total operating revenues	1,029,857	997,834
Cost of main operations	815,401	825,797
Other operating costs	22,360	23,643
<b>Total operating costs</b>	<b>837,761</b>	<b>849,440</b>

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

### (2) Main operating income and cost – classified as per product

Product Category	Amount of Current Year		Amount of Last Year	
	Income	Cost	Product category Income	Cost
BPC	742,827	618,041	751,795	622,049
Including: Export of BPC Preparations	488,438	420,290	508,154	429,149
Chemical and other	261,387	197,324	224,706	203,724
	36	36	24	24
Total	<u>1,004,251</u>	<u>815,401</u>	<u>976,525</u>	<u>825,797</u>

### (3) Operating incomes of the top five clients

Client name	Amount of Current Year	Proportion to all operating income (%)
Shandong Xinhua Medical Trade Company Limited	237,269	23.63
Mitsubishi Corporation	70,897	7.06
F.Hoffmann-La Roche AG	39,039	3.89
Hualu Holding Group Company Limited	29,268	2.91
MARKSANS PHARMA LIMITED	26,055	2.59
Total	<u>402,527</u>	<u>40.08</u>

## 5. Income from investment

### (1) Source of investment income

Source of investment income	Amount of Current Year	Amount of Last Year
Long-term equity investment income calculated by equity method	–	1,779
Investment income acquired during the period of holding available-for-sale financial assets	2,394	–
Investment income acquired from the disposal of available-for-sale financial assets	–	2,280
Dividend of Subsidiary	–	–
Income of purchasing finance products	92	663
Total	<u>2,486</u>	<u>4,722</u>

## Notes to the Financial Statements (Continued)

(Unless other wise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

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

Item	Amount of Current Year	Amount of Last Year	Reason for the Change in Increment and Decrease in This Year
Shandong Zibo Xincat Pharmaceutical Company Limited	-	1,779	

### 6. Supplementary information to cash flow statement of the parent company

Item	Amount of Current Year	Amount of Last Year
<b>1. Reconciliation of net profit to cash flows from operation:</b>		
Net Profit	24,005	34,884
Add: Provision for impairment of assets	-	-
Depreciation of fixed assets	77,737	56,883
Amortization of intangible assets	3,026	2,503
Loss from disposal of fixed assets, intangible assets and other long-term assets	7,651	1,155
Losses on retirement of fixed assets	-	-
Losses and profits from changes in fair value	-	-
Financial expenses	36,360	30,694
Investment income	(2,486)	(4,723)
Decrease of deferred income tax assets	-	-
Increase of deferred income tax liabilities	933	(506)
Decrease of inventory	26,760	45,399
Decrease of operational receivables	(192,043)	(113,714)
Increase of operating payables	110,779	62,243
Net cash flow from operating activities	92,723	114,819
<b>2. Significant investment and financing activities not related to cash deposit and withdrawal:</b>		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets acquired under finance leases	-	-
<b>3. Net change of cash and cash equivalents:</b>		
Ending balance of cash	345,729	171,142
Less: Initial balance of cash	165,486	209,696
Add: Ending balance of cash equivalents		
Less: Initial balance of cash equivalents		
Net increase in cash and cash equivalents	180,243	(38,555)

## XVII. APPROVAL OF THE FINANCIAL REPORT

This financial report has been approved and announced by the Directors on 30 July, 2015.

# Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB'000)

Financial Report (Prepared in Accordance with PRC Accounting Standards)

## XVIII. SUPPLEMENTARY INFORMATION

### 1. Nonrecurring income statement

In accordance with provisions in “No 1 explanatory announcement for disclosure of company information of public issuing securities – Incidental income (2008)” issued by CSRC, nonrecurring profit and loss of 2014 of the company was as below:

Item	Amount of Current Year	Amount of Last Year	Notes
(I) Profit and loss from disposal of non-current assets (including the offset part of asset impairment provisions)	(1,352)	(447)	Losses and profits from disposal of non-liquid assets
(II) Governmental subsidy charged to current gains and losses, but except the governmental subsidy closely related to normal operating businesses of the Company, complying with stipulations of national policies and continuously enjoyed rationally or quantitatively based on a certain standard	6,882	33,215	Governmental Allowance that is calculated current Profit and Loss received and amortized
(III) In addition to the valid hedging related to normal businesses, losses and profits from changes in fair value for holding of trading financial assets and trading financial liabilities, and gains from disposal of trading financial assets, trading financial liabilities, and salvageable financial assets	2,612	2,389	Disposition and dividend of financing assets for Sales
(IV) Reversal for impairment provision of receivables subject to separate impairment test	3,944	–	Bad Debt of accounts receivable for reversal independently drawing impairment
(V) Net profit and loss of the current period from the beginning period of the subsidiary which is merged under the same control to the date of merging	–	–	
(VI) Other non-business income and expense besides the above stated items	(1,308)	(3,595)	
<b>Total</b>	<b>10,779</b>	<b>31,562</b>	
Less: Income tax effect	683	4,536	
<b>Total non-recurring net profits and losses</b>	<b>10,096</b>	<b>27,026</b>	
Including: Attributable to Shareholders of the Company	10,408	27,025	

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

In accordance with provisions in “No 9 rules for compilation and announcement of disclosing company information of public issuing securities – calculation and disclosure of return on net assets and earning per share (revised in 2010)”, weighted average return on net assets, basic earning per share and diluted EPS of the company for the six months ended June 30, 2015 are as below:

Profit in the report period	Weighted average return on equity	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit which belongs to shareholders of the Company	1.41%	0.06	0.09
Net Profit Belonged to Shareholders of the Company after Deducting Non-recurring Profit and Loss	0.85%	0.03	0.03

# DOCUMENTS FOR INSPECTION AND PLACE FOR INSPECTION

## (1) DOCUMENTS FOR INSPECTION

1. The original copy of the Company's 2015 Interim Report signed by the Chairman of the Board.
2. Financial statements for the six months ended June 30, 2015 signed by the Chairman of the Board, the financial controller and the chief of the accounting department of the Company.

## (2) PLACE FOR INSPECTION

Office of the Secretary to the Board of the Company.

By Order of the Board  
**Shandong Xinhua Pharmaceutical Company Limited**  
**Zhang Daiming**  
*Chairman*

July 30, 2015, Zibo, PRC

As at the date of this report, the Board comprises:

*Executive Directors:*

Mr. Zhang Daiming (*Chairman*)  
Mr. Du Deping

*Non-executive Directors:*

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

*Independent Non-executive Directors:*

Mr. Li Wenming  
Mr. Du Guanhua  
Mr. Chan Chung Kik, Lewis