

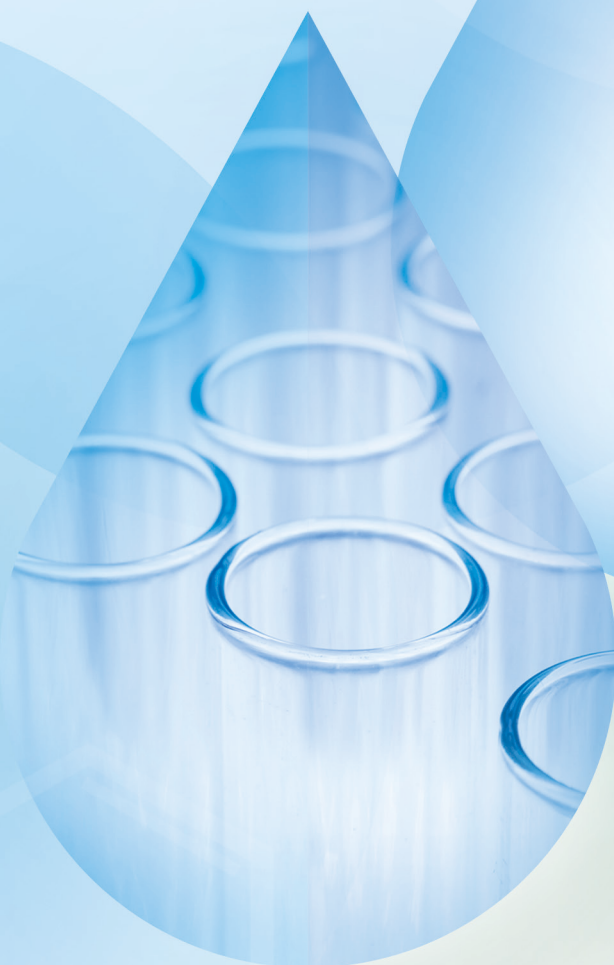


山東新華製藥股份有限公司  
Shandong Xinhua Pharmaceutical Company Limited

( H Share Stock Code: 00719 )

( A Share Stock Code: 000756 )

**2016**  
Interim Report



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## Important

The board of directors (the "Board"), the directors (the "Directors"), the supervisors (the "Supervisors") and the senior management (the "Senior Management") of Shandong Xinhua Pharmaceutical Company Limited hereby confirm that there are no false representations, misleading statements or material omissions contained in this interim report (the "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 the "Group") for the six months ended 30 June 2016 (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 declare that the financial report of the Company for the Reporting Period is true, accurate and complete.

This Report is published 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
Company's Legal Representative	:	Mr. Zhang Daiming
Secretary to the Board	:	Mr. Cao Changqiu
Contact Telephone Number	:	86-533-2196024
Facsimile Number	:	86-533-2287508
E-mail Address of the Secretary to the Board	:	cqcao@xhzy.com
Company's 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") for the publication of the interim report:	:	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Listing Information:		
H Shares	:	The Stock Exchange of Hong Kong Limited (the "SEHK")
Stock Short Name	:	Shandong Xinhua
Stock Code	:	00719
A Shares	:	Shenzhen Stock Exchange
Stock Short Name	:	Xinhua Pharm
Stock Code	:	000756

# Key Financial Information and Indicators

## KEY FINANCIAL INFORMATION (PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (THE “CASBE”))

Unit: RMB Yuan

Items	Six months ended	Six months ended	Change as
	30 June 2016 (unaudited)	30 June 2015 (unaudited)	compared to the same period last year (%)
Operating income	<b>1,998,500,412.91</b>	1,948,408,051.58	2.57
Total profits	<b>67,886,265.86</b>	44,479,116.56	52.63
Income tax expense	<b>15,298,546.67</b>	13,383,052.06	14.31
Net profits	<b>52,587,719.19</b>	31,096,064.50	69.11
Minority interest income	<b>6,720,573.51</b>	5,236,486.95	28.34
Net profit attributable to shareholders of the Company	<b>45,867,145.68</b>	25,859,577.55	77.37
Net profit attributable to shareholders of the Company after deduction of non-recurring profit and loss	<b>44,711,687.66</b>	15,451,869.97	189.36
Net cash flow from operating activities	<b>83,830,656.73</b>	73,271,923.37	14.41
Basic earnings per share (RMB/Share)	<b>0.10</b>	0.06	66.67
Diluted earnings per share (RMB/Share)	<b>0.10</b>	0.06	66.67
Ratio of weighted average return on net assets	<b>2.40%</b>	1.41%	Increase by 0.99 percentage point

Items	As at 30 June	As at 31 December	Change as
	2016 (unaudited)	2015 (audited)	compared to the End of Last Year (%)
Total assets	<b>4,387,046,443.24</b>	4,492,122,436.63	(2.34)
Total liabilities	<b>2,389,856,720.53</b>	2,508,040,118.23	(4.71)
Minority interests	<b>89,476,095.68</b>	99,825,757.46	(10.37)
Net assets attributable to the shareholders of the Company	<b>1,907,713,627.03</b>	1,884,256,560.94	1.24

### Net of extraordinary items and amounts (RMB Yuan)

Extraordinary items	Amount	Note
Profit and loss from disposal of non-current assets	804,888.61	Disposal of fixed assets, loss of intangible assets
Government subsidies recognized in current profit and loss, (excluding those closely related to the Company's normal operation and granted on an ongoing basis under national policies according to a certain fixed quota of amount or volume)	4,806,344.55	Received and amortised government subsidies recognized in the current period
Excluding the effective hedging business associated with the Company's normal operations, gains and losses from the holding or disposal of available-for-trading assets and liabilities, as well as gains from the disposal of held-for-sale assets	12,981.57	Notice deposit income
Reversal of impairment provision of receivables subject to separate impairment test	840,000.00	Reversal of provision for impairment of accounts receivable of subsidiary
Other non-operating income or cost except the above items	(6,374,484.54)	
Less: Impact of minority interests	(1,040,502.22)	
Impact of income taxes	(25,225.61)	
Total	<u>1,155,458.02</u>	

## Key Financial Information and Indicators

### Items by fair value

Unit: RMB Yuan

Items	Amount as at 1 January 2016	Change of fair value	Cumulative change of fair value recorded in equity	Provision impairment	Amount as 30 June 2016
Financial assets:					
Including: 1. Financial assets by fair value, the changes of which are included into profit and loss	-	-	-	-	-
Including: Derivative financial assets	-	-	-	-	-
2. Held-for-sale financial assets	197,231,648.00	-	160,248,778.00	-	181,474,096.00
Subtotal of financial assets	<u>197,231,648.00</u>	<u>-</u>	<u>160,248,778.00</u>	<u>-</u>	<u>181,474,096.00</u>
Total	<u>197,231,648.00</u>	<u>-</u>	<u>160,248,778.00</u>	<u>-</u>	<u>181,474,096.00</u>

### Other comprehensive income items

Unit: RMB Yuan

Items	Six months ended 30 June 2016	Six months ended 30 June 2015
1. The amount of profit/(loss) on available-for-sale financial assets	<b>(15,757,552.00)</b>	1,235,648.00
Less: Tax on available-for-sale financial assets	<b>(2,363,632.80)</b>	185,347.20
Net profit/(loss) transferred from previously recognized other comprehensive income	-	-
Subtotal	<b>(13,393,919.20)</b>	1,050,300.80
2. Exchange difference arising from translation of financial statements denominated in foreign currencies	<b>82,892.31</b>	(138,542.29)
Less: Net profit/(loss) transferred from the disposal of foreign operations during the current period	-	-
Subtotal	<b>82,892.31</b>	(138,542.29)
Total	<b>(13,311,026.89)</b>	911,758.51

# Changes in Share Capital Structure and Information on Shareholders

## 1. CHANGES IN SHARE CAPITAL STRUCTURE

Count unit: share

Class of shares	30 June 2016		1 January 2016	
	Number of shares	Percentage of the total share capital (%)	Number of shares	Percentage of the total share capital (%)
1. Total number of conditional tradable shares	8,925	0.002	8,925	0.002
State-owned shares	0	0	0	0
Shares owned by domestic legal persons	0	0	0	0
Conditional tradable shares owned by senior management (A shares)	8,925	0.002	8,925	0.002
Others	0	0	0	0
2. Total number of unconditional tradable shares	457,303,905	99.998	457,303,905	99.998
Renminbi-denominated ordinary shares (A shares)	307,303,905	67.198	307,303,905	67.198
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. INFORMATION ON SHAREHOLDERS

- (1) As at 30 June 2016, the Company had on record a total of 30,303 shareholders (the "Shareholders"), comprising 46 holders of H shares and 30,257 holders of A shares.
- (2) As at 30 June 2016, the ten largest Shareholders were as follows:

Unit: share

Name of Shareholders	Nature of Shareholders	% of the total share capital	Number of shares held during the Reporting Period	Number of shares subject to selling restrictions	Number of shares being charged or frozen
山東新華醫藥集團有限責任公司 (Shandong Xinhua Pharmaceutical Group Co. Ltd.* ("SXPGC"))	State-owned shares	34.46%	157,587,763	0	0
HKSCC (Nominees) Limited	Listed H shares	32.56%	148,883,698	0	0
興業銀行股份有限公司－中歐新趨勢股票型證券投資基金 (LOF) (Industrial Bank Co., Ltd. – New Trend Of China EU Securities Investment Fund Shares (LOF)*)	Others	0.74%	3,366,032	0	0
新華人壽保險股份有限公司－傳統－普通保險產品－018L－CT001深 (New China Life Insurance Co., Ltd. – Traditional – General Insurance Products – 018L-CT001 Shen*)	Others	0.70%	3,194,559	0	0

## Changes in Share Capital Structure and Information on Shareholders

Name of Shareholders	Nature of Shareholders	% of the total share capital	Number of shares held during the Reporting Period	Number of shares subject to selling restrictions	Number of shares being charged or frozen
交通銀行股份有限公司－長信量化先鋒混合型證券投資基金 (Bank of Communications Co., Ltd. – Chang Xin Quantify the Mixed Type Securities Investment Fund*)	Others	0.70%	3,185,564	0	0
中信銀行股份有限公司－浦銀安盛醫療健康靈活配置混合型證券投資基金 (China CITIC Bank Corporation Limited – AXA SPDB Health Flexible Configuration Hybrid Securities Investment Funds*)	Others	0.68%	3,115,433	0	0
中國農業銀行股份有限公司－富蘭克林國海彈性市值混合型證券投資基金 (Agricultural Bank of China Limited – Franklin Guohai Elastic Market Value of Hybrid Securities Investment Funds*)	Others	0.63%	2,858,815	0	0
中國銀行股份有限公司－博時醫療保健行業混合型證券投資基金 (Bank of China Limited – Boshera Healthcare Industry Hybrid Securities Investment Funds*)	Others	0.52%	2,399,799	0	0
匯投控股集團有限公司 (Huitou Group Holdings Co., Ltd*)	Domestic non-state-owned legal person	0.33%	1,513,707	0	0
新時代證券－廣發銀行－新時代新財富22號集合資產管理計畫 (New Times Securities – Guangdong Development Bank – A New Era Of the New Wealth Of the Asset Management Plan 22*)	Others	0.31%	1,416,077	0	0

\* for identification purpose only

- (3) As of 30 June 2016, the ten largest Shareholders of the unconditional tradable shares of the Company were as follows:

Unit: share

Name of Shareholders	Number of shares held during the Reporting Period	Class of shares
山東新華醫藥集團有限責任公司 (Shandong Xinhua Pharmaceutical Group Co. Ltd. (“SXPGC”)*)	157,587,763	RMB-denominated ordinary Shares
HKSCC (Nominees) Limited	148,883,698	Overseas listed foreign Shares
興業銀行股份有限公司－中歐新趨勢股票型證券投資基金 (LOF) (Industrial Bank Co., Ltd. – New Trend Of China EU Securities Investment Fund Shares (LOF)*)	3,366,032	RMB-denominated ordinary Shares
新華人壽保險股份有限公司－傳統－普通保險產品－018L-CT001深 (New China Life Insurance Co., Ltd. – Traditional – General Insurance Products – 018L-CT001 Shen*)	3,194,559	RMB-denominated ordinary Shares
交通銀行股份有限公司－長信量化先鋒混合型證券投資基金 (Bank of Communications Co., Ltd. – Chang Xin Quantify the Mixed Type Securities Investment Fund*)	3,185,564	RMB-denominated ordinary Shares
中信銀行股份有限公司－浦銀安盛醫療健康靈活配置混合型證券投資基金 (China CITIC Bank Corporation Limited – AXA SPDB Health Flexible Configuration Hybrid Securities Investment Funds*)	3,115,433	RMB-denominated ordinary Shares

## Changes in Share Capital Structure and Information on Shareholders

Name of Shareholders	Number of shares held during the Reporting Period	Class of shares
中國農業銀行股份有限公司－富蘭克林國海彈性市值混合型證券投資基金 (Agricultural Bank of China Limited－Franklin Guohai Elastic Market Value of Hybrid Securities Investment Funds*)	2,858,815	RMB-denominated ordinary Shares
中國銀行股份有限公司－博時醫療保健行業混合型證券投資基金 (Bank of China Limited－Boshera Healthcare Industry Hybrid Securities Investment Funds*)	2,399,799	RMB-denominated ordinary Shares
匯投控股集團有限公司 (Huitou Group Holdings Co., Ltd.*)	1,513,707	RMB-denominated ordinary Shares
新時代證券－廣發銀行－新時代新財富22號集合資產管理計畫 (New Times Securities－Guangdong Development Bank－A New Era Of the New Wealth Of the Asset Management Plan 22*)	1,416,077	RMB-denominated ordinary Shares

\* for identification purpose only

Note:

- i. The Directors are not aware as to whether there is any association amongst the ten largest Shareholders of the Company, nor if any of them are 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 if any of them are 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 the ten largest Shareholders of unconditional tradable shares and the ten largest Shareholders or if any of them are persons acting in concert as defined in the CSRC Rules.

- ii. Save as disclosed above and so far as the Directors are aware, as at 30 June 2016 no other person (other than the Directors, Supervisors, chief executives or members of Senior Management of the Company) 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.

### 3. THERE WAS NO CHANGE OF CONTROLLING SHAREHOLDER (AS DEFINED UNDER THE LISTING RULES) OF THE COMPANY DURING THE REPORTING PERIOD.



## Directors, Supervisors, Senior Management and Staff of the Company

Changes of Directors, Supervisors and Senior Management and the number of shares of the Company ("Shares") held by them were as follows:

Name	Position	Number of Shares (as at 30 June 2016)	Number of Shares (as at 1 January 2016)
<b>Directors</b>			
Mr. Zhang Daiming	Chairman	11,900	11,900
Mr. Ren Fulong	Non-executive Director	Nil	Nil
Mr. Du Deping	Executive Director, General Manager	Nil	Nil
Mr. Xu Lie	Non-executive Director	Nil	Nil
Mr. Zhao Bin	Non-executive Director	Nil	Nil
Mr. Chan Chung Kik, Lewis	Independent non-executive Director	Nil	Nil
Mr. Du Guanhua	Independent non-executive Director	Nil	Nil
Mr. Li Wenming	Independent non-executive Director	Nil	Nil
<b>Supervisors</b>			
Mr. Li Tianzhong	Chairman of Supervisory Committee	Nil	Nil
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	Nil	Nil
Mr. Wang Jianping	Employee Supervisor	Nil	Nil
Mr. Xiao Fangyu	Independent Supervisor *	Nil	Nil
<b>Other senior management</b>			
Mr. Wang Xiaolong	Deputy General Manager	Nil	Nil
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil
Mr. Du Deqing	Deputy General Manager	Nil	Nil
Mr. He Tongqing	Deputy General Manager	Nil	Nil
Mr. Hou Ning	Financial Controller	Nil	Nil
Mr. Cao Changqiu	Secretary to the Board	Nil	Nil
Total		<u>11,900 Shares</u>	<u>11,900 Shares</u>

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

So far as the Directors, the Senior Management and Supervisors are aware, as of 30 June 2016, save as disclosed herein, no Director, Senior Management 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 Stock Exchange of Hong Kong Limited ("SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Management 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.

\* Mr. Xiao Fangyu was appointed as the independent Supervisor of the Company on 26 February 2016. For his biographical particulars, please refer to the announcements of the Company published on the Cninfo website, HKExnews and the Company's website on 8 January 2016 and 26 February 2016.

# Directors, Supervisors, Senior Management and Staff of the Company

## POSITION HELD IN THE SHAREHOLDING COMPANY

Name	Name of the shareholder	Office held in the shareholding company	Date of inception of office	Date of retirement from office	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 MANAGEMENT

Decision-making process in respect of the remuneration of Directors, Supervisors and Senior Management	The Directors' and the Supervisors' remuneration must be approved in a general meeting of Shareholders of the Company, whereas the remuneration of the Senior Management must be considered and approved by the Board.
Basis for determining the remuneration of Directors, Supervisors and Senior Management	The remuneration of Directors, Supervisors and Senior Management was determined with reference to state policies, the Company's economic footing, individual performance and the general remuneration standard of society.
Payment of remuneration to Directors, Supervisors and Senior Management	A payment of RMB1,102,240 was made during this Reporting Period.

## Employees (As of 30 June 2016)

Number of incumbent staff	6,335
Number of retired staff whose costs were borne by the Company	0

### Staff portfolio By profession

	Number of staff
Production staff	3,481
Engineering & Technical staff	599
Administration staff	539
Finance staff	92
Product research & development staff	183
Procurement staff	32
Sales staff	1,053
Quality supervision staff	356
Total	6,335

### Academic qualifications By level of education

	Number of staff
University or above	1,079
Tertiary institution	1,633
Intermediate institution	1,249
Senior high school and technical school	1,860
Junior high school or below	514
Total	6,335

To all Shareholders:

I hereby report to the Shareholders the operating results of the Company in the first half of 2016.

The operating income of the Group in the first half of 2016 calculated pursuant to the CASBE was RMB1,998,500,000, representing a 2.57% increase as compared to that of the same period last year, and the net profit attributable to the Shareholders of the Company was RMB45,867,000, representing a 77.37% increase as compared to that of the same period last year.

The Board does not recommend distribution of interim dividends in respect of the Reporting Period.

### **BUSINESS REVIEW**

In the first half of 2016, the Company seized market opportunities, focused on structural adjustment, continued to carry forward the strategy for exploring the preparation market, endeavored to advance technological improvement and the research and development of new products, vigorously reduced procurement costs, and continuously enhanced basic management. Production and operation presented a favorable development trend.

#### **1. Focusing on adjustment of products structure, further expanding operating scale**

In the first half of the year, the Group captured opportunities in the market of pharmaceutical raw materials, and the sales of major pharmaceutical raw materials such as aspirin, ibuprofen and caffeine recorded a significant growth. The Group attained an income of USD101,000,000 in export. While reducing procurement costs, the Group prudently managed and monitored sales channels to maintain stable selling prices of pharmaceutical raw materials.

The Group continued to carry forward the strategy for exploring the preparation market. Sales volume of strategic key preparations represented a 20.8% increase as compared to that of the same period last year, among which the sales of Rabeprazole Sodium Enteric-coated Tablets (舒泰得\*) reported an increase of 23.7%, Aspirin Enteric-coated Sustained Release Tablets (介寧\*) and Glimepiride Tablets (佳和洛\*) both recorded an increase of over 15%. The Group actively strived for appointed pharmaceutical production qualifications throughout the country, and has currently obtained appointed production qualifications of compound sulfamethoxazole injection.

#### **2. Stepping up technological advancements with significant technological results**

In the first half of the year, the Group obtained approval documents for the production of active pharmaceutical ingredients Levodopa and seven new clinical drugs (BE). Consistency assessment regarding the quality of products was carried out in an orderly manner. Quality research and trial production of international registration for Ibuprofen tablets have been completed.

The Group continued to implement cost breakthroughs incentive policies to enhance the initiative of employees. Product quality breakthroughs and cost of raw materials breakthroughs set out in the annual targets obtained substantial breakthroughs.

Six patents were obtained in the first half of the year, two of which were invention patents.

### 3. Steadily advancing project construction

The interior and exterior decoration and renovation of the International Cooperation Center for Modern Pharmacy have been completed, and it is planned that the purification construction and the installation and construction of air-conditioning self-control system will be completed in the second half of the year. The construction project of the modern chemical medicines industrialisation centre (II) has basically been completed, and it is planned that testing will be carried out within the year. The relocation projects of hormone series products will commence as scheduled.

### 4. Receiving further enhancement on basic management work

In the first half of the year, the Food and Drug Administration from the United States carried out a two-week on-site GMP investigation of the products of pharmaceutical raw materials exported to the United States in three park areas of the Company; the Company passed with zero defect. The Company received 56 on-site reviews from customers, among which 37 on-site reviews were from foreign customers; all were successfully passed.

The Group comprehensively carried forward 6S construction. There were no general-and-above safety or environmental pollution matters in the first half of the year, and this forcefully reassures production security. The results of energy conservation and emission reduction work were remarkable, realising an energy conservation of approximately RMB8.42 million.

## PLANNING FOR THE SECOND HALF OF THE YEAR

Looking forward, the domestic economy will continue to encounter substantial downward pressure, and the pharmaceutical industry may also be impacted. As affected by the international situation, the fluctuation in raw material market and exchange rates will intensify, while trade protectionism and other economic limitation measures will increase. These will result in mounting difficulties for the Company to maintain continuous growth in export.

In the new round of national bidding of basic medicines, the bid-winning mode of the lowest price did not have fundamental changes; the price in chemicals market was sluggish and competition fierce. The assessment of the quality of products was consistent, and the reform plans of provincial and municipal public hospitals were successively introduced. All these affect pharmaceutical preparation development.

### 1. Focusing on innovation of marketing and sale mode and striving for a new stage of marketing and sale work

The Group would seize the current opportunities to expand the leading of sales of pharmaceutical raw materials with full strength, and would strive for the development of pharmaceutical raw material markets such as Carbidopa and Meloxicam to cultivate new growing point. The Group would endeavor to satisfy the needs of international key customers to expand the scale of export.

The Group would unswervingly carry forward the strategy for exploring the preparation market, seriously analyze bidding policies in various places, carry out implementation to ensure bid-winning, vigorously develop innovation of marketing mode, put into effect the "Healthy Zibo" project, strengthened the construction of e-commerce park, and did the best in operating "One-stop Online Pharmacy Platform with Baidu" and cross-border e-commerce online sales to form online and offline favorable situations with interaction and mutual encouragement.

### **2. Strengthening technological innovation and leading technology improvement onto a new stage**

The Group confirmed, for the second half year, to initiate 8 pharmaceutical raw materials and 12 clinical research on preparation of new products to speed up international registration of products, spared no effort to carry forward consistent assessment on the quality of products to ensure the completion as scheduled and obtain decision opportunities for the breakthrough of pharmaceutical preparation, and accelerated the industrialisation of 5 new products including sevelamer hydrochloride.

We will carry forward workmanship and technology breakthrough of key products to obtain fruitful results as soon as possible to ensure completion of the target regarding reduction of raw materials consumption.

### **3. Organising meticulously to ensure smooth progress of project construction**

The Group would do its utmost to make an overall plan for scientific arrangement and stringent implementation to ensure construction quality and progress of construction period, and implemented key renovation projects confirmed at the beginning of the year, pay key attention to project of the international cooperation center for modern pharmacy, medicine industrialisation center of modern chemistry (II) and relocation and renovation project of hormone series products.

### **4. Enhancing basic management and realising breakthroughs of management level**

We would implement thorough cost-effective construction to achieve technological improvement by applying new technology, optimising production and organisation to enhance management efficiency, speeding up promotional application of intelligent equipment and automatic control to reduce labor strength, enhance work efficiency and reduce the production costs.

The Group would rigorously implement its budgets, stringently control its expenditures, strengthen its risk-control measures, reduce capital risks, and enhance energy management to ensure the realisation of the energy conservation target established at the beginning of the year.

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

29 August 2016  
Zibo, Shandong Province, PRC

The Group is mainly engaged in the development, production and sale of pharmaceutical raw materials, preparations, medical intermediates and other products. The profit of the Group is mainly attributable to its principal operations.

## 1. LIQUIDITY AND ANALYSIS OF FINANCIAL RESOURCES AND CAPITAL STRUCTURE UNDER THE LISTING RULES PUBLISHED BY THE SEHK

As at 30 June 2016, the current ratio was 82.96% (current ratio = current assets/current liabilities $\times$ 100%), the quick ratio was 58.75% (quick ratio = (current assets – net balance of inventory)/current liabilities $\times$ 100%), the turnover ratio of accounts receivable (turnover ratio of accounts receivable = annualised revenue/average trade and bill receivables $\times$ 100%) and the rate of inventory turnover (inventory turnover rate = annualised operating costs/average inventories $\times$ 100%) were 1,070.86% and 622.71% respectively.

The Group's demand for working capital did not show significant seasonal fluctuation.

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 2016, the total amount of bank loans was RMB757,400,000, and the loans from the ultimate holding company was RMB599,250,000. As at 30 June 2016, the Group borrowed RMB168,449,000 through finance lease arrangements. As at 30 June 2016, the total currency funds of the Group amounted to RMB403,203,000 (including deposits totalling RMB106,900,000 which the Group charged for securing bank acceptance bills. Save for the above, no other assets of the Group were charged).

The Group has stringent internal control systems for cash and fund management with a view to strengthening financial management. The Group has sound liquidity and repayment ability.

The breakdowns of the results of the Group is as listed in the section headed "Analysis of business conditions and financial position under the relevant disclosure requirements and provisions of the PRC".

As at 30 June 2016, the number of employees of the Group was 6,335. The total salaries for employees in the first half of 2016 amounted to RMB198,783,000.

The main investment projects in the second half of 2016 would be the Hutian Area\* (湖田園區) project and the Headquarters Area\* (總部園) project.

As at 30 June 2016, the gearing ratio of the Group was 54.48% (gearing ratio = total liabilities/total assets  $\times$  100%).

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

The assets and liabilities of the Group were denominated in RMB. However, the Group recorded an income of USD101,124,000 for export for the first half of 2016. In this connection, the Group would be subject to the impact of fluctuations from foreign exchange. The Group has adopted the following measures to minimise the risks of fluctuation in foreign exchange: (1) raising the prices for exports in order to lower foreign exchange fluctuation risks; and (2) when entering into larger export contracts, the Group will seek prior agreements that the parties to the contracts shall share the foreign exchange fluctuation risks should the foreign exchange fluctuation exceed the limit agreed by both parties.

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

### Principal Financial Data

Item	Six months ended 30 June		Change as compared to the same period of last year (%)
	2016	2015	
	<i>RMB Yuan</i>		
Operating revenue	<b>1,998,500,412.91</b>	1,948,408,051.58	2.57
Operating cost	<b>1,540,700,405.16</b>	1,529,865,315.16	0.71
Period expense	<b>371,594,625.87</b>	368,088,025.42	0.95
Research and development expenses	<b>39,983,826.82</b>	62,257,516.34	(35.78)
Net cash flow from operating activities	<b>83,830,656.73</b>	73,271,923.37	14.41
Net cash flow from investing activities	<b>(88,232,736.33)</b>	(50,040,622.74)	76.32
Net cash flow from financing activities	<b>(66,730,755.41)</b>	168,308,962.17	(139.65)
Net increase in cash and cash equivalents	<b>(70,336,001.78)</b>	196,056,798.79	(135.88)

Total assets of the Group as at 30 June 2016 was approximately RMB4,387,046,000, decreased by RMB105,076,000 or 2.34%, as compared with the figure of RMB4,492,122,000 at the beginning of the year. The decrease in total assets was mainly due to the repayment of part of the bank borrowings and the payment of notes payable that fell due, such that monetary funds and notes receivable decreased. Borrowing amount was RMB1,525,099,000, decreased by RMB20,657,000, as compared with the figure of RMB1,545,756,000 at the beginning of the year. The decrease was mainly attributable to the repayment of bank borrowings for the purpose of reducing interest-bearing liabilities.

As at 30 June 2016, total equity attributable to the Shareholders of the Company was RMB1,907,714,000, increased by RMB23,457,000 or 1.24%, as compared with the figure of RMB1,884,257,000 at the beginning of the year. This increase was mainly attributable to the profits generated from operation during the Reporting Period.

Operating revenue of the Group amounted to RMB1,998,500,000 for the first half year of 2016, increased by 2.57% as compared with the same period last year. Operating profit amounted to RMB68,650,000, increased by RMB70.53% as compared with the same period last year, as mainly attributable to the following initiatives adopted by the Company during the Reporting Period: carrying out in-depth research into technology and implementing a plan of reducing energy consumption and lowering production costs, enhancing the tendering and procurement effort leading to a reduction in procurement costs and exploring actively new markets and expanding scale of marketing thereby achieving a relatively faster increase in the sales of raw drug substance and new preparation products compared to that of the previous year.

The decrease in research and development expenses was due mainly to the relatively lesser input in some of the research and development projects of the Company in the first half of the year.

For the first half year of 2016, net cash flow from investment activities of the Group decreased by RMB38,192,000, mainly due to the disposal of intangible assets which led to a cash recovery of RMB12,907,000 during the same period last year.

For the first half year of 2016, net cash flow from financing activities of the Group decreased by RMB235,040,000, attributable mainly to the decrease of bank borrowings leading to a decrease of cash inflow from financing activities by RMB244,048,000.

For the first half year of 2016, the Group's net decrease in cash and cash equivalents was RMB266,393,000, attributable mainly to decrease of net cash flow from financing activities.

## Management Discussion And Analysis

The Group's revenue from principal operations with breakdowns by product and geographical area as compiled in accordance with CASBE is as follows (*RMB Yuan*):

<b>Six months ended 30 June (unaudited)</b>				
<b>By geographical area</b>	<b>2016</b>		<b>2015</b>	
	<b>Revenue from principal operation</b>	<b>Costs from principal operation</b>	Revenue from principal operation	Costs from principal operation
PRC (including Hong Kong)	<b>1,301,384,705.92</b>	<b>937,006,936.78</b>	1,212,919,733.86	907,706,447.13
America	<b>355,385,181.96</b>	<b>300,718,345.99</b>	329,511,478.67	280,923,160.16
Europe	<b>155,021,413.37</b>	<b>130,116,768.79</b>	232,633,512.35	186,930,916.89
Others	<b>169,596,900.00</b>	<b>147,722,466.24</b>	147,025,363.74	126,077,327.38
<b>Total</b>	<b>1,981,388,201.25</b>	<b>1,515,564,517.80</b>	1,922,090,088.62	1,501,637,851.56

<b>By industry and by product</b>	<b>Revenue from principal operation</b>	<b>Costs from principal operation</b>	<b>Gross profit margin</b>	<b>Change in gross profit margin as compared to the same period of last year</b>
	By industry	917,243,597.27	698,365,445.63	23.86%
Pharmaceutical raw materials	863,807,066.84	649,231,417.02	24.84%	Decrease by 0.86 percentage point
Preparations	200,337,537.14	167,967,655.15	16.16%	Increase by 1.64 percentage points
Medical intermediates and other products	1,981,388,201.25	1,515,564,517.80	23.51%	Increase by 1.64 percentage points
<b>Total</b>	<b>1,981,388,201.25</b>	<b>1,515,564,517.80</b>	<b>23.51%</b>	<b>Increase by 1.64 percentage points</b>

By product	203,307,909.04	166,525,226.98	18.09%	Increase by 7.46 percentage points
Ibuprofen	1,778,080,292.21	1,349,039,290.82	24.13%	Increase by 1.16 percentage points
Other products	1,981,388,201.25	1,515,564,517.80	23.51%	Increase by 1.64 percentage points
<b>Total</b>	<b>1,981,388,201.25</b>	<b>1,515,564,517.80</b>	<b>23.51%</b>	<b>Increase by 1.64 percentage points</b>

An analysis of profit as compared to 2015 is as follows

<b>Items</b>	<b>Amount (RMB Yuan)</b>		<b>Percentage of the total profit (%)</b>	
	<b>Six months ended 30 June 2016</b>	2015	<b>Six months ended 30 June 2016</b>	2015
Operating profits	<b>68,649,517.24</b>	92,067,796.20	<b>101.12</b>	78.20
Net non-operating income and expenses	<b>(763,251.38)</b>	25,661,818.83	<b>(1.12)</b>	21.80
<b>Total profits</b>	<b>67,886,265.86</b>	117,729,615.03	<b>100.00</b>	100.00



The composition of profits during the Reporting Period has seen appreciable changes as compared to 2015 mainly because of the increase of operating profit of the Group during the Reporting Period.

### **Operations and results analysis of major subsidiaries and companies in which the Company has shareholding interest**

- (1) The registered capital of Zibo Xinhua-Perrigo Pharmaceutical Company Limited\* (淄博新華 – 百利高製藥有限責任公司) is US\$6,000,000, and the Company holds 50.1% of its equity interest. Zibo Xinhua-Perrigo Pharmaceutical Company Limited is mainly engaged in producing and selling ibuprofen pharmaceutical raw materials. As at 30 June 2016, the total assets of Zibo Xinhua-Perrigo Pharmaceutical Company Limited were RMB80,634,000, and equity attributable to Shareholders was RMB70,144,000. For the first half year of 2016, the operating income and the net profit of Zibo Xinhua-Perrigo Pharmaceutical Company Limited were RMB61,481,000 and RMB4,444,000 respectively, representing an increase of 3.69% and an increase of 43.55% respectively as compared with the same period last year. The increases were mainly attributable to the increase of sales volume of products and the decrease of production costs.
- (2) The registered capital of Shandong Xinhua Pharmaceutical Trade Company Limited\* (山東新華醫藥貿易有限公司) is RMB48,499,000, and the Company holds 100% of its equity interest. Shandong Xinhua Pharmaceutical Trade Company Limited is mainly engaged in the business of prepared Chinese herbal medicine for decoction, over-the-counter Chinese medicine, pharmaceutical raw materials, preparations, antibiotics, biochemical medicine, biological products (except vaccines), health foodstuff, products for birth control and cosmetics etc.. As at 30 June 2016, the total assets of Shandong Xinhua Pharmaceutical Trade Company Limited were RMB328,169,000, and equity attributable to Shareholders was RMB2,335,000. In the first half year of 2016, the operating income of Shandong Xinhua Pharmaceutical Trade Company Limited was RMB687,879,000, representing a decrease of 0.57% as compared with the same period last year, and the net profit was approximately RMB3,330,000, representing an increase of 1.62% as compared with the same period last year.
- (3) The paid-up capital of Xinhua Pharmaceutical (Shouguang) Company Limited\* (新華製藥(壽光)有限公司) is RMB230,000,000, and the Company holds 100% of its equity interest. Xinhua Pharmaceutical (Shouguang) Company Limited is mainly engaged in producing and selling chemical products. As at 30 June 2016, the total assets of Xinhua Pharmaceutical (Shouguang) Company Limited were RMB758,958,000, and equity attributable to Shareholders was approximately RMB347,885,000. In the first half year of 2016, the operating income and the net profit of Xinhua Pharmaceutical (Shouguang) Company Limited were RMB303,782,000 and RMB15,063,000 respectively, representing a decrease of 3.54% and an increase of 7.99% respectively as compared with the same period last year.
- (4) The Company holds 60% equity interests in Shandong Zibo Xincat Pharmaceutical Co., Ltd\* (山東淄博新達製藥有限公司). The registered paid-up capital of Shandong Zibo Xincat Pharmaceutical Co., Ltd is RMB84,930,000. This subsidiary is mainly engaged in producing and selling medicinal products. As at 30 June 2016, the total assets of Shandong Zibo Xincat Pharmaceutical Co., Ltd amounted to RMB142,205,000 and Shareholders' equity amounted to RMB113,389,000. In the first half year of 2016, it achieved operating revenue of RMB121,913,000, representing a decrease of 1.00% as compared with the same period last year. It recorded a net profit of RMB10,021,000, representing an increase of 27.16% as compared with the same period last year, and the increase was mainly due to the fall of the cost of raw materials procurement and the main products' price hike.

\* for identification purpose only

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

The dividend of the Company for 2015 is RMB0.02 per share, the distribution of which had been completed on 12 August 2016. That conformed with Article 191 of the Company's Articles of Association.

### Save as disclosed herein:

1. The Company has generally complied with the relevant regulatory documents in relation to corporate governance of listed companies in the PRC.
2. In accordance with the resolutions at the 2015 annual general meeting, a cash dividend of RMB0.2 (tax inclusive) for every ten Shares had been distributed to all Shareholders on 12 August 2016 as based on the total Shares of the Company of 457,312,830 Shares as at the end of the year 2015.
3. The Board of the Company did not recommend any interim dividend nor any transfer of capital reserve to share capital for 2016.
4. Save as the contingent liabilities disclosed under Note XII to the Financial Statements of this Report, the Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.
5. There was no material purchase or disposal of assets and asset reorganisations of the Company occurred during the Reporting Period and no such incident took place before the Reporting Period and continued over the Reporting Period.
6. Material related parties transactions  

Related parties transactions that were entered into during the Reporting Period are set out in Note XI – Relationship with Related Parties and Transactions to the Financial Statements of this Report compiled pursuant to the CASBE.
7. During the Reporting Period, there was no material entrustment, subcontracting and lease of assets between the Company and other companies.
8. The specific illustration and independent opinions of the independent non-executive Directors in respect of the use of funds by related parties and external guarantee 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 favour of any controlling shareholders, non-legal entities or individuals which were prejudicial to the interests of the Company and its Shareholders, in particular the minority shareholders of the Company. As of 30 June 2016, the Company had no overdue foreign guarantee for debts and the Company had no liability arising from any guarantee due to the default of a guaranteed party.
9. Undertaking for disclosure by the Company or its Shareholders holding more than 5% of the total number of issued Shares: Nil
10. Purchase, Sales and Redemption of Shares  

During the Reporting Period, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed Shares.
11. Entrusted Management of Funds  

During the Reporting Period, the Company has not proceeded with any entrusted management of funds. There was no entrusted management of funds that was made before the Reporting Period and was carried over to the Reporting Period.

## Review of Major Events

### 12. Information about holding equity in financial institutions (*RMB Yuan*)

Stock Code	Stock Short Name	Initial investment amount	Proportion of equity interest in investee	Book value at end of the Reporting Period	Profit/loss over the Reporting Period	Change in shareholder's equity over the Reporting Period	Accounting classifications	Share source
601601	China Pacific Insurance	7,000,000.00	0.06%	135,200,000.00	-	(9,100,000.00)	Financial assets available for sale	Purchase
601328	BANKCOMM	14,225,318.00	0.01%	46,274,096.00	-	(6,657,552.00)	Financial assets available for sale	Purchase
Total		<u>21,225,318.00</u>		<u>181,474,096.00</u>	<u>-</u>	<u>(15,757,552.00)</u>		-

### 13. There was no penalty on or remedial actions of the Company during this Reporting Period.

14. On 24 July 2015, the Company initiated the exercise for the non-public issuance of A shares of the Company and the proposed first phase employee stock ownership scheme, the proposed placing of A shares had been approved at the extraordinary general meeting of the Company convened on 29 December 2015. After the approval of the adjustments to the proposed issue and placing by the second extraordinary board meeting 2016 of the eighth session of the Board as convened on 24 March 2016 and the fourth extraordinary meeting of the eight session of the Board for the year 2016 as convened on 12 September 2016, it is expected that the proposed placing would involve issuance of 67,143,466 A Shares to raise approximately RMB627 million. The proposed placing requires the approval of Stated-owned Assets Supervision and Administration Commission of Shandong Province and the CSRC. The above-mentioned announcements were published on the Cninfo website, HKExnews and on the Company's website on 30 December 2015, 25 March 2016 and 14 September 2016 respectively.

### 15. Information of reception research, communication or interview during the Reporting Period

On 5 May 2016, Southwest Securities visited and researched on the Company. On 17 May 2016, China Asset Management, GF Securities and five other institutional investors visited and researched on the Company. On 24 May 2016, Goulian Securities and seven other institutional investors visited and researched on the Company. The relevant information was published on the Shenzhen Stock Exchange website.

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

The Directors confirmed that the Company was in compliance with the Corporate Governance Code (the “Code”) and has not deviated from the Code during the Reporting Period. 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 have reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2016.

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 2016, and that these have been adequately disclosed.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

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 one with financial management expertise; details of their biographies were set out in the 2015 Annual Report of the Company.

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

During the Reporting Period, the Company has adopted a code of conduct on terms no less exacting than the required standards set out in the Model Code. After having made specific enquiries to the Directors and the 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 there were no non-compliance with the Model Code.

# Consolidated Balance Sheet

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Assets Item	Notes	As at 30 June 2016	As at 31 December 2015
<b>Current assets:</b>			
Currency funds	VI (1)	403,202,882.31	476,288,884.09
Financial assets measured at fair value and with their variance recorded into current profits and losses		-	-
Notes receivable	VI (2)	163,773,295.30	225,146,715.24
Accounts receivable	VI (3)	432,153,263.28	314,348,372.90
Prepayments	VI (4)	21,095,015.70	23,862,000.43
Interest receivable	VI (5)	3,833,684.46	1,937,851.12
Dividends receivable		-	-
Other accounts receivable	VI (6)	43,355,910.67	42,363,264.11
Inventories	VI (7)	443,218,403.27	546,460,168.40
Non-current assets due within one year		-	-
Other current assets	VI (8)	7,978,060.27	21,072,010.76
<b>Total current assets</b>		<b>1,518,610,515.26</b>	<b>1,651,479,267.05</b>
<b>Non-current assets:</b>			
Financial assets available for sale	VI (9)	184,674,096.00	200,431,648.00
Investments held-to-maturity		-	-
Long-term accounts receivable		-	-
Long-term equity investment		-	-
Investment real estate	VI (10)	76,600,514.63	78,919,116.83
Fixed assets	VI (11)	2,014,392,620.76	2,070,424,188.32
Projects under construction	VI (12)	264,309,979.94	155,326,282.87
Project materials		-	-
Disposal of fixed assets		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible assets	VI (13)	288,464,500.30	294,564,809.70
Development expenditure		-	-
Goodwill	VI (14)	-	-
Long-term expenditures to be amortized		-	-
Deferred income tax assets	VI (15)	24,594,216.35	25,577,123.86
Other non-current assets	VI (16)	15,400,000.00	15,400,000.00
<b>Total non-current assets</b>		<b>2,868,435,927.98</b>	<b>2,840,643,169.58</b>
<b>Total assets</b>		<b>4,387,046,443.24</b>	<b>4,492,122,436.63</b>

# Consolidated Balance Sheet (Continued)

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Item	Notes	As at 30 June 2016	As at 31 December 2015
<b>Current liabilities:</b>			
Short-term borrowing	VI (17)	430,000,000.00	530,000,000.00
Financial liabilities measured at fair value with their variance recorded into current profits and losses		—	—
Notes payable	VI (18)	12,338,712.00	215,648,469.78
Accounts payable	VI (19)	439,853,012.18	380,787,628.21
Accounts received in advance	VI (20)	24,849,436.74	40,445,572.01
Payroll payable	VI (21)	27,757,007.12	30,882,312.65
Taxes and dues payable	VI (22)	22,939,871.74	16,464,788.72
Interest payable	VI (23)	20,386,618.73	1,206,341.11
Dividends payable	VI (24)	14,456,856.13	5,310,599.53
Other payables	VI (25)	169,870,879.00	140,023,098.13
Non-current liabilities due within one year	VI (26)	663,316,666.66	585,544,786.58
Other current liabilities	VI (27)	4,732,000.00	4,602,000.00
<b>Total current liabilities</b>		<b>1,830,501,060.30</b>	<b>1,950,915,596.72</b>
<b>Non-current liabilities:</b>			
Long-term loans	VI (28)	330,000,000.00	378,200,000.00
Bonds payable		—	—
Including: Preferred stocks		—	—
Perpetual bond		—	—
Long-term payables	VI (29)	101,782,355.95	52,011,490.15
Long-term payroll payable		—	—
Special payables	VI (30)	15,420,000.00	15,420,000.00
Estimated liabilities		—	—
Deferred income	VI (31)	100,642,685.39	97,909,029.94
Deferred income tax liabilities	VI (15)	7,949,118.89	10,022,501.42
Other non-current liabilities	VI (32)	3,561,500.00	3,561,500.00
<b>Total non-current liabilities</b>		<b>559,355,660.23</b>	<b>557,124,521.51</b>
<b>Total liabilities</b>		<b>2,389,856,720.53</b>	<b>2,508,040,118.23</b>
<b>Shareholders' equity:</b>			
Capital Stock	VI (33)	457,312,830.00	457,312,830.00
Other equity instruments		—	—
Including: Preferred stocks		—	—
Perpetual bond		—	—
Capital surplus	VI (34)	513,092,452.66	513,092,452.66
Less: Treasury stock		—	—
Other comprehensive income	VI (35)	135,119,428.39	148,383,251.38
Special reserve		—	—
Surplus reserve	VI (36)	213,465,177.68	213,465,177.68
General risk reserve		—	—
Undistributed profits	VI (37)	588,723,738.30	552,002,849.22
<b>Total of equity assigned to the shareholders of parent company</b>		<b>1,907,713,627.03</b>	<b>1,884,256,560.94</b>
Minority interest	VI (38)	89,476,095.68	99,825,757.46
<b>Total of Shareholders' equity</b>		<b>1,997,189,722.71</b>	<b>1,984,082,318.40</b>
<b>Total of liabilities and Shareholder's equity</b>		<b>4,387,046,443.24</b>	<b>4,492,122,436.63</b>

# Parent Company's Balance Sheet

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Assets Item	Notes	As at 30 June 2016	As at 31 December 2015
<b>Current assets:</b>			
Currency funds		229,619,188.40	291,940,435.73
Financial assets measured at fair value and with their variance recorded into current profits and losses		-	-
Notes receivable		95,385,024.28	156,857,770.10
Accounts receivable	XVI (1)	491,600,952.10	432,002,639.73
Prepayments		10,526,329.09	9,187,119.90
Interest receivable		3,833,684.46	1,937,851.12
Dividends receivable		-	-
Other accounts receivable	XVI (2)	442,689,398.91	406,903,717.08
Inventories		254,355,887.52	287,735,048.69
Non-current assets due within one year		-	-
Other current assets		6,269,819.24	16,380,987.51
<b>Total current assets</b>		<b>1,534,280,284.00</b>	<b>1,602,945,569.86</b>
<b>Non-current assets:</b>			
Financial assets available for sale		184,674,096.00	200,431,648.00
Investment held to maturity		-	-
Long-term accounts receivable		-	-
Long-term equity investment	XVI (3)	468,244,841.06	468,244,841.06
Investment real estate		76,600,514.63	78,919,116.83
Fixed assets		1,454,057,820.31	1,503,751,384.33
Projects under construction		214,041,359.85	109,112,518.04
Project materials		-	-
Disposal of fixed assets		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible assets		197,363,361.49	200,290,752.13
Development expenditure		-	-
Goodwill		-	-
Long-term expenditures to be amortized		-	-
Deferred income tax assets		-	-
Other non-current assets		-	-
<b>Total non-current assets</b>		<b>2,594,981,993.34</b>	<b>2,560,750,260.39</b>
<b>Total assets</b>		<b>4,129,262,277.34</b>	<b>4,163,695,830.25</b>

# Parent Company's Balance Sheet (Continued)

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Liabilities and Shareholders' Equity	Notes	As at 30 June 2016	As at 31 December 2015
<b>Current liabilities:</b>			
Short-term borrowing		330,000,000.00	330,000,000.00
Financial liabilities measured at fair value with their variance recorded into current profits and losses		-	-
Notes payable		132,338,712.00	396,348,469.78
Accounts payable		369,352,815.70	294,195,098.12
Accounts received in advance		14,605,991.69	24,739,309.12
Payroll payable		23,471,876.13	24,944,353.64
Taxes and dues payable		7,774,811.38	5,422,569.42
Interest payable		20,386,618.73	1,206,341.11
Dividends payable		14,456,856.13	5,310,599.53
Other payables		152,979,889.70	109,971,581.19
Non-current liabilities due within one year		663,316,666.66	585,544,786.58
Other current liabilities		4,732,000.00	4,602,000.00
<b>Total current liabilities</b>		<b>1,733,416,238.12</b>	<b>1,782,285,108.49</b>
<b>Non-current liabilities:</b>			
Long-term loans		330,000,000.00	378,200,000.00
Bonds payable		-	-
Including: Preferred stocks		-	-
Perpetual bond		-	-
Long-term payables		101,782,355.95	52,011,490.15
Long-term payroll payable		-	-
Special payables		15,420,000.00	15,420,000.00
Estimated liabilities		-	-
Deferred income		100,642,685.39	97,909,029.94
Deferred income tax liabilities		7,353,137.05	9,078,943.12
Other non-current liabilities		3,561,500.00	3,561,500.00
<b>Total non-current liabilities</b>		<b>558,759,678.39</b>	<b>556,180,963.21</b>
<b>Total liabilities</b>		<b>2,292,175,916.51</b>	<b>2,338,466,071.70</b>



## Parent Company's Balance Sheet (Continued)

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

<b>Liabilities and Shareholders' Equity</b>	<i>Notes</i>	<b>As at 30 June 2016</b>	As at 31 December 2015
<b>Shareholders' equity:</b>			
Capital Stock		<b>457,312,830.00</b>	457,312,830.00
Other equity instruments		-	-
Including: Preferred stocks		-	-
Perpetual bond		-	-
Capital surplus		<b>527,841,785.86</b>	527,841,785.86
Less: Treasury stock		-	-
Other comprehensive income		<b>136,211,461.30</b>	149,605,380.50
Special reserve		-	-
Surplus reserve		<b>207,023,538.55</b>	207,023,538.55
Undistributed profits		<b>508,696,745.12</b>	483,446,223.64
<b>Total of Shareholders' equity</b>		<b><u>1,837,086,360.83</u></b>	<u>1,825,229,758.55</u>
<b>Total of liabilities and shareholder's equity</b>		<b><u>4,129,262,277.34</u></b>	<u>4,163,695,830.25</u>

# Consolidated Income Statement

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>I. Gross revenue</b>		<b>1,998,500,412.91</b>	1,948,408,051.58
Including: Operating revenue	VI (42)	<b>1,998,500,412.91</b>	1,948,408,051.58
<b>II. Total operating cost</b>		<b>1,929,863,877.24</b>	1,910,857,985.72
Including: Operating cost	VI (42)	<b>1,540,700,405.16</b>	1,529,865,315.16
Business taxes and surcharges	VI (43)	<b>15,371,596.63</b>	16,848,872.41
Selling expenses	VI (44)	<b>190,013,019.85</b>	184,613,300.35
Administration expenses	VI (45)	<b>154,128,143.32</b>	146,438,132.33
Financial expenses	VI (46)	<b>27,453,462.70</b>	37,036,592.74
Assets impairment loss	VI (47)	<b>2,197,249.58</b>	(3,944,227.27)
Add: Incomes from changes in fair value (losses to be listed with "-")		—	—
Investment incomes (losses to be listed with "-")	VI (48)	<b>12,981.57</b>	2,706,323.45
Including: Income from investment into affiliates and joint ventures		—	—
<b>III. Operating profits (losses to be listed with "-")</b>		<b>68,649,517.24</b>	40,256,389.31
Add: Non-operating income	VI (49)	<b>6,464,006.72</b>	16,357,590.90
Including: Gains from disposal of non-current assets	VI (49)	<b>1,229,732.89</b>	6,298,902.03
Less: Non-operating expenditure	VI (50)	<b>7,227,258.10</b>	12,134,863.65
Including: Losses from disposal of non-current assets	VI (50)	<b>424,844.28</b>	2,625,581.66
<b>IV. Total profits (total loss to be listed with "-")</b>		<b>67,886,265.86</b>	44,479,116.56
Less: Income tax expense	VI (51)	<b>15,298,546.67</b>	13,383,052.06
<b>V. Net profits (net loss to be listed with "-")</b>		<b>52,587,719.19</b>	31,096,064.50
Net profit which belongs to shareholders of parent company		<b>45,867,145.68</b>	25,859,577.55
Minority interest income		<b>6,720,573.51</b>	5,236,486.95

# Consolidated Income Statement (Continued)

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>VI. Net of tax of other comprehensive income</b>		<b>(13,311,026.89)</b>	911,758.51
Net of tax of other comprehensive income that belongs to the owners of parent company	VI (55)	<b>(13,263,822.99)</b>	958,162.49
(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 (55)	<b>(13,263,822.99)</b>	958,162.49
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 (55)	<b>(13,393,919.20)</b>	1,050,300.80
3. Profit and loss of held-to-maturity investment reclassified to financial assets available for sale		–	–
4. Effective part of cash flow hedging profit and loss		–	–
5. Conversion difference of foreign currency statement	VI (55)	<b>130,096.21</b>	(92,138.31)
6. Others		–	–
Net of tax of other consolidated income that belongs to the minority shareholders		<b>(47,203.90)</b>	(46,403.98)
<b>VII. Total comprehensive income</b>		<b>39,276,692.30</b>	32,007,823.01
Total comprehensive income attributable to the shareholders of parent company		<b>32,603,322.69</b>	26,817,740.04
Total comprehensive income attributable to the minority shareholders		<b>6,673,369.61</b>	5,190,082.97
<b>VIII. Earnings per share</b>			
(I) Basic earnings per share	VI (54)	<b>0.10</b>	0.06
(II) Diluted earnings per share	VI (54)	<b>0.10</b>	0.06

# Parent Company's Income Statement

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>I. Operating Income</b>	XVI (4)	<b>1,056,046,594.73</b>	1,029,856,799.85
Less: Operating Costs	XVI (4)	<b>863,900,418.23</b>	837,761,352.17
Business taxes and surcharges		<b>8,551,303.12</b>	9,589,421.58
Selling expenses	XVI (5)	<b>21,474,227.22</b>	17,970,722.02
Administration expenses	XVI (6)	<b>114,965,139.68</b>	108,164,906.48
Financial expenses	XVI (7)	<b>28,347,083.99</b>	38,648,585.09
Assets impairment loss		<b>2,736,091.86</b>	–
Add: Incomes from changes in fair value (losses to be listed with “-”)		–	–
Investment incomes (losses to be listed with “-”) Including: Income from investment into affiliates and joint ventures	XVI (8)	<b>17,869,379.21</b>	2,485,573.93
		–	–
<b>II. Operating profit (with “-” for loss)</b>		<b>33,941,709.84</b>	20,207,386.44
Add: Non-operating income		<b>6,216,455.74</b>	14,264,517.16
Including: Gains from disposal of non-current assets		<b>1,228,762.02</b>	6,298,902.03
Less: Non-operating expenditure		<b>2,649,487.04</b>	8,390,491.77
Including: Losses from disposal of non-current assets		<b>221,999.89</b>	2,625,581.66
<b>III. Total profit (with “-” for total loss)</b>		<b>37,508,678.54</b>	26,081,411.83
Less: Income tax expense		<b>3,111,900.46</b>	2,076,098.41
<b>IV. Net profit (with “-” for net loss)</b>		<b>34,396,778.08</b>	24,005,313.42
<b>V. Net of tax of other comprehensive income</b>		<b>(13,393,919.20)</b>	1,050,300.80
(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>(13,393,919.20)</b>	1,050,300.80
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>(13,393,919.20)</b>	1,050,300.80
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		–	–
<b>VI. Total comprehensive income</b>		<b>21,002,858.88</b>	25,055,614.22
<b>VII. Earnings per share</b>			
(I) Basic earnings per share		<b>0.08</b>	0.05
(II) Diluted earnings per share		<b>0.08</b>	0.05

# Consolidated Cash Flow Statement

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>I. Cash flow from operating activities:</b>			
Cash received from sales of goods or rendering services		<b>1,398,389,931.87</b>	1,224,837,623.31
Refunds of taxes and levies		<b>15,770,184.11</b>	6,447,692.04
Other cash received from operating-related activities	VI 56(1)	<b>20,332,148.58</b>	19,591,002.65
<b>Subtotal of cash inflows from operating activities</b>		<b>1,434,492,264.56</b>	1,250,876,318.00
Cash paid for goods purchased and labor services received		<b>800,382,046.83</b>	645,475,029.76
Cash paid to and for employees		<b>250,469,800.01</b>	229,328,798.08
Cash paid for taxes and surcharges		<b>114,853,614.66</b>	126,503,584.52
Other cash paid related to operating activities	VI 56(1)	<b>184,956,146.33</b>	176,296,982.27
<b>Subtotal of cash outflows from operating activities</b>		<b>1,350,661,607.83</b>	1,177,604,394.63
<b>Net cash flow from operating activities</b>		<b>83,830,656.73</b>	73,271,923.37
<b>II. Cash flow generated from investing activities:</b>			
Cash received from sales and redemption of investments		–	10,000,000.00
Cash received from returns on investments		<b>12,981.57</b>	2,706,323.45
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>1,062,041.90</b>	13,202,065.62
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>1,075,023.47</b>	25,908,389.07
Cash paid for acquisitions of fixed assets, intangible assets and long-term assets		<b>89,307,759.80</b>	75,949,011.81
Cash paid for acquisitions of investments		–	–
Net cash paid for acquisitions of subsidiaries and other business entities		–	–
Other cash paid related to investing activities		–	–
<b>Subtotal of cash outflow from investing activities</b>		<b>89,307,759.80</b>	75,949,011.81
<b>Net cash flow from investing activities</b>		<b>(88,232,736.33)</b>	(50,040,622.74)

# Consolidated Cash Flow Statement (Continued)

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<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		100,000,000.00	434,047,847.12
Cash received from bond issues		–	–
Other cash received relating to financing activities	VI 56(1)	90,000,000.00	–
<b>Subtotal of cash inflows from financing activities</b>		<b>190,000,000.00</b>	<b>434,047,847.12</b>
Cash paid for repayment of debts		205,400,000.00	246,349,208.50
Cash paid for distributing dividends and profits or paying interest		33,174,500.71	16,825,573.89
Including: Dividends and profits paid to minority shareholders by subsidiary		21,651,255.26	–
Other cash paid related to financing activities	VI 56(1)	18,156,254.70	2,564,102.56
<b>Subtotal of cash outflows from financing activities</b>		<b>256,730,755.41</b>	<b>265,738,884.95</b>
<b>Net cash flows from financing activities</b>		<b>(66,730,755.41)</b>	<b>168,308,962.17</b>
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>			
		796,833.23	4,516,535.99
<b>V. Net increase in cash and cash equivalents</b>			
Add: Cash and cash equivalents at the beginning of the period		(70,336,001.78)	196,056,798.79
		366,638,884.09	281,435,164.77
<b>VI. Cash and cash equivalents at the end of the period</b>			
		296,302,882.31	477,491,963.56

# Parent Company's Cash Flow Statement

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>I. Cash flow from operating activities:</b>			
Cash received from sales of goods or rendering services		752,140,011.99	611,095,409.51
Refunds of taxes and levies		11,285,314.80	3,343,990.72
Other cash received from operating-related activities		13,544,371.44	18,697,741.19
<b>Subtotal of cash inflows from operating activities</b>		<b>776,969,698.23</b>	<b>633,137,141.42</b>
Cash paid for goods purchased and labor services received		546,895,153.78	260,407,138.83
Cash paid to and for employees		175,604,092.20	161,274,694.12
Cash paid for taxes and surcharges		48,609,131.91	47,389,767.62
Other cash paid related to operating activities		43,167,823.59	71,342,924.74
<b>Subtotal of cash outflows from operating activities</b>		<b>814,276,201.48</b>	<b>540,414,525.31</b>
<b>Net cash flow from operating activities</b>		<b>(37,306,503.25)</b>	<b>92,722,616.11</b>
<b>II. Cash flow generated from investing activities:</b>			
Cash received from sales and redemption of investments		—	—
Cash received from returns on investments		23,461,379.21	2,485,573.93
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,062,041.90	13,160,065.62
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>24,523,421.11</b>	<b>15,645,639.55</b>
Cash paid for acquisitions of fixed assets, intangible assets and long-term assets		79,716,320.75	65,445,671.73
Cash paid for acquisitions of investments		—	—
Net cash paid for acquisitions of subsidiaries and other business entities		—	—
Other cash paid related to investing activities		32,000,000.00	—
<b>Subtotal of cash outflow from investing activities</b>		<b>111,716,320.75</b>	<b>65,445,671.73</b>
<b>Net cash flow from investing activities</b>		<b>(87,192,899.64)</b>	<b>(49,800,032.18)</b>

# Parent Company's Cash Flow Statement (Continued)

Financial Report Prepared in accordance with CASBE (Unaudited)

Unit: RMB Yuan

Item	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>III. Cash flows from financing activities:</b>			
Cash received from capital contributions		—	—
Cash received from loans		100,000,000.00	338,395,624.90
Cash received from bond issues		—	—
Other cash received relating to financing activities		90,000,000.00	—
<b>Subtotal of cash inflows from financing activities</b>		<b>190,000,000.00</b>	<b>338,395,624.90</b>
Cash paid for repayment of debts		105,400,000.00	185,213,208.50
Cash paid for distributing dividends and profits or paying interest		11,523,245.45	16,825,573.89
Other cash paid related to financing activities		18,156,254.70	2,564,102.56
<b>Subtotal of cash outflows from financing activities</b>		<b>135,079,500.15</b>	<b>204,602,884.95</b>
<b>Net cash flows from financing activities</b>		<b>54,920,499.85</b>	<b>133,792,739.95</b>
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>357,655.71</b>	<b>3,527,649.81</b>
<b>V. Net increase in cash and cash equivalents</b>		<b>(69,221,247.33)</b>	<b>180,242,973.69</b>
Add: Cash and cash equivalents at the beginning of the period		191,940,435.73	165,486,227.41
<b>VI. Cash and cash equivalents at the end of the period</b>		<b>122,719,188.40</b>	<b>345,729,201.10</b>



# Consolidated Statement of Changes in Shareholder's Equity

Financial Report Prepared in accordance with CASBE (Unaudited)

In the First Half of 2016

Unit: RMB Yuan

Item	Equity assigned to the shareholders of parent company												Total of shareholder's equity
	Capital Stock	Other equity instruments			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Minority interests	
		Preferred stocks	Perpetual bond	Others									
<b>I. Balance at the end of previous year</b>	457,312,830.00	-	-	-	513,092,452.66	-	148,383,251.38	-	213,465,177.68	-	552,002,849.22	99,825,757.46	1,984,082,318.40
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	-	-	-	513,092,452.66	-	148,383,251.38	-	213,465,177.68	-	552,002,849.22	99,825,757.46	1,984,082,318.40
<b>III. Current year increase/decrease (decrease to be listed with "-")</b>	-	-	-	-	-	-	(13,263,822.99)	-	-	-	36,720,889.08	(10,349,661.78)	13,107,404.31
(I) Total comprehensive income	-	-	-	-	-	-	(13,263,822.99)	-	-	-	45,867,145.68	6,673,369.61	39,276,692.30
(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 Shareholder's interest	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-	(9,146,256.60)	(17,023,031.39)	(26,169,287.99)
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Appropriation of general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owners (or Shareholders)	-	-	-	-	-	-	-	-	-	-	(9,146,256.60)	(17,023,031.39)	(26,169,287.99)
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	-	-	-	513,092,452.66	-	135,119,428.39	-	213,465,177.68	-	588,723,738.30	89,476,095.68	1,997,189,722.71

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

Financial Report Prepared in accordance with CASBE (Unaudited)

2015

Unit: RMB Yuan

Item	Equity assigned to the shareholders of parent company											Total of shareholder's equity	
	Capital Stock	Other equity instruments			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits		Minority interest
<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>													
(I) Total comprehensive income	-	-	-	-	5,900,000.00	-	(16,249,612.07)	-	4,151,697.63	-	69,764,302.94	8,646,942.22	72,213,330.72
(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 Shareholder's interest	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution													
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	4,151,697.63	-	(13,297,954.23)	(2,495,000.00)	(11,641,256.60)
2. Appropriation of general risk reserve	-	-	-	-	-	-	-	-	4,151,697.63	-	(4,151,697.63)	-	-
3. Distribution to owners (or Shareholders)	-	-	-	-	-	-	-	-	-	-	(9,146,256.60)	(2,495,000.00)	(11,641,256.60)
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	-	148,383,251.38	-	213,465,177.68	-	552,002,849.22	99,825,757.46	1,984,082,318.40

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

Financial Report Prepared in accordance with CASBE (Unaudited)

In the First Half of 2016

Unit: RMB Yuan

Item	Capital Stock	Other equity instruments			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total of shareholder's equity
		Preferred stocks	Perpetual bond	Others							
<b>I. Balance at the end of previous year</b>	457,312,830.00	-	-	-	527,841,785.86	-	149,605,380.50	-	207,023,538.55	483,446,223.64	1,825,229,758.55
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	-	-	-	527,841,785.86	-	149,605,380.50	-	207,023,538.55	483,446,223.64	1,825,229,758.55
<b>III. Current year increase/decrease (decrease to be listed with "-")</b>	-	-	-	-	-	-	(13,393,919.20)	-	-	25,250,521.48	11,856,602.28
(I) Total comprehensive income	-	-	-	-	-	-	(13,393,919.20)	-	-	34,396,778.08	21,002,858.88
(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 Shareholder's interest	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	-	(9,146,256.60)	(9,146,256.60)
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	527,841,785.86	-	136,211,461.30	-	207,023,538.55	508,696,745.12	1,837,086,360.83

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

Financial Report Prepared in accordance with CASBE (Unaudited)

2015

Unit: RMB Yuan

Item	Capital Stock	Other equity instruments			Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total of shareholder's equity
		Preferred stocks	Perpetual bond	Others							
<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	-	(17,135,075.20)	-	4,151,697.63	28,219,022.06	26,727,644.49
(I) Total comprehensive income	-	-	-	-	-	-	(17,135,075.20)	-	-	41,516,976.29	24,381,901.09
(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 shareholder's interest	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	5,592,000.00	-	-	-	-	-	5,592,000.00
(III) Profit distribution	-	-	-	-	-	-	-	-	4,151,697.63	(13,297,954.23)	(9,146,256.60)
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	4,151,697.63	(4,151,697.63)	-
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	-	-	-	-	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	-	149,605,380.50	-	207,023,538.55	483,446,223.64	1,825,229,758.55

# Notes to the Financial Statements

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## I. COMPANY PROFILE

Shandong Xinhua Pharmaceutical Company Limited (hereinafter referred to as “the Company”) was established in 1993, through the reorganisation of Shandong Xinhua Pharmaceutical Factory. The Company was listed in Hong Kong and issued its H Shares at Hong Kong Stock Exchange in December 1996. The Company 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 ordinary A shares and decreased 3 million state-owned shares on September 2001.

The Company’s registered capital at 30 June 2016 is RMB457,312,830.00 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	8,925	0.002
Senior management A shares subject to conditions of trading	8,925	0.002
II. Total number of shares not subject to conditions of trading	457,303,905	99.998
RMB common stocks (A share)	307,303,905	67.198
Overseas foreign shares (H share)	150,000,000	32.80
III. Total number of shares	457,312,830	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 “SXPGC”). 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 over the company’s policy, financing, investment, profit distribution and other significant matters. The Board is responsible to the general meeting of Shareholders, and executes company’s business decision-making right. Managers take charge of organisation and implementation of issues approved by the general meeting of Shareholders and the Board, as well as the company’s production, operation and management.

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

## II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

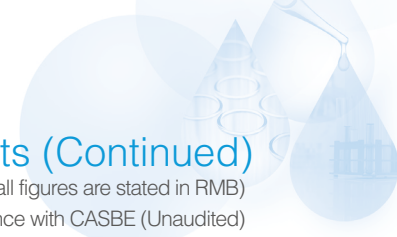
The Group’s consolidated financial statements consist of 14 companies, including Shandong Xinhua Pharmaceutical Trade Co., Ltd., Xinhua Pharmaceutical (Shouguang) Co., Ltd. and Shandong Zibo Xincat Pharmaceutical Co., Ltd. Compared with previous year, no change occurred to the scope of consolidation in the current year.

See the contents of “VII. Changes in Consolidation Scope” and “VIII. Interests in Other Entities” in the Notes for details.

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)



## III. BASIS OF PREPARATION FOR FINANCIAL STATEMENTS

### 1. Preparation basis

On a going-concern basis, the financial statements of the Company have been prepared based on transactions and items that have actually-occurred, and in accordance with the Accounting Standards for Business Enterprises – Basic Principles, 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 15 February 2006 and thereafter and the disclosure requirements stipulated under 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, disclosure requirements in the Listing Rules and the Companies Ordinance of Hong Kong, and “IV. Important Accounting Policies and Accounting Estimates” of these Notes.

### 2. Going concern

It is believed reasonable that the Group's financial statements have been prepared based on a going-concern basis in view of its recent profit-making history and financial resources.

## IV. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. Declaration on compliance with CASBE

The financial statements of the Company for six months ended 30 June 2016 have met the requirements of CASBE and truly, accurately and fully reflected the financial conditions, operating results and cash flow of the Company and the Group as of 30 June 2016.

### 2. Accounting period

The accounting period runs from January 1 to December 31 (in Gregorian calendar). The reporting period (the “Reporting Period”) refers to six months ended 30 June 2016.

### 3. Bookkeeping base currency

Bookkeeping base currency of the Company and its domestic subsidiaries is RMB, and that of foreign businesses is their local currency.

The currency adopted by the Group for preparation of the financial statements is RMB.

### 4. Accounting treatment for business combination under same control and different controls

The assets and liabilities acquired by the Group, as the merging party, in the business merger under the control of the same entity are calculated based on the book value in the ultimate controlling party's consolidated statements of the merged party on the merging date. Capital reserve is adjusted for the difference between the book value of the acquired net assets and the book value of the merger consideration paid. In case where the capital reserve is not sufficient for off-setting, retained earnings are adjusted.



## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

The identifiable assets, liabilities and contingent liabilities acquired from the business merger not under common control are calculated based on their fair values on the acquisition date. The merging costs are the cash or non-cash assets paid, liabilities issued or assumed, the fair value of equity securities issued by the Group on the acquisition date for acquiring control rights on the acquiree, as well as all costs directly related to the business merger (for business merger completed step by step through multiple transactions, the merging costs are the sum of costs of all individual transactions). Where the merging costs are greater than the fair value of identifiable net assets acquired from the acquiree during business merger, the difference thereof is recognized as business goodwill. Where the merging costs are less than the fair value of identifiable net assets acquired from the acquiree during business merger, the fair value of all identifiable assets, liabilities and contingent liabilities acquired from the business merger, as well as the fair value of non-cash assets of the consideration or the issued equity securities etc., are rechecked. Where the merging costs are, after rechecking, still less than the fair value of net identifiable assets acquired from the acquiree during business merger, the difference is included into current non-business income.

### 5. Compilation method of consolidated financial statements

The Group's consolidation scope includes all subsidiaries and structured entities.

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

All significant internal transactions, balances and unrealized profits shall be offset during preparation of consolidated financial statements. The portion of subsidiary owners' equity which does not belong to the parent company and the portion of minority interest in the current net profits and losses, other comprehensive income and total comprehensive income must be respectively listed under "minority interest, minority interest income, other comprehensive income attributable to the minority shareholders, and total comprehensive income attributable to the minority shareholders" in the consolidated financial statements.

For the subsidiary acquired in the business merger under common control, its business performance and cash flow are included into the consolidated financial statements from the beginning of the current period of the merger. During the preparation and comparison of consolidated financial statements, related items in the financial statements of the previous year are adjusted, and it is deemed that the entity of financial statements formed after the merger has existed since the beginning of control by the ultimate controlling party.

For the subsidiary acquired in the business merger not under the control of the same entity, its business performance and cash flow are included into the consolidated financial statements since the date when the Group acquires the control rights. During the preparation of consolidated financial statements, financial statements of the subsidiary are adjusted based on the fair values of identifiable assets, liabilities and contingent liabilities identified on the acquisition date.

### 6. Cash and cash equivalents

Cash shown in the cash flow statement of the Group refers to the cash on hand and deposits that are available for payment at any time. Cash equivalent in the cash flow statement refers to the investments which have a holding period of not more than 3 months, and are of strong liquidity and readily convertible to known amounts of cash with low risk of value change.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 7. Foreign currency transactions and conversion of foreign currency financial statements

#### (1) Foreign currency transaction

The foreign currency amount in a foreign currency transaction of the Group is converted into RMB amount based on the spot exchange rate on the first day of transaction month. Monetary items calculated in foreign currency in the balance sheet shall be translated into RMB at the spot exchange rate on the balance sheet date; the exchange difference shall be included into current profit and loss, after disposal of the balance of exchange that is formed by foreign currency loans borrowed for acquiring or producing assets which meet capitalized terms. Foreign currency non-monetary items calculated at fair value are converted into RMB by using the spot rate on the date when the fair value is determined. The generated conversion difference is included into current profits and losses or other comprehensive income directly as the change of fair value. Foreign currency non-monetary items measured at historical cost are still converted based on the spot exchange rate of the transaction date, with the RMB amount unchanged.

#### (2) Conversion of financial statements in foreign currency

The asset and liability items in the foreign currency balance sheet shall be translated as per the spot exchange rate on the balance sheet date; the owner's equity items, except for the items of "undistributed profit", shall be translated as per the spot exchange rate on the transaction date; the income and expenditure items in the profit statement shall be translated as per the spot exchange rate on the transaction date. The above translation balance of foreign currency financial statements shall be included into other comprehensive income items. Foreign currency cash flow is translated as per the spot exchange rate on the date when the said cash flow occurs. The amount of influence of exchange rate change on cash and cash equivalents shall be listed in the cash flow statement separately.

### 8. Financial assets and financial liabilities

#### (1) **Classification of financial assets: the financial assets owned by the Group are classified into four categories according to the investment purposes and economic nature, including the financial assets measured at fair value with their variance included in current profits and losses, financial assets available for sale, receivables and investments held to maturity.**

- 1) Financial assets measured at fair value with their variance included in current profits and losses refer to the financial assets mainly held for sale in the short term.
- 2) Financial assets available for sale refer to non-derivative financial assets designated as available for sale, and financial assets not identified to item under "others" at the time of initial recognition.
- 3) Receivables refer to non-derivative financial assets which have no quotation in the active market, but have fixed or determinable recoverable amount, including notes receivable, accounts receivable, profit receivables, dividend receivables, and other accounts receivable.
- 4) Investment held to maturity refers to non-derivative financial assets which have fixed maturity date, fixed or fixable recovery amount which the management has clear attention and ability to hold to maturity.





## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

- (2) **Recognition and measurement of financial assets: financial assets are recognized at fair value in the balance sheet when the Group becomes a party to a financial instrument contract. For financial assets that are measured at fair value with their variance recorded as losses or profits in the current period, related transaction expenses at the time of acquisition should be included in the current loss and profit; the related transaction expenses of other financial assets should be included in the initial recognition amount.**

Financial assets measured at fair value with their variance included in current profits and losses and financial assets available for sale are subject to subsequent measurement at fair value. Receivables and investments held to maturity are listed at amortized cost by effective interest method.

The changes in fair value of financial assets measured at fair value with their variance included in current profits and losses are included in profit and loss from fair value changes; interests or cash dividends gained during holding of the assets are recognized as investment gain; at the disposal, the difference between the fair value and the initial booking amount is recognized as investment profit and loss and profit and loss from fair value changes is adjusted at the same time.

Besides the impairment loss and the exchange gain or loss formed from foreign monetary financial assets, changes of fair value of the salable financial assets will be put into Shareholders' equity, the accumulated amount of fair value changes which was directly put into equity would not be transferred into current profit and loss until the derecognition of this financial assets. The interests of available-for-sale debt instrument investments calculated based on actual interest rate method during the holding period, and the cash dividends declared to be distributed by the investees and related to available-for-sale equity instrument investments, shall be included into the current profits and losses as investment income.

- (3) **Impairment of financial assets: in addition to the financial assets measured at fair value with their variance included in current profits and losses, the Group will check the book value of other financial assets on the balance sheet date, and the provision for impairment shall be determined if there is objective evidence that a financial asset has decrease in value.**

For the stock investment, bonds investment and other financial assets available for sale which have quotation in the active market, the Group will recognize the fair value according to the quotation of such assets in the active market at the end of the year, which decreases up to 50% or above when compared with the costs recognized in accordance with the sum of fair value and relevant transaction expenses for payment of consideration when acquiring such assets; and if the assets continue to decrease for 12 months or longer as of the balance sheet date, the Group will recognize the accumulated provision for impairment which should be provision for impairment according to the difference between the costs and the fair value at the end of the year.

When the financial assets measured by amortized cost have decrease in value, the provision for impairment shall be determined according to the balance between the value of expected future cash flow (excluding the future credit loss which has not happened yet) and the book value. If there is objective evidence showing the value of this financial asset has recovered, and it is objectively related to the matters occurring after the loss is confirmed, the impairment loss confirmed before shall be reversed and calculated as current profit and loss.

When the financial assets available for sale have decrease in value, the cumulative loss recognized directly as stockholders' equity before due to the decrease of fair value shall be transferred out and recognized as the impairment loss. For available-for-sale debt instrument investments for which the impairment loss has been confirmed, if the fair value of periods following has increased and it is objectively related to the matters occurring after the loss is confirmed, the impairment loss confirmed before shall be reversed and calculated as current profit and loss. For available-for-sale equity instrument investments for which the impairment loss has been confirmed, the increase fair value of the following periods shall be directly recognized as stockholders' equity.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

- (4) **Transfer of financial assets: financial assets meeting one of the following conditions shall be derecognized: ① the contract right to collect the financial asset cash flow has been terminated; ② the financial assets have been transferred and the Group has substantially transferred all the risks and rewards on the financial asset ownership to the transferee; ③ the financial assets have been transferred, even if the Group has neither transferred nor retained the risks and rewards on the financial asset ownership, the control over the financial assets is waived.**

Where the Company neither transfers nor retains any risks and rewards on the financial asset ownership, if the control over the financial assets is not waived, relevant financial assets should be recognized according to the extent to which they are involved in the transferred financial assets, and relevant liabilities should be recognized correspondingly. "Continuing involvement in the transferred financial assets" refers to the risk level the enterprise will be faced with 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 and the sum of consideration received from the transfer and accumulated 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 book value of the transferred financial assets should be amortized between the derecognized and non-derecognized portions as per their relative fair values respectively; and the difference between the sum of consideration received from the transfer and accumulated amount of changes in fair value previously recognized in other comprehensive income and amortized to the derecognized portion, and the aforesaid book value amortized should be included in current profits and losses.

- (5) **Financial liabilities: financial liabilities of the Group are classified, at the time of initial recognition, as financial liabilities measured at fair value with their variance included in current profits and losses and other financial liabilities.**

Financial liabilities at fair value through profit or loss include tradable financial liabilities and financial liabilities at fair value through profit or loss designated at the initial recognition. For such financial liabilities, subsequent measurement should be performed based on fair value. Profits or losses arising from the changes of fair value as well as the dividend and interests expenditure related to the said financial liabilities should be included into the current profits and losses.

Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

Where the current obligation of financial liability has been terminated entirely or partially, the financial liability or obligation that has been terminated shall be derecognized. The difference between the book value of the derecognized part and the paid consideration shall be included in current profits and losses.

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## (6) Determination methods for fair value of financial assets and financial liabilities:

- 1) When an active market exists for the financial instruments, the market quotation in an active market is used to determine its fair value. In the active market, financial assets held by the Group or financial liabilities to be assumed by the Group should take the current bid price as the fair value of corresponding assets or liabilities; the financial assets to be acquired by the Group or financial liabilities assumed by the Group should take the current offer price as the fair value of corresponding assets or liabilities. Where the financial assets or financial liabilities have no current bid and offer price, but the economic environment after the latest transaction date has not undergone significant changes, the market quotation of the latest transaction should be used to determine the fair value of the financial assets or financial liabilities. Where the economic environment after the latest transaction date has undergone significant changes, the current price or interest rate of similar financial assets or financial liabilities should be referred, and the market quotation of the latest transaction should be adjusted to determine the fair value of the financial assets or financial liabilities. In case the Group has sufficient evidence indicating that the market quotation of the latest transaction is not the fair value, the said market quotation shall be adjusted properly to determine the fair value of the said financial assets or financial liabilities.
- 2) When an active market does not exist, the fair value of financial 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 Group recognizes bad debts when the following conditions are met: the debtors are dissolved, bankrupt, insolvent, in serious shortage of cash flows or suspended its business due to natural disasters and unable to settle the debts in the foreseeable period; or debtors are defaulted for repayment; or there are other evidences indicating the debts cannot be recovered or are not likely to be recovered.

The Company applies the allowance method for the accounting of potential bad debts and performs the impairment test separately or integrally in the end of period, with accrued bad-debt provision included in current profit and loss. As for receivables for which there is authentic evidence showing that they are impossible to be recovered, the Group will recognize them as bad debt loss after approval through specified procedures and write off the drawn bad-debt provision.

### (1) Receivables with significant individual amount and single accrued bad-debt provision

- |   |  |
|---|--|
| Criteria or amount standard for determining whether the individual amount is significant                              | Regard receivables with an individual amount of over RMB5 million as significant receivables   |
| Drawing method for account receivables with significant individual amount and drawn bad debt provision on single item | The provision of bad debts is drawn according to the difference between the present value of future cash flows and the book value of receivables |

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## (2) Account receivables with bad debt provision drawn by combination of credit risk features

### Basis for determining combinations

Account age combination	Dividing the combinations by taking the account age of receivables as credit risk features
Combination of relationship with transaction object	Dividing the combinations based on current accounts of related parties
Combination of special account nature	Mainly including the tax to be deducted, the export tax rebate receivable and other special accounts

### Method for bad-debt provision withdrawn by combination

Account age combination	Drawing of bad debt provision by aging analysis
Relationship with transaction object	Drawing of bad debt provision by other methods
Combination of special account nature	Drawing of bad debt provision by other methods

1) Drawing proportion of bad debt provision for receivables by aging analysis:

Account Age	Drawing Proportion of Account receivables (%)	Drawing Proportion of Other Account receivables (%)
Within 1 year	0.5	0.5
1-2 years	20	20
2-3 years	60	60
Over 3 years	100	100

2) Drawing of bad debt provision for receivables by other methods:

Relationship with transaction object	Do not draw bad debt provision for receivables from related parties
Combination of special account nature	Do not draw bad debt provision for the tax to be deducted, the export tax rebate receivable and other accounts receivable with special account nature

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (3) Account receivables with insignificant amount but drawn bad debt provision on single item

Reason for drawing of bad debt provision on single item	Receivables with insignificant and bad debt provision drawn by combination not reflecting risk features of the receivables
Drawing method for bad debts provision	The provision of bad debts is drawn according to the difference between the present value of future cash flows and the book value of receivables

## 10. Inventories

The inventories of the Group mainly include raw materials, packing materials, low value consumables, products in process, and commodities in stock.

The inventories implement the perpetual inventory system, and are valued by the actual cost when acquired. The actual costs of requisitioned or issued inventories are determined by the weighted average method. Low value consumables and packaging materials are amortized by one-off write-off method.

Ending inventories are valued by the cost or net realizable value, whichever is lower. For estimated irrecoverable part of cost due to inventory damage, obsolescence of all or partial inventories, or sale price lower than the cost, provisions for decline in value of inventories are withdrawn. Provisions for decline in value of inventories for goods in stock and bulk raw materials are drawn based on the difference between the cost of single inventory item and its net realizable value; for other numerous raw and auxiliary materials with low prices, provisions for decline in value of inventories are drawn based on their categories.

For merchandise inventory directly available for sale such as goods in stock, unfinished products, and materials available for sale, its net realizable value is determined as per the estimated selling price deducting estimated selling expenses and relevant taxes; for material inventory available for production, its net realizable value is determined as per the estimated price of finished product deducting estimated cost till the completion date, estimated selling expenses, and related taxes.

## 11. Long term equity investments

The Group's long-term equity investments are mainly investments into subsidiaries, associated ventures, and joint ventures.

The Group's criterion for joint control is that all parties or group of parties jointly control the arrangement, and policies of relative activities of the arrangement must be subject to unanimous consent of parties sharing the control.

The Group's recognition basis for significant influence is that the Company holds the voting share of the invested entity directly or indirectly through subsidiaries, which is more than 20% (included) but less than 50%. If there is clear evidence that the Group can not participate in decision making related to production and operation of the invested entity in that case, no significant influence can be formed.

When control over the invested entity exists, the invested entity becomes subsidiary of the Group. As to long-term equity investments acquired in business merger under common control, the portion of book value of net assets in the ultimate controller's consolidated statements of the merged party on the merger date shall be recognized as the initial investment cost of long-term equity investment. Where book value of net assets of the merged party on the merger date is negative, the long-term equity investment cost is determined as zero.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

For long-term equity investment acquired via business merger under different control, the merger cost is taken as the initial investment cost.

Apart from aforementioned long-term equity investment acquired through business merger, as to long-term equity investment acquired by cash payment, the actually paid amount is taken as the investment cost; as to long-term equity investment acquired through issuing equity securities, the fair value of the issued equity securities is taken as the investment cost; as to long-term equity investment invested by investors, the value specified in investment contract or agreement is taken as the initial investment cost; as to long-term equity investment acquired through debt restructuring and exchange of non-monetary assets, the initial investment cost is determined as per provisions of relevant accounting rules.

The Group uses the cost method to calculate investments in subsidiaries and equity method to calculate investments in associated and joint ventures.

For long-term equity investments subsequently calculated by the cost method, when more investments added, the book value of the long-term equity investment cost is increased based on the fair value of cost paid for added investments and related transaction expenses. Cash dividend or profit declared by the invested entity is recognized as current investment profit in accordance with the amount to enjoy.

For long-term equity investments subsequently calculated by the equity method, the book value of long-term equity investment is increased or decreased accordingly with variance of owner's equity of the invested entity. When determining the portion of net profit to enjoy in the invested entity, the Group will adjust the net profits of invested entity based on the fair value of identifiable assets in the invested entity when investments acquired, by offsetting internal profit and loss incurred in transactions with joint ventures and associates and by calculating the portion attributable to the investing enterprise based on the shareholding proportion, with net profit of invested entity adjusted and recognized.

For the disposal of long-term equity investment, the difference between the book value and actually obtained price shall be included in current investment profit. 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 unit, when disposed, the part which has been included in the owner's equity of such investment shall be transferred to current investment profit according to corresponding proportion.

For loss of joint control or significant influence on the invested unit due to disposal of partial equity investment or other reasons, the residual equity after disposal is calculated as per the financial assets available for sale, and the difference between the fair value and book value of residual equity on the date when losing the joint control or significant influence is included into the current profits and losses. For other comprehensive incomes from original equity investment recognized by the equity method is subject to the accounting treatment on the same basis as that adopted by the invested unit for directly handling related assets or liabilities when the equity method is not used anymore.

For loss control of invested unit due to disposal of partial long-term equity investment, the residual equity after disposal, if capable of realizing joint control or applying significant influence on invested unit, is changed to the equity method for calculation, the difference for disposal of book value and consideration is included in the investment income, and the residual equity is adjusted as it is calculated by the equity method since it is acquired; the residual equity after disposal, if unable to realize joint control or apply significant influence on invested unit, is changed to accounting treatment based on related regulations of financial assets available for sale, the difference for disposal of book value and consideration is included in the investment income, and the difference between the fair value and book value of the residual equity on the loss-control date is included in current profit and loss.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

Various transactions of the Group from step-by-step equity disposal to loss of controlling power do not belong to the package deal, and every transaction is separately subject to accounting treatment. Any transaction categorized as package deal is subject to the accounting treatment oriented for subsidiary disposal and loss of controlling power. However, before the loss of controlling power, the difference between the disposal price and book value of long-term equity investment of the corresponding disposed equity for every transaction is recognized as other comprehensive income, which is not transferred into current profit and loss until the controlling power is lost.

### 12. Investment real estate

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

Entry value of investment property of the Group shall be its cost. Cost of purchased investment property includes purchase price, relevant taxes and other expenditures that can directly be attributed to this asset; cost for self-constructing investment property shall be composed of necessary expenditure for making this asset reach usable status.

The Group shall conduct follow-up measurement of investment real estate by cost model and shall withdraw the depreciation or amortization as per expected service life and net salvage rate by straight-line method. 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)	Estimated Residual Rate (%)	Annual Rate of Depreciation (%)
Land Use Right	Benefit and transfer period	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. When conversion occurs, book value prior to conversion shall be entry value after conversion.

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 and relevant taxes thereof and then included in current profits and losses.

### 13. Fixed assets

Fixed assets refer to tangible assets held for commodity production, manpower supply, renting or operation management with a service life of over one year; and meanwhile, economic interests related to the fixed assets are likely to flow into the enterprise, and the cost of fixed assets can be measured reliably.

Fixed assets are classified into premises and buildings, machinery equipment, transportation equipment, electronic equipment and others.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

Valuation of fixed assets: fixed assets shall be initially measured according to the actual cost as obtained, wherein, the cost of outsourcing fixed assets shall include the purchase price, VAT, import tariff, relevant taxes and other necessary expenditures directly attributable to the fixed assets to the expected conditions for use; the cost of self-built fixed assets consists of the necessary expenses for building the assets to the expected conditions for use; the fixed assets invested by investors shall be taken as entry value as per the value agreed in the investment contract or agreement; however, if the value agreed in the contract or agreement is not fair, it shall be accounted as fair value; for the fixed assets for financial lease, the fair value of leased assets on the lease commencement date and the present value of minimum leasing payment shall be entry value, whichever is lower.

Depreciation method of fixed assets: except for the fixed assets fully depreciated but still in use, the Group calculates depreciation for all fixed assets. Straight-line method shall be adopted for calculating depreciation based on single item per month. The depreciation expenses shall be separately included into the costs or current expenses of related assets by purposes. The expected net salvage value of fixed assets of the Group is 5%. The expected net salvage, period of depreciation and annual rate of depreciation are as follows:

<b>Category</b>	<b>Period of Depreciation (year)</b>	<b>Annual Rate of Depreciation (%)</b>
Premises and buildings	20	4.75
Machinery equipment	10	9.50
Transportation equipment	5	19.00
Electronic equipment and others	5	19.00

Treatment for subsequent expenditure of fixed assets: if the subsequent expenditures is related to fixed assets, including repairing expenditure, renovation and reformation expenditure, meet the recognition conditions of fixed assets, they shall be included in the cost of fixed assets, and the book value of replaced parts shall be derecognized; the expenditures which do not conform to the recognition conditions of fixed assets shall be included in current profits and losses when occurred.

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

The depreciation policies of fixed assets acquired by financial lease shall be consistent with those of self-owned fixed assets. For fixed assets, if it can be reasonably confirmed that the ownership can be granted when the lease term expires, the depreciation shall be drawn within the service life of the acquired leasing assets; otherwise, the depreciation shall be drawn within the lease term or the service life of leasing assets, whichever is shorter.

If a fixed asset is disposed of or if no economic benefit will not be obtained from the use or disposal, the recognition of such fixed asset is terminated. 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)

Financial Report Prepared in accordance with CASBE (Unaudited)

### 14. Projects under construction

Valuation for projects under construction: measurement shall be made according to the actual cost. Self operating projects shall be measured as per direct material, direct salary, direct construction cost, etc.; contracted projects shall be measured as per payable project cost, etc.; and the cost of equipment installation works shall be determined according to value of installed equipment, installation cost, commissioning expenditure, etc. Costs of projects under construction also include borrowing costs and exchange gain or loss that should be capitalized.

Time-point for carrying forward the projects under construction to fixed assets: starting from the date when the projects under construction reach the expected conditions for use, the projects shall be carried forward to fixed assets based on the estimated value and according to project budget, construction cost or actual cost, and depreciation shall be withdrawn from the next month. The original value difference of fixed assets shall be adjusted after the completion settlement formalities have been handled.

### 15. Borrowing costs

Borrowing costs include loan interest, amortization of discount or premium, auxiliary expenses and balance of exchange 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.

The amount of which interest of special loan actual occurring in current period deducts the interest income from unused loan capital which is deposited in banks, or deducts investment income from temporary investment of the loan capital shall be capitalized. The capitalized amount of general loan shall be determined as per the weighted average of which the accumulative asset expenditures exceed special loan asset expenditures multiplied capitalization rate of general loan used. The capitalization rate shall be calculated with the weighted average interest rate of general loans.

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 suddenly suspended in acquisition or construction for more than three months continuously, the capitalization of the borrowing costs shall be suspended until the restart of acquisition or construction of the assets.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 16. Intangible assets

- (1) Valuation methods of intangible assets: intangible assets of the Group mainly included land use right, software license and non-patented technology. Intangible assets through purchase shall be calculated as actual cost as per actually paid amount and other relevant expenditures. Intangible assets invested by investors shall be confirmed as actual cost as per value as defined in the investment contract or agreement; however, if the value as defined in the investment contract or agreement is not fair, its actual cost shall be confirmed as per fair value.
- (2) Amortization methods and period of intangible assets: land use right of the Group shall be amortized evenly according to its transfer years from the starting date of transferring; software license and non-patented technology of the Group shall be amortized evenly by stages according to the shortest one among the expected service life, the benefit period under contract and the effective period stated by law. The land use right shall be amortized as per the benefit and transfer period, and the software license shall be amortized as per the expected benefit period (5 years). The amortized amounts shall be included into current profits and losses or relevant asset costs according to beneficiaries.
- (3) The anticipated service life and the amortization method of intangible assets with limited life shall be reviewed at the end of each year. Any change shall be handled as changes in accounting estimates. The Company shall review the expected service life of intangible assets with uncertain service life in each accounting period. If any evidences indicate that the service life of intangible assets is limited, the service life shall be estimated and amortized within the expected service life.

### 17. Research and development

The expenditures for in-house research and development projects are classified as those for research stage and those for development stage according to natures of the expenditures and whether a great uncertainty lies in the conversion of the R&D activities into intangible assets.

For independently researched and developed intangible assets, the expenditures in research stage shall be included in the current profits and losses when incurred; and the expenditures in development stage which meet the following conditions shall be determined as that of intangible assets: 1) it is technically feasible to finish and use or sell the intangible assets; 2) there is an intent to finish and use or sell the intangible assets; 3) there is a market for the product manufactured by using the intangible assets or a market for the intangible assets itself; 4) there are enough technologies, financial resources and other resources to finish the development of intangible assets, and it is able to use or sell the intangible assets; 5) the expenditures in development stage of the intangible assets can be measured reliably.

The expenditures in development stage which do not meet the above conditions shall be included in current profits and losses when incurred. The expenditures for development stage which have been included in profits and losses cannot be recognized as assets later. The capitalized expenditures for development stage are included in the balance sheet as development expenditures and are converted into intangible assets upon the date when the R&D project is ready for its intended use.



## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 18. Impairment of long-term assets

The Group shall check long-term equity investments, fixed assets, projects under construction, intangible assets determined by service life, etc. on each balance sheet date. When the following signs exist, it indicates that asset impairment may occur, and the Group will perform the impairment test. For the intangible assets with undetermined goodwill and benefit period, no matter there is an impairment sign or not, the impairment test shall be performed at the end of each year. If it is hard to test the recoverable amount of a single asset, the test shall be performed based on asset group or asset group combination.

If the impairment test shows that the book value of the assets is greater than its recoverable value, the difference between the two is recognized as loss from impairment. Such loss from impairment, once recognized, shall not be reversed in later accounting period. The recoverable amount of assets is the net amount of fair value of assets deducting disposal fees, or present value of expected future cash flow of the assets, whichever is higher.

### 19. Goodwill

Goodwill is the excess of the stock investment cost or the business merger cost under different control over the fair value of the identifiable net assets that should be enjoyed or acquired from the invested entity or the acquiree in the business merger on the date when it is acquired or purchased.

The goodwill related to subsidiaries shall be separately listed in the consolidated financial statements, and the goodwill related to associated ventures and joint ventures shall be included in the book value of long-term equity investments.

### 20. Payroll

Payroll of the Group includes short-term remuneration, post-employment welfare and dismissal welfare.

Short-term remunerations mainly include salaries, welfare, etc. During the accounting period when the employees provide service for the Group, the actual short-term remunerations are recognized as liabilities, and included in current profits or losses or relevant asset cost based on different beneficiaries.

Post-employment welfare includes basic endowment insurance, unemployment insurance and classified as defined contribution plan and defined benefit plan depending on the risk and obligation the Company bears. As for the defined contribution plans, the contributions which are made for individual subjects in exchange for the staff's services rendered in the accounting period shall be recognized as liabilities on the balance sheet date and included in current profits and losses or relevant asset costs according to the beneficiaries. There is no defined benefit plan in the Group.

When the Group cannot unilaterally withdraw the dismissal welfare provided due to the labor relationship termination plan or the redundancy offer, or when the costs or expenses (whichever is earlier) related to reorganization concerning the dismissal welfare payment are recognized, the liabilities of the employee compensation arising from dismissal welfare shall be recognized and included in current profits and losses.

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## 21. Estimated liabilities

Where the business related to external security, trade acceptance discount, pending litigations or arbitrations, product quality assurance, etc. meets the following conditions, the Group will recognize it as liabilities: 1) current obligation borne by the Group; 2) great possibility of economic benefit outflow because of performing the obligations; 3) reliable measurement for the amount of the obligations.

Metering method for estimated liabilities: estimated liabilities are initially measured at the best estimate required to be paid when performing relevant current obligations, with comprehensive consideration of such factors as risks, uncertainties and time value of money related to contingencies. Where the time value of money is of great influence, the best estimate is recognized through the discount of relevant future cash outflows. As of the balance sheet date, the book value of the estimated liabilities is reviewed and adjusted (if any change) to reflect current best estimate.

## 22. Method for recognition of revenue

The operating income of the Group is mainly derived from goods sales, rendering labor services and transfer of right to use assets. When economic benefits related to transaction can flow into the Group, and relevant revenue can be measured reliably and meet the recognition criteria of special revenue of the following various operating activities, relevant revenue can be recognized.

- (1) Recognition principle for sales revenue: the revenue from commodity sales is recognized under the following conditions: major risks and rewards concerning the ownership of commodity have been transferred to the buyer; neither continuous management right usually related to the ownership is retained nor effective control over sold goods is effected; the amount of the revenue can be measured reliably; relevant economic benefits may flow to the enterprise; and relevant costs incurred or to be incurred can be measured reliably.
- (2) Recognition principles for rendering of labor services: the labor service revenue can be recognized when the total labor service revenue and total cost can be measured reliably, relevant economic benefits may flow into the Group, and completion of labor service can be measured reliably. If the labor services that are started and completed in the same year, and the revenue of labor service is recognized upon completion; if the start and completion of labor service occur in different accounting years, and under the condition that the result of rendering labor transaction can be estimated reliably, the relevant revenue of labor service shall be recognized through percentage-of-completion method on the balance sheet date, and the percentage of completion shall be recognized according to the percentage of the occurred cost in the estimated total cost.
- (3) Recognition principle for revenue from transfer of the right to use assets: the revenue from transfer of the right to use assets can be recognized when the economic benefits related to transaction flow into the Group and the amount of revenue can be measured reliably.



## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 23. Government subsidy

Government subsidy refers to monetary or non-monetary assets acquired by the Group from the government for free. The government subsidies shall be recognized when all the attached conditions can be satisfied and the government subsidies can be received by the Group.

As the monetary assets, the government subsidies shall be measured based on the actually received amounts; the subsidies paid according to fixed quota standards, or when concrete evidence shows that relevant conditions specified in fiscal support policies can be met and the fiscal support funds can be received based on estimates at the end of period, shall be measured based on the receivable amounts; as the non-monetary assets, the government subsidies shall be measured based on the fair value; if the fair value cannot be estimated reliably, it shall be measured based on nominal amount (RMB1).

Government subsidy to the Group is divided into asset-related government subsidy and revenue-related government subsidy. The asset-related government subsidies refer to those obtained by the Group and used for the acquisition or construction of long-term assets or obtainment of such assets by other forms. The revenue-related government subsidies refer to those other than the asset-related government subsidies. If no assistance object is specified in the government documents, the Group shall determine based on the above principles.

Asset-related government subsidies shall be recognized as deferred revenues, and shall be distributed equally within the service life of related assets and included into current profits and losses. Revenue-related government subsidies used to compensate for related costs or losses during future periods shall be recognized as deferred income, and it shall be included in current profits and losses during the period when it is recognized; those used to compensate for the incurred related costs or losses shall be included in current profits and losses directly.

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

Deferred income tax assets and deferred income 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 income tax assets and liabilities shall be measured at applicable tax rate during the anticipated period for withdrawing such assets or during the period for paying off such liabilities on the balance sheet date.

The Group recognizes the corresponding deferred income tax assets arising from 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 Group. For recognized deferred tax assets, if it is predicted that the amount of taxable income cannot be sufficient to deduct the deferred tax assets in future period, the book value of deferred tax assets shall be written down. If it is possible to obtain sufficient amount of taxable income, the amount that has been written down shall be returned.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 25. Lease

Lease can be divided by the Group into finance lease and operating lease at the start of lease.

Finance lease is a kind of lease in which all risks and rewards regarding the ownership of the said assets are actually transferred. At the commencement of the lease term, as the Lessee, the Group shall deem the lower of the fair value of the leased asset and the present value of the minimum lease payments as the entry value of fixed assets acquired by finance lease, and the minimum lease payment as the entry value of long-term account payable. The difference between the two entry values is deemed as unrecognized financing charges.

Operating lease refers to the lease other than finance lease. As the Lessee, the Group shall include the rents in relevant asset costs or current profits and losses by using the straight-line method within each period of the lease term, while as the Lessor, the Group shall recognize the rents as revenues by using the straight-line method within each period of the lease term.

### 26. Accounting of income tax

The accounting of income tax of the Group will be conducted by using balance sheet liability method. Income tax expenses include current income taxes and deferred income taxes. Other current income taxes and deferred income taxes or revenues are included in current profits and losses, except for the current income taxes and deferred income taxes that are related to the transactions and items directly included in Shareholders' equity and the book value of deferred income taxes generated by business merger for goodwill adjustment.

Current income tax refers to the amount that is determined by calculation for transactions and events occurring in that phase and shall be paid by enterprises to the tax department according to the tax laws, i.e. income tax payable; deferred income tax refers to the difference between the due amount of deferred income tax assets and liabilities that shall be recognized by using the balance sheet liability method at the end of the phase and the original amount that has been recognized.

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

#### (1) Changes in accounting policies

There were no changes in accounting policies in the Reporting Period.

#### (2) Changes in important accounting estimate

There were no changes in accounting estimates in the Reporting Period.

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## V. TAXES

### 1. Main taxes and rates

Tax Category	Taxation Basis	Tax Rate
Value-added tax	Difference after output tax deducts from input tax of purchased goods	6%, 13%, 17%
Business tax	Operating Income	5%
Urban construction tax	Taxable amount of turnover tax	7%
Educational surcharges	Taxable amount of turnover tax	3%
Local educational surcharges	Taxable amount of turnover tax	2%
Income tax	Taxable income	15%, 25%

#### Description of taxpaying subjects and income tax rates of different enterprises:

Taxpaying Subject	Income Tax Rate
The Company	15%
Shandong Zibo Xincat Pharmaceutical Company Limited	15%
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	36.50–52%
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	Federal tax rate: 15–35%; state tax rate: 8.84%
Other 10 subsidiaries	25%

### 2. Tax preference

#### (1) Income Tax

According to the reply in LKZ [2015] No. 33 document of the Department of Science & Technology of Shandong Province, Shandong Province Finance Bureau, Shandong Provincial Office, SAT, and Shandong Local Taxation Bureau, the Company is recognized as a high-tech enterprise. On 31 October, 2014, the Company obtained the certificate of high-tech enterprise (No. GR201437000377), with a validity period of 3 years. According to Law of the PRC on Enterprise Income Tax, the Company enjoys the preferential tax policy of levying enterprise income tax at a tax rate of 15%. In the Reporting Period, the Company was in the tax preference period, and the applicable income tax rate was 15%.

According to the reply in LKZ [2015] No. 33 document of the Department of Science & Technology of Shandong Province, Shandong Province Finance Bureau, Shandong Provincial Office, SAT, and Shandong Local Taxation Bureau, Shandong Zibo Xincat Pharmaceutical Company Limited (hereinafter referred to as "Xinda Pharmaceutical"), a subsidiary of the Company, is recognized as a high-tech enterprise. On October 31, 2014, Xinda Pharmaceutical obtained the certificate of high-tech enterprise (No. GR201437000570), with a validity period of 3 years. According to Law of the PRC on Enterprise Income Tax, Xinda Pharmaceutical enjoys the preferential tax policy of levying enterprise income tax at a tax rate of 15%. In the Reporting Period, Xinda Pharmaceutical was in the tax preference period, and the applicable income tax rate was 15%.

#### (2) Value-added tax

Export commodities of the Group enjoy the preferential policy of value-added tax exemption, offset and refund.

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

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

Unless otherwise indicated the terms of, 'beginning of the year' refers to 1 January 2016 'end of the year' refers to 30 June 2016. 'Current year' refers to period from 1 January to 30 June 2016. 'Previous year' refers to period from 1 January 2015 to 30 June 2015. In the following notes the financial statements all figures are stated in RMB.

### 1. Currency funds

Item	Balance at the end of the year	Balance at the beginning of the year
Cash	160,405.56	146,951.21
Bank deposit	296,142,476.75	328,491,932.88
Other monetary funds	106,900,000.00	147,650,000.00
Total	<u>403,202,882.31</u>	<u>476,288,884.09</u>
Including: total amount deposited abroad	17,081,091.64	18,754,260.64

The ending balance of other monetary funds includes a bank acceptance deposit of RMB6,900,000.00, a 1-year structured deposit of RMB100,000,000.00.

### 2. Notes receivable

Category	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bill	163,773,295.30	224,939,486.84
Commercial acceptance bill	–	207,228.40
Total	<u>163,773,295.30</u>	<u>225,146,715.24</u>

#### (1) Notes receivable which have been pledged at the end of the year

As at 30 June 2016, the Group had no notes receivable which had been pledged.

#### (2) Notes receivables which have been endorsed and within the period of date of balance sheet at the end of the year

Item	Derecognized amount at the end of year	Not derecognized amount at the end of year
Bank acceptance bill	<u>453,197,652.08</u>	–



## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 3. Account receivables

Item	Balance at the end of the year	Balance at the beginning of the year
Account receivables	490,381,807.79	372,999,200.15
Less: Provision for bad debt	58,228,544.51	58,650,827.25
Net amount	432,153,263.28	314,348,372.90

#### (1) Aging analysis of account receivables

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

Account Age	Balance at the end of the year	Balance at the beginning of the year
Within 1 year	431,522,065.41	313,548,568.89
1-2 years	511,377.73	724,878.49
2-3 years	119,820.14	74,925.52
Net amount	432,153,263.28	314,348,372.90

#### (2) Classification of account receivables

Item	Balance at the end of the year			Proportion of Provision (%)
	Amount	Proportion (%)	Provision for Bad Debt	
Account receivables with significant individual amount and drawn bad debt provision on single item	-	-	-	-
Account receivables with provision for bad debts drawn on combination	-	-	-	-
Account age combination	472,943,877.68	96.44	58,228,544.51	12.31
Combination of relationship with transaction object	17,437,930.11	3.56	-	0.00
Combination of special account nature	-	-	-	-
Combination subtotal	490,381,807.79	100.00	58,228,544.51	11.87
Account receivables with insignificant individual amount but drawn bad debt provision on single item	-	-	-	-
Total	490,381,807.79	100.00	58,228,544.51	-

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

Item	Balance at the beginning of the year			Proportion of Provision (%)
	Amount	Proportion (%)	Provision for Bad Debt	
Account receivables with significant individual amount and drawn bad debt provision on single item	-	-	-	-
Account receivables with provision for bad debts drawn on combination	-	-	-	-
Account age combination	361,689,166.94	96.97	58,650,827.25	16.22
Combination of relationship with transaction object	11,310,033.21	3.03	-	-
Combination of special account nature	-	-	-	-
Combination subtotal	372,999,200.15	100.00	58,650,827.25	15.72
Account receivables with insignificant individual amount but drawn bad debt provision on single item	-	-	-	-
<b>Total</b>	<b>372,999,200.15</b>	<b>100.00</b>	<b>58,650,827.25</b>	<b>-</b>

1) In combination, account receivables with provision for bad debt drawn by aging analysis:

Item	Balance at the end of the year			Balance at the beginning of the year		
	Account Receivables	Provision for Bad Debt	Drawing Proportion (%)	Account Receivables	Provision for Bad Debt	Drawing Proportion (%)
Within 1 year	416,053,859.10	1,969,723.80	0.5	303,757,322.30	1,518,786.62	0.5
1-2 years	639,222.16	127,844.43	20	906,098.11	181,219.62	20
2-3 years	299,550.36	179,730.22	60	187,313.82	112,388.30	60
Over 3 years	55,951,246.06	55,951,246.06	100	56,838,432.71	56,838,432.71	100
<b>Total</b>	<b>472,943,877.68</b>	<b>58,228,544.51</b>	<b>-</b>	<b>361,689,166.94</b>	<b>58,650,827.25</b>	<b>-</b>

2) In combination, account receivables with provision for bad debts drawn by other method:

Name of Combination	Book Balance	Amount of Bad Debts
Combination of relationship with transaction object	17,437,930.11	-
<b>Total</b>	<b>17,437,930.11</b>	<b>-</b>

## Notes to the Financial Statements (Continued)

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

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### (3) Bad debt provisions provided, reversed or recovered in the current year

In current year, the provided bad debt provision was RMB-417,717.26; and the recovered or reversed bad debt provision was RMB840,000.00.

In which, bad debt provisions recovered or reversed in the current year include:

Organization Name	Amount Recovered (or Reversed) in Current Year	Recognition Basis for Bad Debt Provision	Reasons for Reversals (Recovery) in Current Year
Shandong Xinbao Pharmaceutical Co., Ltd.	840,000.00	Consider debt paying ability and total amount withdrawing	Recover monetary funds
Total	<u>840,000.00</u>		

### (4) Account receivables actually written off in the current year

There were no account receivables to be written off in the current year.

### (5) Account receivables with top five ending balance collected as per the borrowers

Organization Name	Balance at the end of the year	Account Age	Proportion in Total Ending Balance of Account Receivables (%)	Balance at the end of the year of Bad Debt Provision
Shandong Xin Kang Qi Pharmaceutical Co., Ltd.	<b>40,589,520.51</b>	Over 3 years	8.28	40,589,520.51
Zibo Central Hospital	<b>21,381,501.32</b>	Within 1 year	4.36	106,907.51
F.Hoffmann-La Roche AG	<b>17,764,208.95</b>	Within 1 year	3.62	88,821.04
Mitsubishi Corporation	<b>16,299,638.47</b>	Within 1 year	3.32	81,498.19
The People's Hospital of Gaoqing County	<b>10,857,588.32</b>	Within 1 year	2.21	54,287.94
Total	<u><b>106,892,457.57</b></u>		<u>21.79</u>	<u>40,921,035.19</u>

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 4. Prepayments

#### (1) Age of prepayment

Item	Balance at the end of the year		Balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	21,058,066.71	99.82	23,768,597.49	99.61
1-2 years	17,314.29	0.08	81,085.11	0.34
2-3 years	14,590.90	0.07	10,398.03	0.04
Over 3 years	5,043.80	0.03	1,919.80	0.01
Total	21,095,015.70	100.00	23,862,000.43	100.00

#### (2) Prepayments with top five ending balance collected as per the prepaid party

Organization Name	Amount	Account Age	Proportion (%)	Reasons for Non-settlement
Shandong Qitai Industry Group Co. Ltd.	2,565,727.03	Within 1 year	12.16	Advance for projects
Zibo Power Supply Company of State Grid Shandong Electric Power Company	1,140,465.28	Within 1 year	5.41	Goods arrival failure
Shandong Jinling Chemical Co., Ltd.	1,062,074.76	Within 1 year	5.03	Goods arrival failure
Shandong Hualu Hengsheng Chemical Limited Liability Company	869,150.99	Within 1 year	4.12	Goods arrival failure
Zibo Huarun Gas Co., Ltd.	689,163.41	Within 1 year	3.27	Goods arrival failure
Total	6,326,581.47		29.99	

### 5. Interests receivable

Item	Balance at the end of the year	Balance at the beginning of the year
Fixed deposit	3,833,684.46	1,937,851.12
Total	3,833,684.46	1,937,851.12

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 6. Other accounts receivables

Item	Balance at the end of the year	Balance at the beginning of the year
Other accounts receivable	68,019,847.98	66,701,547.70
Less: Provision for bad debt	24,663,937.31	24,338,283.59
Net amount	<u>43,355,910.67</u>	<u>42,363,264.11</u>

#### (1) Aging analysis of other accounts receivables

Account Age	Balance at the end of the year	Balance at the beginning of the year
Within 1 year	34,872,516.54	32,691,319.89
1-2 years	2,350,828.35	2,857,766.27
2-3 years	3,732,565.78	6,805,884.59
Over 3 years	2,400,000.00	8,293.36
Net amount	<u>43,355,910.67</u>	<u>42,363,264.11</u>

#### (2) Classification of other accounts receivables

Item	Balance at the end of the year			Proportion of Provision (%)
	Amount	Proportion (%)	Provision for Bad Debt	
Other accounts receivable with significant individual amount and bad debt provision drawn on single item	6,600,000.00	9.70	3,300,000.00	50.00
Other accounts receivable with bad debt provision drawn on combination	-	-	-	-
Account age combination	35,567,375.62	52.29	21,363,937.31	60.07
Combination of relationship with transaction object	245,044.01	0.36	0.00	-
Combination of special account nature	25,607,428.35	37.65	0.00	-
Combination subtotal	61,419,847.98	90.30	21,363,937.31	34.78
Other accounts receivable with insignificant individual amount but drawn bad debt provision on single item	-	-	-	-
Total	<u>68,019,847.98</u>	<u>100.00</u>	<u>24,663,937.31</u>	<u>-</u>

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

Item	Amount	Proportion (%)	Balance at the beginning of the year	
			Provision for Bad Debt	Proportion of Provision (%)
Other accounts receivable with significant individual amount and bad debt provision drawn on single item	6,600,000.00	9.90	3,300,000.00	50.00
Other accounts receivable with bad debt provision drawn on combination	—	—	—	—
Account age combination	36,333,954.27	54.47	21,038,283.59	57.90
Combination of relationship with transaction object	294,987.15	0.44	—	—
Combination of special account nature	23,472,606.28	35.19	—	—
Combination subtotal	60,101,547.70	90.10	21,038,283.59	35.00
Other accounts receivable with insignificant individual amount but drawn bad debt provision on single item	—	—	—	—
<b>Total</b>	<b>66,701,547.70</b>	<b>100.00</b>	<b>24,338,283.59</b>	<b>—</b>

- 1) Other accounts receivable with significant individual amount but provisions for bad debt withdrawn on single basis at the end of the year

Organization Name	Book Balance	Amount of Bad Debts	Drawing Proportion (%)	Reasons for Withdrawing
Nanjing Huadong Pharmaceutical Co., Ltd.	6,600,000.00	3,300,000.00	50.00	Consider possibility of recovery
<b>Total</b>	<b>6,600,000.00</b>	<b>3,300,000.00</b>		

- 2) In combination, other accounts receivable of provisions for bad debt are drawn by aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Provision for Bad Debt	Drawing Proportion (%)	Amount	Provision for Bad Debt	Drawing Proportion (%)
Within 1 year	12,516,345.49	62,581.73	0.5	13,246,644.16	66,233.22	0.5
1-2 years	1,946,385.96	389,277.19	20	1,540,481.39	308,096.28	20
2-3 years	481,414.44	288,848.66	60	2,207,186.57	1,324,311.94	60
Over 3 years	20,623,229.73	20,623,229.73	100	19,339,642.15	19,339,642.15	100
<b>Total</b>	<b>35,567,375.62</b>	<b>21,363,937.31</b>	<b>—</b>	<b>36,333,954.27</b>	<b>21,038,283.59</b>	<b>—</b>

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

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

Name of Combination	Book balance	Amount of Bad Debts
Combination of relationship with transaction object	245,044.01	–
Combination of special account nature	25,607,428.35	–
Total	<u>25,852,472.36</u>	<u>–</u>

**(3) Conditions about provision of bad debts of accruing proportion and turning (or withdrawal) in the current year**

In current year, the provided bad debt provision is RMB325,653.72 and there are no bad debt provisions to be recovered or reversed.

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

There were no other accounts receivable to be written off in the current year.

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

Nature	Ending Book Balance	Beginning Book Balance
Guarantee deposit and security deposit	4,124,237.97	7,717,041.59
Petty cash	3,381,829.58	1,515,779.22
Tax receivable and to be deducted	4,876,845.58	15,033,776.86
Finance lease deposit	18,000,000.00	8,000,000.00
Claim	6,600,000.00	6,600,000.00
Land compensation receivable	8,000,000.00	8,000,000.00
Advance payment of R&D fees, consulting fees	671,000.00	104,276.60
Advance investment funds	2,400,000.00	2,400,000.00
Others	19,965,934.85	17,330,673.43
Total	<u>68,019,847.98</u>	<u>66,701,547.70</u>

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (6) Conditions about other payment receivable of top five balance as at the end of the Reporting Period collected by the borrowers

Organization Name	Amount	Account Age	Proportion (%)	Balance at the end of the year of Bad Debt Provision	Nature or Contents
Ping'an International Financial Leasing Co., Ltd.	18,000,000.00	Within 1 year	26.46	–	Security deposit
Payment for the land of Houzhen Project Area	8,000,000.00	Over 3 years	11.76	<b>8,000,000.00</b>	Compensation receivable
Nanjing Huadong Pharmaceutical Co., Ltd.	6,600,000.00	2-3 years	9.70	<b>3,300,000.00</b>	Claim
State-owned Assets Management Company of Zibo Hi-tech Industrial Development Zone	2,400,000.00	2-3 years	3.53	–	Advance investment funds
The People's Hospital of Gaoqing County	1,000,000.00	Within 1 years	1.47	<b>5,000.00</b>	Security deposit
<b>Total</b>	<b>36,000,000.00</b>		<b>52.92</b>	<b>11,305,000.00</b>	

## 7. 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	Impairment Provision	Book Value	Book Balance	Impairment Provision	Book Value
Raw materials	52,796,338.67	1,987,015.67	50,809,323.00	55,795,792.16	1,387,015.67	54,408,776.49
Products in process	145,477,055.63	2,014,213.26	143,462,842.37	190,400,704.36	2,014,213.26	188,386,491.10
Goods in stock	245,029,687.30	8,911,511.68	236,118,175.62	298,505,294.97	7,548,522.05	290,956,772.92
Low-value consumables	10,988,365.79	–	10,988,365.79	10,868,431.40	–	10,868,431.40
Specially approved reserved supplies	1,839,696.49	–	1,839,696.49	1,839,696.49	–	1,839,696.49
<b>Total</b>	<b>456,131,143.88</b>	<b>12,912,740.61</b>	<b>443,218,403.27</b>	<b>557,409,919.38</b>	<b>10,949,750.98</b>	<b>546,460,168.40</b>



## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (2) Provision for inventory falling price

Classification of inventories	Balance at the beginning of the year	Withdrawal in Current Period	Decrease in Current Period		Balance at the end of the year
			Other Transfer-out	Write-off	
Raw materials	1,387,015.67	600,000.00	–	–	<b>1,987,015.67</b>
Products in process	2,014,213.26	–	–	–	<b>2,014,213.26</b>
Goods in stock	<u>7,548,522.05</u>	<u>1,662,106.86</u>	–	<u>299,117.23</u>	<b><u>8,911,511.68</u></b>
Total	<u>10,949,750.98</u>	<u>2,262,106.86</u>	–	<u>299,117.23</u>	<b><u>12,912,740.61</u></b>

For method of provisions for decline in value of inventories, see the note “IV. Important Accounting Policy and Accounting Estimate 10. Inventories”.

### (3) Withdrawing of provisions for inventory falling price

Item	Recognition Methods for Net Realizable Value	Reasons for Withdrawing or Write-off in Current Year
Raw materials	Expected net realizable value is lower than the book cost	Produced and sold
Products in process	Expected net realizable value is lower than the book cost	Completed and sold
Goods in stock	Expected net realizable value is lower than the book cost	Sold

## 8. Other current assets

Item	Balance at the end of the year	Balance at the beginning of the year	Nature
Enterprise income tax prepayment	<b>4,598,953.77</b>	6,549,889.15	Enterprise income tax prepayment
Input taxes of VAT to be deducted	<b>1,965,209.88</b>	14,390,046.15	Input taxes under deduction
Private placement fee	<b>1,413,896.62</b>	132,075.46	Prepaid attorney fee and securities company fee
Total	<b><u>7,978,060.27</u></b>	<u>21,072,010.76</u>	

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 9. Financial assets available for sale

#### (1) Financial assets available for sale

Item	Balance at the end of the year			Balance at the beginning of the year		
	Book Balance	Provision for Impairment	Book Value	Book Balance	Provision for Impairment	Book Value
Equity instrument available for sale	214,674,096.00	30,000,000.00	184,674,096.00	230,431,648.00	30,000,000.00	200,431,648.00
Measured by fair value	181,474,096.00	-	181,474,096.00	197,231,648.00	-	197,231,648.00
Measured by cost	33,200,000.00	30,000,000.00	3,200,000.00	33,200,000.00	30,000,000.00	3,200,000.00
Total	214,674,096.00	30,000,000.00	184,674,096.00	230,431,648.00	30,000,000.00	200,431,648.00

#### (2) Analysis of financial assets available for sale is as follows:

Item	Balance at the end of the year	Balance at the beginning of the year
Listed		
China (excluding Hong Kong)	181,474,096.00	197,231,648.00
Unlisted		
China (excluding Hong Kong)	3,200,000.00	3,200,000.00
Total	184,674,096.00	200,431,648.00

#### (3) Financial assets available for sale measured at fair value at the end of the year

Item	Available-for-sale Equity Instrument (Measured at Fair Value)
Cost of equity instrument	21,225,318.00
Fair value at the end of the year	181,474,096.00
Amount of changes in fair value accumulatively included in other comprehensive income	160,248,778.00
Amount of impairment provision provided	-

## Notes to the Financial Statements (Continued)

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

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### (4) Financial assets available for sale which are measured as per the cost at the end of the year

Invested Entity	At the beginning of the year	Book balance		At the end of the Year
		Increase in Current Year	Decrease in Current Year	
Ruiheng Pharmaceutical Technology Investment Company	3,200,000.00	–	–	3,200,000.00
Tiantong Securities	30,000,000.00	–	–	30,000,000.00
Total	33,200,000.00	–	–	33,200,000.00

Invested Entity	At the beginning of the year	Provision for Impairment		At the end of the Year	Shareholding Ratio in Investees (%)	Cash Bonus in Current Year
		Current Year Increase	Current Year Decrease			
Ruiheng Pharmaceutical Technology Investment Company	–	–	–	–	2.91	–
Tiantong Securities	30,000,000.00	–	–	30,000,000.00	–	–
Total	30,000,000.00	–	–	30,000,000.00	–	–

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

Classification of Financial assets available for sale	Equity Instrument Available for sale (Measured at Fair Value)	Equity Instrument Available for sale (Measured by Cost Method)	Total
Amount of impairment provision provided at the beginning of the year	–	30,000,000.00	30,000,000.00
Amount of impairment provision provided at the end of the year	–	30,000,000.00	30,000,000.00

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## 10. Investment real estate

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

Item	Premises and Buildings	Land Use Right	Total
<b>I. Original book value</b>			
1. Balance at the beginning of the year	105,688,454.76	14,121,724.63	119,810,179.39
2. Increased amount in the current year	—	—	—
3. Decreased amount in the current year	—	—	—
4. Balance at the end of the year	105,688,454.76	14,121,724.63	119,810,179.39
<b>II. Accumulated depreciation and accumulated amortization</b>			
1. Balance at the beginning of the year	39,135,194.86	1,755,867.70	40,891,062.56
2. Increased amount in the current year	2,153,905.37	164,696.83	2,318,602.20
(1) Withdrawing or amortization	2,153,905.37	164,696.83	2,318,602.20
3. Decreased amount in the current year	—	—	—
4. Balance at the end of the year	41,289,100.23	1,920,564.53	43,209,664.76
<b>III. Provision for impairment</b>			
<b>IV. Book value</b>			
1. Ending book value	64,399,354.53	12,201,160.10	76,600,514.63
2. Beginning book value	66,553,259.90	12,365,856.93	78,919,116.83

The amount of depreciation and amortization for investment property recognized as profits or losses is RMB2,318,602.20 (amount of previous year: RMB2,333,213.40) in the current year.

(2) All investment real estates of the Company are located in the territory of China and in the medium-term (10–50 years) phase.

(3) Investment real estates with certificate of title not settled

Item	Book Value	Reasons for Unsettlement of the Certificate of Title
No. 1 Scientific Research Centre in the Headquarters	7,176,933.49	In progress
13–22/F, Xinhua Mansion in the Headquarters	33,421,666.94	In progress
Comprehensive office building (block B) in the head factory	5,181,139.29	In progress
Total	<u>45,779,739.72</u>	

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## 11. Fixed assets

### (1) Detail list of fixed assets

Item	Premises and Buildings	Machinery Equipment	Transportation Equipment	Electronic Equipment and Others	Total
<b>I. Original book value</b>					
1. Balance at the beginning of the year	1,259,947,442.88	2,095,105,502.56	27,497,912.27	66,622,398.33	3,449,173,256.04
2. Increased amount in the current year	12,595,050.74	49,830,006.33	1,069,090.90	2,612,717.13	66,106,865.10
(1) Purchase	12,595,050.74	49,830,006.33	1,069,090.90	2,612,717.13	66,106,865.10
3. Decreased amount in the current year	2,286,763.47	4,868,101.47	1,063,229.00	574,511.21	8,792,605.15
(1) Disposal or scrapping	2,286,763.47	4,868,101.47	1,063,229.00	574,511.21	8,792,605.15
4. Balance at the end of the year	1,270,255,730.15	2,140,067,407.42	27,503,774.17	68,660,604.25	3,506,487,515.99
<b>II. Accumulated depreciation</b>					
1. Balance at the beginning of the year	359,794,058.78	954,576,743.34	19,952,742.93	43,840,347.96	1,378,163,893.01
2. Increased amount in the current year	31,416,135.00	80,978,144.59	1,064,328.01	4,268,475.46	117,727,083.06
(1) Provision	31,416,135.00	80,978,144.59	1,064,328.01	4,268,475.46	117,727,083.06
3. Decreased amount in the current year	271,734.02	2,556,772.00	997,076.50	555,673.03	4,381,255.55
(1) Disposal or scrapping	271,734.02	2,556,772.00	997,076.50	555,673.03	4,381,255.55
4. Balance at the end of the year	390,938,459.76	1,032,998,115.93	20,019,994.44	47,553,150.39	1,491,509,720.52
<b>III. Provision for impairment</b>					
1. Balance at the beginning of the year	-	577,996.57	-	7,178.14	585,174.71
2. Increased amount in the current year	-	-	-	-	-
3. Decreased amount in the current year	-	-	-	-	-
4. Balance at the end of the year	-	577,996.57	-	7,178.14	585,174.71
<b>IV. Book value</b>					
1. Ending book value	879,317,270.39	1,106,491,294.92	7,483,779.73	21,100,275.72	2,014,392,620.76
2. Beginning book value	900,153,384.10	1,139,950,762.65	7,545,169.34	22,774,872.23	2,070,424,188.32

The amount of depreciation and amortization for fixed assets recognized as losses is RMB117,727,083.06 (amount of pervious year: RMB108,432,798.94) in current year.

(2) All buildings of the Group are located in the territory of China and in the medium-term (10–50 years) phase.

### (3) Temporarily idle fixed assets

Item	Original Book Value	Accumulated Depreciation	Provision for Impairment	Net Book Value	Remarks
Premises and buildings	3,863,572.78	1,021,668.84	-	2,841,903.94	-
Machinery equipment	10,139,584.11	7,309,138.07	532,114.38	2,298,331.66	-
Electronic equipment and others	218,960.87	208,012.79	4,901.49	6,046.59	-
Total	14,222,117.76	8,538,819.70	537,015.87	5,146,282.19	-

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

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

At the end of the year, the fixed asset with a book value of RMB134,164,589.99 (original value of RMB208,891,175.02) is rented by financial lease. The specific analysis is as follows:

Ending	Original Book Value	Accumulated Depreciation	Provision for Impairment	Book Value
Machinery equipment	208,891,175.02	74,726,585.03	–	134,164,589.99
Total	208,891,175.02	74,726,585.03	–	134,164,589.99

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

At the end of the year, the fixed assets include the house property with the original book value of RMB491,599,817.76 (beginning amount: RMB547,586,453.76) and its certificate of title is in progress. Since the above house property is handled in accordance with relevant legal procedures, the directors of the Company can make sure that transfer of the property title will not have any substantial legal obstacles or affect normal use of such house buildings by the Group, and will not exert significant impact on normal operation of the Group and not be required to draw provisions for impairment of fixed assets, and will not incur significant additional costs.

Item	Book Value	Reasons for Unsettlement of the Certificate of Title
House property of No. 2 factory	202,865,280.95	In progress
Part of house property of No. 1 factory	55,874,261.16	In progress
House property in the headquarter park	81,549,360.15	In progress
Part of house property in the parent factory park	2,808,791.41	In progress
Part of house property in Shouguang park	68,620,572.34	In progress
Xinda pharmacy research and development building	9,193,274.90	In progress
Total	420,911,540.91	

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 12. Projects under construction

#### (1) Detail list 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
Modern medicine center for international cooperation	49,842,233.13	-	49,842,233.13	33,557,952.02	-	33,557,952.02
Modern chemical medicine industrialization center II in Hutian Industrial Park	32,257,913.54	-	32,257,913.54	15,828,477.70	-	15,828,477.70
New 2,000T/d sewage treatment system project	14,297,306.60	-	14,297,306.60	10,569,018.42	-	10,569,018.42
New product renovation project of No. 102 workshop	13,731,709.28	-	13,731,709.28	8,438,824.62	-	8,438,824.62
35KV power transformation project in Hutian Industrial Park	174,759.90	-	174,759.90	7,238.53	-	7,238.53
Sewage treatment project in Hutian Industrial Park	6,773,889.21	-	6,773,889.21	1,009,378.29	-	1,009,378.29
Salicylic acid equipment adjustment project	11,680,229.62	-	11,680,229.62	205,332.69	-	205,332.69
Pentamine series product warehousing project	7,631,830.30	-	7,631,830.30	11,331.33	-	11,331.33
Analgin series product project in Hutian Industrial Park	11,916,324.91	-	11,916,324.91	199,222.17	-	199,222.17
Hormone series products project in Hutian Industrial Park	5,981,225.70	-	5,981,225.70	48,134.95	-	48,134.95
Industrial park project (phase III) in the eastern zone of Xinhua Shouguang Pharmaceuticals Co., Ltd.	11,921,360.30	-	11,921,360.30	14,010,767.85	-	14,010,767.85
GMP renovation project	28,234,167.60	-	28,234,167.60	26,103,467.19	-	26,103,467.19
Others	69,867,029.85	-	69,867,029.85	45,337,137.11	-	45,337,137.11
<b>Total</b>	<b>264,309,979.94</b>	<b>-</b>	<b>264,309,979.94</b>	<b>155,326,282.87</b>	<b>-</b>	<b>155,326,282.87</b>

By the end of the Reporting Period, the investment in projects under construction largely increased, because the investment in projects of modern medicine center for international cooperation and modern chemical medicine industrialization center II in Hutian Industrial Park increased continuously.

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## (2) Changes in major projects under construction

Name of Project	Balance at the beginning of the year	Increase in Current Year	Decrease in Current Year		Balance at the end of the year
			Transferred to Fixed Assets	Other Decreases	
Modern medicine center for international cooperation	33,557,952.02	16,284,281.11	-	-	49,842,233.13
Modern chemical medicine industrialization center II in Hutian Industrial Park	15,828,477.70	16,429,435.84	-	-	32,257,913.54
New 2,000T/d sewage treatment system project	10,569,018.42	3,728,288.18	-	-	14,297,306.60
New product renovation project of No. 102 workshop	8,438,824.62	5,292,884.66	-	-	13,731,709.28
35KV power transformation project in Hutian Industrial Park	7,238.53	167,521.37	-	-	174,759.90
Sewage treatment project in Hutian Industrial Park	1,009,378.29	5,764,510.92	-	-	6,773,889.21
Salicylic acid equipment adjustment project	205,332.69	11,474,896.93	-	-	11,680,229.62
Pentamine series product warehousing project	11,331.33	7,620,498.97	-	-	7,631,830.30
Analgin series product project in Hutian Industrial Park	199,222.17	11,717,102.74	-	-	11,916,324.91
Hormone series products project in Hutian Industrial Park	48,134.95	5,933,090.75	-	-	5,981,225.70
Industrial park project (phase III) in the eastern zone of Xinhua Shouguang Pharmaceuticals Co., Ltd.	14,010,767.85	-	-	2,089,407.55	11,921,360.30
GMP renovation project	26,103,467.19	2,130,700.41	-	-	28,234,167.60
Others	45,337,137.11	24,852,901.49	-	323,008.75	69,867,029.85
<b>Total</b>	<b>155,326,282.87</b>	<b>111,396,113.37</b>	<b>-</b>	<b>2,412,416.30</b>	<b>264,309,979.94</b>



## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

Name of Project	Budget	Proportion of Project Investment in Budget (%)	Engineering Schedule (%)	Accumulated Amount of Capitalization of Interest	Including: Amount of Capitalized Interest in Current Year	Capitalization Rate of Interest in Current Year (%)	Financial Resource
Modern medicine center for international cooperation	400,000,000.00	12.46	35.00	-	-	-	Self-provided
Modern chemical medicine industrialization center II in Hutian Industrial Park	50,000,000.00	64.52	80.00	-	-	-	Self-provided
New 2,000T/d sewage treatment system project	15,000,000.00	95.32	95.00	-	-	-	Self-provided
New product renovation project of No. 102 workshop	9,880,000.00	138.98	100.00	-	-	-	Self-provided
35KV power transformation project in Hutian Industrial Park	10,000,000.00	94.75	95.00	-	-	-	Self-provided
Sewage treatment project in Hutian Industrial Park	63,000,000.00	102.45	96.00	-	-	-	Self-provided
Salicylic acid equipment adjustment project	30,000,000.00	91.27	100.00	-	-	-	Self-provided
Pentamine series product warehousing project	22,000,000.00	97.96	95.00	-	-	-	Self-provided
Analgin series product project in Hutian Industrial Park	377,220,000.00	118.90	100.00	14,263,468.87	-	-	External financing
Hormone series products project in Hutian Industrial Park	80,000,000.00	7.48	20.00	-	-	-	Self-provided
Industrial park project (phase III) in the eastern zone of Xinhua Shouguang Pharmaceuticals Co., Ltd.	121,000,000.00	9.85	25.00	-	-	-	Self-provided
GMP renovation project	28,300,000.00	99.77	100.00	-	-	-	Self-provided
Others	-	-	-	-	-	-	-
<b>Total</b>	<b>1,206,400,000.00</b>	<b>-</b>	<b>-</b>	<b>14,263,468.87</b>	<b>-</b>	<b>-</b>	<b>-</b>

- (3) No impairment was incurred on the projects under construction of the Group at the end of the year. No provision for impairment of projects under construction was drawn.

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## 13. Intangible assets

### (1) Intangible assets

Item	Land Use Right	Software License	Non-patented Technology	Others	Total
<b>I. Original book value</b>					
1. Balance at the beginning of the year	345,176,466.90	7,743,891.91	23,496,005.93	2,597,440.00	379,013,804.74
2. Increased amount in the current year	-	34,245.28	-	55,040.00	89,285.28
(1) Purchase	-	34,245.28	-	55,040.00	89,285.28
3. Decreased amount in the current year	-	-	-	-	-
4. Balance at the end of the year	345,176,466.90	7,778,137.19	23,496,005.93	2,652,480.00	379,103,090.02
<b>II. Accumulated amortization</b>					
1. Balance at the beginning of the year	58,033,097.53	5,880,362.69	18,977,070.82	1,558,464.00	84,448,995.04
2. Increased amount in the current year	3,835,818.25	360,903.85	1,694,600.58	298,272.00	6,189,594.68
(1) Provision	3,835,818.25	360,903.85	1,694,600.58	298,272.00	6,189,594.68
3. Decreased amount in the current year	-	-	-	-	-
4. Balance at the end of the year	61,868,915.78	6,241,266.54	20,671,671.40	1,856,736.00	90,638,589.72
<b>III. Provision for impairment</b>					
	-	-	-	-	-
<b>IV. Book value</b>					
1. Ending book value	283,307,551.12	1,536,870.65	2,824,334.53	795,744.00	288,464,500.30
2. Beginning book value	287,143,369.37	1,863,529.22	4,518,935.11	1,038,976.00	294,564,809.70

\* "Others" are client sources purchased from American Midwest Co., Ltd. by the subsidiary of the Company (the American subsidiary).

The amount of depreciation and amortization for intangible assets recognized as profits or losses is RMB6,189,594.68 (amount of previous year: RMB6,248,857.84) in the current year.

(2) **All land use rights of the Group are located in the territory of China and in the medium-term (10–50 years) phase.**

(3) **The following land use right certificates of the Group are in progress:**

At the end of the year, the net value of the land use rights without land use right certificates in the intangible assets of the Group is RMB9,193,274.90 (beginning amount: RMB9,392,776.00) and relevant land use right certificates are in progress. As the above purchased assets are handled in accordance with relevant legal agreements, the directors of the Company think that transfer of the property title will not have any substantial legal obstacles and thus will not exert significant impact on normal operation of the Group and not be required to draw provisions for impairment of intangible assets, and will not incur significant additional costs.

Item	Book Value	Reasons for Unsettlement of the Certificate of Title
Eastern chemical industrial area of high-tech industrial development zone in Zibo High-tech Zone	9,193,274.90	In progress

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 14. Goodwill

#### (1) Original value of goodwill

Invested Entity	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) Co., Ltd.	2,715,585.22	–	–	2,715,585.22

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

Invested Entity	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) Co., Ltd.	2,715,585.22	–	–	2,715,585.22

For goodwill impairment test methods and drawing methods of provision for impairment, see “18. Impairment of Long-term Assets” under “IV. Important Accounting Policies and Accounting Estimates” in these Notes.

### 15. Deferred income tax assets and liabilities

#### (1) Deferred income tax assets without offset

Item	Balance at the end of the year		Balance at the beginning of the year	
	Deductible Temporary Difference	Deferred Income Tax Assets	Deductible Temporary Difference	Deferred Income Tax Assets
Provision for impairment of financial assets available for sale	30,000,000.00	4,500,000.00	30,000,000.00	4,500,000.00
Provision for bad debt	82,081,095.07	19,433,791.10	82,056,074.79	19,414,738.94
Provisions for inventory falling price	11,037,180.47	2,058,258.31	11,037,180.46	2,058,258.31
Provision for impairment of fixed assets	537,015.88	134,253.97	537,015.87	134,253.97
Salaries unpaid	25,934,394.77	4,451,776.88	25,934,394.72	4,451,776.87
Estimated liabilities and others	6,085,599.73	912,839.96	6,085,599.77	912,839.97
Deferred incomes	36,948,851.73	5,542,327.76	41,201,029.94	6,180,154.49
Unrealized internal profits from purchase and sales with subsidiaries	23,522,122.99	3,566,251.71	24,763,411.03	4,568,211.38
Provision for impairment of goodwill	2,715,585.22	678,896.31	2,715,585.22	678,896.31
Total	218,861,845.86	41,278,396.00	224,330,291.80	42,899,130.24

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (2) Deferred income tax liabilities without offset

Item	Balance at the end of the year		Balance at the beginning of the year	
	Taxable Temporary Difference	Deferred Income Tax Liability	Taxable Temporary Difference	Deferred Income Tax Liability
Assets evaluation increment from business merger not under common control	2,383,927.36	595,981.84	3,774,233.20	943,558.30
Profits and losses from changes in fair value of available for sale financial assets	160,248,778.00	24,037,316.70	176,006,330.00	26,400,949.50
Total	162,632,705.36	24,633,298.54	179,780,563.20	27,344,507.80

### (3) Deferred income tax assets and liabilities listed as net amount after offset

Item	Ending Offset Amount of Deferred Income Tax Assets and Liabilities	Balance at the end of the year of Deferred Income Tax Assets or Liabilities after Offset	Beginning Offset Amount of Deferred Income Tax Assets and Liabilities	Balance at the beginning of the year of Deferred Income Tax Assets or Liabilities after Offset
	Deferred Income Tax Assets	16,684,179.65	24,594,216.35	17,322,006.38
Deferred Income Tax Liability	16,684,179.65	7,949,118.89	17,322,006.38	10,022,501.42

Note: The net amount of deferred income tax assets and liabilities after offset of the parent company is listed under the item of deferred income tax liabilities.

## 16. Other non-current assets

Item	Balance at the end of the year	Balance at the beginning of the year
Land prepayment	15,400,000.00	15,400,000.00
Total	15,400,000.00	15,400,000.00

## 17. Short-term borrowing

Category	Balance at the end of the year	Balance at the beginning of the year
Credit loans	430,000,000.00	530,000,000.00
Total	430,000,000.00	530,000,000.00

Interest rate: on 30 June 2016, the interest rate range of short-term borrowing is 4.34%–4.85%.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 18. Notes payable

Category	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bill	12,338,712.00	215,648,469.78
Total	12,338,712.00	215,648,469.78

### 19. Accounts payable

#### (1) Classification of accounts payable by nature

Item	Balance at the end of the year	Balance at the beginning of the year
Payment	439,853,012.18	380,787,628.21
Total	439,853,012.18	380,787,628.21

#### (2) On 30 June 2016, the account age of payables is analyzed as follows:

Item	Balance at the end of the year	Balance at the beginning of the year
Within 1 year	427,225,806.74	365,380,255.03
1-2 years	6,120,981.59	9,914,896.72
2-3 years	2,117,155.97	1,527,982.52
Over 3 years	4,389,067.88	3,964,493.94
Total	439,853,012.18	380,787,628.21

#### (3) Accounts payable with significant amount and an age of over 1 year

Organization Name	Balance at the end of the year	Reasons for Not Repaying and Carrying Forward
Shandong Hongchen Medical Co., Ltd.	667,452.00	Outstanding goods payment
Zouping Huaxin Chemical Co., Ltd.	484,965.20	Outstanding goods payment
Zibo Puhua Materials Co., Ltd.	405,334.12	Outstanding goods payment
Zibo Paixin Trade Co., Ltd.	389,310.00	Outstanding goods payment
Fushun Shunte Chemical Co., Ltd.	385,161.00	Outstanding goods payment
Total	2,332,222.32	

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 20. Accounts received in advance

#### (1) Accounts collected in advance classified by nature

Item	Balance at the end of the year	Balance at the beginning of the year
Sales income received in advance	24,849,436.74	40,445,572.01
Total	24,849,436.74	40,445,572.01

#### (2) Accounts from customers with significant amount and an age of over 1 year

Organization Name	Balance at the end of the year	Reasons for Not Repaying and Carrying Forward
NEW HAVEN PHARMACEUTICALS, INC.	3,315,600.00	Outstanding sales payment
General Logistics and Health Department of PLA	530,014.78	State-reserved drugs
Total	3,845,614.78	

### 21. Payroll payable

#### (1) Classification of payroll payable

Item	Balance at the beginning of the year	Increase in Current Year	Decrease in Current Year	Balance at the end of the year
Short-term remuneration	30,882,312.65	233,526,887.85	236,652,193.38	27,757,007.12
Post-employment welfare – defined contribution plan	–	27,850,537.80	27,850,537.80	–
Dismissal welfare	–	104,320.00	104,320.00	–
Total	30,882,312.65	261,481,745.65	264,607,051.18	27,757,007.12

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (2) Short-term remuneration

Item	Balance at the beginning of the year	Increase in Current Year	Decrease in Current Year	Balance at the end of the year
Salary, bonus, allowance and subsidy	23,508,100.01	198,783,342.97	203,518,715.98	<b>18,772,727.00</b>
Employee welfare expenses	726,176.62	10,436,406.01	10,291,121.03	<b>871,461.60</b>
Social insurance premiums	–	11,358,442.23	11,358,442.23	–
Including: Medical insurance premiums	–	9,194,802.44	9,194,802.44	–
Work-related injury insurance premiums	–	1,210,822.65	1,210,822.65	–
Maternity insurance premium	–	952,817.14	952,817.14	–
Housing fund	–	7,711,390.38	7,714,221.18	<b>(2,830.80)</b>
Labor union expenditure & personnel education fund	6,648,036.02	2,785,726.26	1,318,112.96	<b>8,115,649.32</b>
Labor costs	–	2,451,580.00	2,451,580.00	–
Total	<u>30,882,312.65</u>	<u>233,526,887.85</u>	<u>236,652,193.38</u>	<u><b>27,757,007.12</b></u>

### (3) Defined contribution plan

Item	Balance at the beginning of the year	Increase in Current Year	Decrease in Current Year	Balance at the end of the year
Basic endowment insurance	–	26,262,097.43	26,262,097.43	–
Unemployment insurance	–	1,588,440.37	1,588,440.37	–
Total	–	<u>27,850,537.80</u>	<u>27,850,537.80</u>	–

## 22. Tax payable

Tax Category	Balance at the end of the year	Balance at the beginning of the year
Value-added tax	<b>9,188,808.46</b>	5,635,519.96
Business tax	<b>293,478.00</b>	184,014.52
Income tax payable	<b>2,787,153.79</b>	2,402,060.47
City maintenance and construction tax	<b>1,556,666.45</b>	932,286.43
Personal income tax	<b>316,909.76</b>	577,887.73
House property tax	<b>3,061,701.44</b>	1,403,621.06
Land use tax	<b>4,300,877.62</b>	4,263,780.64
Stamp tax	<b>99,966.26</b>	266,505.20
Educational surcharges	<b>1,112,000.53</b>	666,060.64
Local Water Conservancy Fund	<b>222,309.43</b>	133,052.07
Total	<u><b>22,939,871.74</b></u>	<u>16,464,788.72</u>

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 23. Interests payable

Item	Balance at the end of the year	Balance at the beginning of the year
Interest of bank loans and medium-term note	<b>20,386,618.73</b>	1,206,341.11
Total	<b>20,386,618.73</b>	1,206,341.11

### 24. Dividends payable

Item	Balance at the end of the year	Balance at the beginning of the year
Ordinary stock dividend	<b>14,456,856.13</b>	5,310,599.53
Total	<b>14,456,856.13</b>	5,310,599.53

### 25. Other payables

#### (1) Classification of other payables by nature

Item	Balance at the end of the year	Balance at the beginning of the year
Classifications of engineering equipment amount payable	<b>123,164,269.01</b>	97,829,756.26
Classifications of guarantee deposit and security deposit	<b>14,119,380.41</b>	17,451,869.62
Classifications of power expense, transport costs and consulting fees	<b>11,721,708.79</b>	10,351,504.51
Others	<b>20,865,520.79</b>	14,389,967.74
Total	<b>169,870,879.00</b>	140,023,098.13
Including: More than 1 year	<b>28,195,726.80</b>	31,032,698.96



## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (2) Payables with significant amount and age of over 1 year

Organization Name	Balance at the end of the year	Reasons for Not Repaying and Carrying Forward
Shanghai Dong Fulong Technology Co., Ltd.	3,282,000.00	Engineering quality guarantee deposit
Jiangsu Leke Thermal Technology Co., Ltd.	2,920,550.00	Engineering quality guarantee deposit
Zhejiang Zhongneng Light Industry and Machinery Co., Ltd.	1,133,845.40	Engineering quality guarantee deposit
SDU-ZB Biomedical R&D Institute	1,000,000.00	Collecting for government subsidies
Shandong Qitai Industry Group Co., Ltd.	987,064.51	Engineering quality guarantee deposit
Total	9,323,459.91	

### 26. 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	596,650,000.00	553,100,000.00
Finance lease payments due within one year	66,666,666.66	32,444,786.58
Total	663,316,666.66	585,544,786.58

### 27. Other current liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Deferred income carried forward within one year	4,732,000.00	4,602,000.00
Total	4,732,000.00	4,602,000.00

Note: The deferred income carried forward within one year is the assets-related government subsidies amortized within one year.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 28. Long-term loans

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

Category	Balance at the end of the year	Balance at the beginning of the year
Guaranteed loans	230,000,000.00	230,000,000.00
Credit loans	100,000,000.00	148,200,000.00
Total	330,000,000.00	378,200,000.00

Details about the guarantee: see "Note XI (II) 5".

Long-term loan interest rate range is 2.90%–4.38%.

#### (2) Analysis of long-term loan maturity date

Item	Balance at the end of the year	Balance at the beginning of the year
1–2 years	230,000,000.00	278,200,000.00
2–5 years	100,000,000.00	100,000,000.00
Total	330,000,000.00	378,200,000.00

### 29. Long-term payables

Nature	Balance at the end of the year	Balance at the beginning of the year
Financial leasing	101,782,355.95	52,011,490.15
Total	101,782,355.95	52,011,490.15

### 30. 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
Chemical pharmaceutical technology innovation	13,000,000.00	–	–	13,000,000.00
Organic gas recovery and comprehensive air pollution prevention and control project	2,420,000.00	–	–	2,420,000.00
Total	15,420,000.00	–	–	15,420,000.00

## Notes to the Financial Statements (Continued)

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

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### 31. Deferred incomes

#### (1) Classification 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
Government subsidy	97,909,029.94	7,170,000.00	4,436,344.55	<b>100,642,685.39</b>
Total	97,909,029.94	7,170,000.00	4,436,344.55	<b>100,642,685.39</b>

#### (2) Government subsidies

Project	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	Related to Assets/Related to Income
Compensation for relocation* <sup>1</sup>	9,433,446.62	-	1,591,178.23	-	<b>7,842,268.39</b>	Related to asset
3,000t Ibuprofen Project* <sup>2</sup>	1,622,500.00	-	-	295,000.02	<b>1,327,499.98</b>	Related to assets
Innovation ability construction project of Technology Center* <sup>3</sup>	2,833,333.32	-	-	250,000.02	<b>2,583,333.30</b>	Related to asset
Aspirin Series Product GMP Transformation Project* <sup>4</sup>	7,200,583.33	-	-	608,500.02	<b>6,592,083.31</b>	Related to asset
Special funds for MVR energy-saving technical transformation* <sup>5</sup>	280,000.00	-	-	19,999.98	<b>260,000.02</b>	Related to asset
Cultivation of aspirin famous and excellent medicines* <sup>6</sup>	10,212,500.00	-	-	787,500.00	<b>9,425,000.00</b>	Related to asset
Aspirin series product technical transformation project* <sup>7</sup>	666,666.67	-	-	49,999.98	<b>616,666.69</b>	Related to assets
Special funds for MVR energy-saving transformation* <sup>8</sup>	3,600,000.00	-	-	600,000.00	<b>3,000,000.00</b>	Related to assets
Incinerator and heat recovery project of East Park Area* <sup>9</sup>	750,000.00	-	-	49,999.98	<b>700,000.02</b>	Related to assets
Organic gas (dichloromethane) recovery and comprehensive air pollution prevention and control project* <sup>10</sup>	35,610,000.00	-	-	-	<b>35,610,000.00</b>	Related to assets
Modern Medicine International Cooperation Center Project* <sup>11</sup>	25,700,000.00	-	-	-	<b>25,700,000.00</b>	Related to assets
Analgin series product production process automation transformation project* <sup>12</sup>	-	750,000.00	31,250.00	75,000.00	<b>643,750.00</b>	Related to assets
Production equipment system energy saving transformation project* <sup>13</sup>	-	550,000.00	22,916.32	55,000.00	<b>472,083.68</b>	Related to assets
New 2,000T/d sewage treatment system project* <sup>14</sup>	-	4,670,000.00	-	-	<b>4,670,000.00</b>	Related to assets
Modern Medicine International Cooperation Center (II) Project* <sup>15</sup>	-	1,200,000.00	-	-	<b>1,200,000.00</b>	Related to assets
Total	97,909,029.94	7,170,000.00	1,645,344.55	2,791,000.00	<b>100,642,685.39</b>	-

## Notes to the Financial Statements (Continued)

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

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- \*1. According to the Relocation Plan of Eastern Chemical Park of Zibo City of Shandong Province released in September 2008, some products of the Company have been listed into the uniform relocation plan. Therefore, Financial Bureau of Zibo City has released the relocation compensation funds according to documents ZCQ [2009] No. 29, ZCQ [2009] No. 33 and ZCQ [2009] No. 55. The actual relocation loss of the Company current year is RMB1,591,178.23, and the non-operating revenue shall be carried forward in an equal amount.
- \*2. According to the LCJZ [2009] No. 157 of Shandong Provincial Department of Finance in 2009, the Company received RMB5.9 million of construction fund subsidy for the 3,000t Ibuprofen Project in 2009. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other non-current liabilities".
- \*3. According to the FGBGJ [2011] No. 1247 of National Development and Reform Commission, the Company received the government subsidies of RMB5 million for innovation ability construction project of Technology Center in 2012. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other non-current liabilities".
- \*4. According to the ZFGF [2012] No. 253 of Zibo Development and Reform Commission and Zibo Economic and Information Technology Commission, the Company received the government subsidies of RMB12.17 million for Aspirin Series Product GMP Transformation Project in 2012. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other non-current liabilities".
- \*5. According to the document numbered ZZBZ [2012] No. 73 of General Office of Zibo Municipal People's Government, the Company received the RMB400,000 from special funds for MVR energy-saving technical transformation in 2012. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other non-current liabilities".
- \*6. According to the document numbered ZCJZ [2013] No. 41 of Zibo Municipal Bureau of Finance, Zibo Municipal Science and Technology Bureau, document LKZ [2012] No. 187 of Office of Department of Science and Technology of Shandong Province and document ZKF [2012] No. 61 of Zibo Municipal Science and Technology Bureau, the Company received RMB14.25 million of government subsidies in 2013 and RMB1.5 million in 2015 for cultivation of aspirin famous and excellent medicines, or RMB15.75 million in total. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other non-current liabilities".
- \*7. According to the document ZGXGF [2013] No. 11 of Management Committee of Zibo National High-tech Industrial Development Zone, the Company received RMB1 million for aspirin series product technical transformation project as the subsidies in 2013. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other non-current liabilities".
- \*8. According to the document LFGTZ [2014] No. 553 of Shandong Development and Reform Commission and Shandong Economic and Information Technology Committee, the Company has received the RMB4.8 million for special funds for MVR energy-saving technical transformation development in 2014. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other non-current liabilities".

## Notes to the Financial Statements (Continued)

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

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- \*9. According to the document ZGXF [2014] No. 1 of Working Committee of Zibo National High-tech Industrial Development Zone, the Company received RMB1 million for 7,000t Metamizole Sodium Tablet Project, Incineration Furnace Waste Heat Recovery Project and Comprehensive Waste Heat Recovery Project of East Park Area in 2014. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other non-current liabilities".
- \*10. According to the Circular of Issuing the Budget Index for Provincial Air Pollution Prevention and Control Funds in 2014 (Batch 2) (LJCZ [2014] No. 153), the Company received RMB4.61 million for organic gas (dichloromethane) recovery and comprehensive air pollution prevention and control project in 2015. According to the approval of Zibo Municipal Government numbered ZCBF [2015] No. 67, the Company received RMB31 million for organic gas (dichloromethane) recovery and comprehensive air pollution prevention and control project in 2015. The total amount is RMB35.61 million, and the related assets are expected to be completed and put into operation in 2017.
- \*11. According to the document of Reply for Approving the Implementation Scheme for Industrial Upgrade and Efficiency Enhancement in 2015 (LJXZ [2015] No. 193), the Company received RMB3.7 million of government subsidies for Modern Medicine International Cooperation Center Project in 2015. According to the Circular of Releasing the Expenses for Building the Technological Innovation Service Platform of Biopharmaceutical Industry in Zibo (ZGXCF [2015] No. 121), the Company received RMB21 million for Modern Medicine International Cooperation Center in 2015. In order to implement the Several Policies and Suggestions on CPC Zibo Municipal Committee and Zibo Municipal Government for Promoting the Transformation and Upgrade to Build a Major Industrial City (ZF [2015] No. 8), the Company received RMB1 million for the Modern Medicine International Cooperation Center Project in 2015. The total amount is RMB25.7 million, and the related assets are expected to be completed and put into operation in 2017.
- \*12. According to document of Notice on Policy Support Project List in the Second Half Year of 2015 for *Industry Strength City 30 Articles* (ZJXF [2015] No. 48) issued by Zibo Development and Reform Commission and Zibo Economic and Financial Bureau of Zibo City, the Company received RMB0.75 million of government subsidies for analgin series product production process automation transformation project in the current year. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other non-current liabilities".
- \*13. According to document of Notice on Policy Support Project List in the Second Half Year of 2015 for *Industry Strength City 30 Articles* (ZJXF [2015] No. 48) issued by Zibo Development and Reform Commission and Zibo Economic and Financial Bureau of Zibo City, the Company received grants of RMB0.55 million in the current year for production equipment system energy saving transformation project. The Company carries forward the profit and loss on the basis of the 10-year period. It is necessary to reclassify the amount expected to be carried forward as income in 1 year and list it in the "other current liabilities". The balance of the subsidies which is not carried forward is still listed in "other non-current liabilities".
- \*14. According to the Circular of Issuing Industries Guiding Fund in 2016 for Development of Emerging (ZGXCF [2016] No. 65) issued by Zibo National High-tech Industrial Development Zone Finance Bureau and Bureau of Economic Development, the Company received RMB4.67 million of government subsidies for new 2,000T/d sewage treatment system project, and the related assets are expected to be completed in 2017.
- \*15. According to the Circular of Issuing Planning in 2016 for Province Industry Improving Quality and Effectiveness Special Project (ZJXZZ [2016] No. 5), the Company received RMB1.20 million of government subsidies for modern medicine center for international cooperation project (II), and the related assets are expected to be completed in 2018.

## Notes to the Financial Statements (Continued)

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

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### 32. Other non-current liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Specially approved reserving fund	3,561,500.00	3,561,500.00
Total	3,561,500.00	3,561,500.00

### 33 Capital stock

Changes in authorized, issued and paid-up capital stocks of the Company are listed below. All shares of the Company are ordinary shares with a book value of RMB1.

#### (1) Amount of current year

Item	Balance at the beginning of the year	New Shares Offered	Increase (+)/decrease (-) during the year			Subtotal	Balance at the end of the year
			Share Allotment	Capital Reserve Converted into Capital Stock	Others		
Total shares	457,312,830.00	-	-	-	-	-	457,312,830.00

#### (2) Amount of previous year

Item	Balance at the beginning of the year	New Shares Offered	Increase (+)/decrease (-) during the year			Subtotal	Balance at the end of the year
			Share Allotment	Capital Reserve Converted into Capital Stock	Others		
Total shares	457,312,830.00	-	-	-	-	-	457,312,830.00

### 34. Capital reserves

#### (1) Amount of current year

Item	Balance at the beginning of the year	Increase in Current Year	Decrease in Current Year	Balance at the end of the year
Capital stock premium	424,084,320.48	-	-	424,084,320.48
Other capital reserves	89,008,132.18	-	-	89,008,132.18
Total	513,092,452.66	-	-	513,092,452.66

## Notes to the Financial Statements (Continued)

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

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### (2) Amount of previous year

Item	Balance at the beginning of the year	Increase in Current Year	Decrease in Current Year	Balance at the end of the year
Capital stock premium	424,084,320.48	-	-	<b>424,084,320.48</b>
Other capital reserves	83,108,132.18	5,900,000.00	-	<b>89,008,132.18</b>
Total	507,192,452.66	5,900,000.00	-	<b>513,092,452.66</b>

### 36. Other comprehensive incomes

Item	Balance at the beginning of the year	Amount Incurred in Current Year					Balance at the end of the year
		Included in Other Comprehensive Incomes in Previous Period and Carried over into Profits and Losses in Current Period	Less: Income Tax Expense	After-tax Amount Attributable to the Parent Company	After-tax Amount Attributable to Minority Shareholders		
I. Other comprehensive incomes that cannot be reclassified into losses or profits in future							
II. Other comprehensive income to be reclassified to profit or loss in future							
Profits and losses from changes in fair value of available for sale financial assets	148,383,251.38	(15,674,659.69)	-	(2,363,632.80)	(13,263,822.99)	(47,203.90)	<b>135,119,428.39</b>
Translation difference of foreign currency financial statement	(1,222,129.12)	82,892.31	-	-	130,096.21	(47,203.90)	<b>(1,092,032.91)</b>
Total other comprehensive incomes	148,383,251.38	(15,674,659.69)	-	(2,363,632.80)	(13,263,822.99)	(47,203.90)	<b>135,119,428.39</b>

## Notes to the Financial Statements (Continued)

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

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### 36. Surplus reserves

#### (1) Amount of current year

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	148,669,303.94	—	—	148,669,303.94
Discretionary surplus reserves	64,795,873.74	—	—	64,795,873.74
Total	213,465,177.68	—	—	213,465,177.68

#### (2) Amount of previous year

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	144,517,606.31	—	—	144,517,606.31
Discretionary surplus reserves	64,795,873.74	—	—	64,795,873.74
Total	209,313,480.05	—	—	209,313,480.05

### 37. Undistributed profits

Item	Amount of current year	Amount of previous year	Appropriation or Distribution Proportion (%)
<b>Balance at the end of the year of previous year</b>	<b>552,002,849.22</b>	482,238,546.28	—
Add: Beginning adjustment for undistributed profit	—	—	—
Including: Change of consolidation scope under common control	—	—	—
<b>Balance at the beginning of the year of current year</b>	<b>552,002,849.22</b>	482,238,546.28	—
Add: Net profits attributable to the parent company's shareholders in the current year	<b>45,867,145.68</b>	83,062,257.17	—
Less: Appropriation of legal surplus reserves	—	4,151,697.63	10
Appropriation of discretionary surplus reserve	—	—	—
Appropriation of provision for general risk	—	—	—
Common stock dividends payable	<b>9,146,256.60</b>	9,146,256.60	—
<b>Balance at the end of the year of current year</b>	<b>588,723,738.30</b>	552,002,849.22	—



## Notes to the Financial Statements (Continued)

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

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On 29 June 2016, the Company has adopted the profit distribution plan of 2015 at the annual General Meeting of Shareholders of 2015. After appropriating the 10% of statutory surplus reserve, the cash dividend of RMB0.02 per share (including tax) shall be distributed to all Shareholders based on the total share capital of 457,312,830 shares.

On 24 June 2015, the Company has adopted the profit distribution plan of 2014 at the annual General Meeting of Shareholders of 2014. After appropriating the 10% of statutory surplus reserve, the cash dividend of RMB0.02 per share (including tax) shall be distributed to all Shareholders based on the total share capital of 457,312,830 shares.

### 38. Minority interest

Minority interests attributable to minority shareholders of the subsidiaries

Name of Subsidiary	Shareholding Proportion of Minority Shareholders (%)	Balance at the end of the year	Balance at the beginning of the year
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	35.00	<b>4,754,775.55</b>	4,321,859.19
Zibo Xinhua – Zhongxi Pharmaceutical Co., Ltd.	25.00	<b>3,349,997.02</b>	3,335,810.14
Zibo Xinhua – Perrigo Pharmaceutical Company Limited	49.90	<b>34,993,608.53</b>	32,775,856.92
Shandong Zibo Xincat Pharmaceutical Company Limited	40.00	<b>46,377,714.58</b>	59,392,231.21
Total		<b>89,476,095.68</b>	99,825,757.46

### 39. Net current assets

Item	Balance at the end of the year	Balance at the beginning of the year
Current Assets	<b>1,518,610,515.26</b>	1,651,479,267.05
Less: Current liabilities	<b>1,830,501,060.30</b>	1,950,915,596.72
Net current assets	<b>(311,890,545.04)</b>	(299,436,329.67)

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 40. Total assets less current liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Total assets	4,387,046,443.24	4,492,122,436.63
Less: Current liabilities	1,830,501,060.30	1,950,915,596.72
Total assets less current liabilities	<u>2,556,545,382.94</u>	<u>2,541,206,839.91</u>

### 41. Debit/Credit

Summary of debits/credits of the Group:

Item	Balance at the end of the year	Balance at the beginning of the year
Bank short-term loan	430,000,000.00	530,000,000.00
Long-term loans	330,000,000.00	378,200,000.00
Non-current liabilities due within one year	663,316,666.66	585,544,786.58
Long-term payables	101,782,355.95	52,011,490.15
Total	<u>1,525,099,022.61</u>	<u>1,545,756,276.73</u>

#### (1) Debit/credit analysis

Item	Balance at the end of the year	Balance at the beginning of the year
Bank loan		
– To be repaid within one year	1,026,650,000.00	1,083,100,000.00
– To be repaid after one year	330,000,000.00	378,200,000.00
Subtotal	1,356,650,000.00	1,461,300,000.00
Other loans (finance leasing payment)		
– To be repaid within one year	66,666,666.66	32,444,786.58
– To be repaid after one year	101,782,355.95	52,011,490.15
Subtotal	168,449,022.61	84,456,276.73
Total	<u>1,525,099,022.61</u>	<u>1,545,756,276.73</u>

## Notes to the Financial Statements (Continued)

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

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### (2) Debit/credit due date analysis

Bank loan:

Item	Balance at the end of the year	Balance at the beginning of the year
Repaid as required or within one year	<b>1,026,650,000.00</b>	1,083,100,000.00
1-2 years	<b>230,000,000.00</b>	278,200,000.00
2-5 years	<b>100,000,000.00</b>	100,000,000.00
Total	<b><u>1,356,650,000.00</u></b>	<u>1,461,300,000.00</u>

Other loans:

Item	Balance at the end of the year	Balance at the beginning of the year
Repaid as required or within one year	<b>66,666,666.66</b>	32,444,786.58
1-2 years	<b>66,666,666.66</b>	34,212,474.81
2-5 years	<b>35,115,689.29</b>	17,799,015.34
Total	<b><u>168,449,022.61</u></b>	<u>84,456,276.73</u>

## 42. Operating revenues and costs

### (1) Operating revenues and costs

Item	Amount Incurred in Current Year		Amount Incurred in Previous Year	
	Revenue	Cost	Revenue	Cost
Main operation	<b>1,981,388,201.25</b>	<b>1,515,564,517.80</b>	1,922,090,088.62	1,501,637,851.56
Other operation	<b>17,112,211.66</b>	<b>25,135,887.36</b>	26,317,962.96	28,227,463.60
Total	<b><u>1,998,500,412.91</u></b>	<b><u>1,540,700,405.16</u></b>	<u>1,948,408,051.58</u>	<u>1,529,865,315.16</u>

## Notes to the Financial Statements (Continued)

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

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

Total operating revenue from the top 5 customers of the Group is RMB266,329,145.98 (previous year: RMB247,092,747.08), which represents 13.33% of the total operating revenue in the year (previous year: 12.86%), as listed below:

Name of Customer	Amount of Current Year (Tax exclusive)	Proportion to the Total Operating Income (%)
Huarun Weifang Far East Pharmaceutical Co., Ltd.	64,315,657.42	3.22
Perrigo Company	63,565,855.12	3.18
Mitsubishi Corporation	63,515,996.68	3.18
Zibo Zhongsheng Medical Co., Ltd.	43,520,679.74	2.18
F.Hoffmann-La Roche AG	31,410,957.02	1.57
Total	266,329,145.98	13.33

### 43. Business taxes and surcharges

Item	Contribution proportion	Amount of Current Year	Amount of Previous Year
Business tax	5%	207,109.62	193,662.97
City maintenance and construction tax	7%	8,165,599.45	8,968,251.71
Educational surcharges	5%	5,832,406.29	6,405,859.98
Local Water Conservancy Fund	1%	1,166,481.27	1,281,097.75
Total		15,371,596.63	16,848,872.41

### 44. Selling expenses

Item	Amount of Current Year	Amount of Previous Year
Wages	46,716,597.92	47,190,322.31
Terminal sales expenses	56,923,433.99	44,633,993.64
Consultation expenses	19,554,244.18	23,390,877.62
Transport charges	23,909,339.32	21,569,726.08
Advertising expenses	8,885,339.32	13,167,499.01
Travel expense	8,534,799.46	8,534,785.02
Selling expense and promotion expense	16,397,924.69	12,754,566.44
Office expenses	885,598.00	1,072,851.75
Conference expenses	1,038,976.95	4,809,032.41
Others	7,166,766.02	7,489,646.07
Total	190,013,019.85	184,613,300.35

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

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### 45. Administrative expenses

Item	Amount of Current Year	Amount of Previous Year
R&D cost	41,313,292.52	43,579,073.83
Wages and Welfare Expense	27,569,737.87	27,237,216.36
Taxes	15,194,292.98	13,585,422.79
Depreciation cost	9,964,051.67	8,337,338.10
Other welfare expense	6,083,972.67	5,914,530.93
Warehouse expenses	4,556,641.97	2,880,987.44
Amortization of intangible assets	5,967,294.27	5,812,204.88
Business entertainment expenses	2,364,975.43	2,389,899.69
Office expenses	1,866,671.27	1,810,618.75
Royalty fee of trademark	5,036,399.98	5,059,600.00
Annual fee of listing, audit fee, expenses of board of directors	1,185,836.84	873,707.10
Others	33,024,975.85	28,957,532.46
Total	<b>154,128,143.32</b>	146,438,132.33

### 46. Financial expenses

#### (1) Detail list

Item	Amount of Current Year	Amount of Previous Year
Interest expenditure	30,703,523.07	40,817,051.06
Less: Interest income	2,717,141.42	890,365.72
Add: Exchange loss	(5,327,398.99)	(5,622,873.96)
Add: Commission charges	2,957,727.41	2,732,781.36
Add: Finance lease expenses	1,836,752.63	-
Total	<b>27,453,462.70</b>	37,036,592.74

#### (2) Details of interest expenditure

Item	Amount of Current Year	Amount of Previous Year
Bank loans, overdraft interests	30,703,523.07	40,817,051.06
Finance lease expenses	1,836,752.63	-
Total	<b>32,540,275.70</b>	40,817,051.06

## Notes to the Financial Statements (Continued)

(Unless otherwise indicated, all figures are stated in RMB)  
Financial Report Prepared in accordance with CASBE (Unaudited)

### (3) Details of interest income

Item	Amount of Current Year	Amount of Previous Year
Interest income from bank deposits	2,717,141.42	890,365.72
Total	2,717,141.42	890,365.72

### 47. Assets impairment loss

Item	Amount of Current Year	Amount of Previous Year
Bad debt losses	(64,857.28)	(3,944,227.27)
Inventory impairment loss	2,262,106.86	—
Total	2,197,249.58	(3,944,227.27)

### 48. Investment income

Resources	Amount of Current Year	Amount of Previous Year
Investment income from holding financial assets available for sale	—	2,393,809.00
Others	12,981.57	312,514.45
Total	12,981.57	2,706,323.45

### 49. Non-operating income

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

Item	Amount of Current Year	Amount of Previous Year	Amount Recognized in Non-recurring Profit and Loss of Current Year
Gains from disposal of non-current assets	1,229,732.89	6,298,902.03	1,229,732.89
Including: Gains from disposal of fixed assets	1,229,732.89	938,819.28	1,229,732.89
Gains from disposal of intangible assets	—	5,360,082.75	—
Government subsidy	4,806,344.55	6,882,271.73	4,806,344.55
Others	427,929.28	3,176,417.14	427,929.28
Total	6,464,006.72	16,357,590.90	6,464,006.72

RMB6,464,006.72 is included in non-recurring profit and loss in current year (previous year: RMB16,357,590.90).

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (2) Details of government subsidies

Category of subsidies	Amount of Current Year	Amount of Previous Year	Source and Basis	Related to assets/Related to income
Government subsidies received				
Government subsidy for introduction of foreign smart project	-	40,000.00	ZRSZ [2014] No. 240	Related to income
Subsidy for introduction of high-end foreign expert	-	500,000.00	WZF [2014] No. 48	Related to income
Subsidy for "gold-blue collar" cultivation	-	274,000.00	ZRSZ [2014] No. 186	Related to income
Harness mud filling of Xiaoqinghe River Basin appraisal and reward funds	-	20,000.00	ZCQZ [2015] No. 5	Related to income
Subsidy for biological medicine and Bioengineering industry innovation of Zibo City	100,000.00	-	ZCQZ [2015] No. 208	Related to income
Subsidy for "gold-blue collar" cultivation and technician workstation of Zibo City	400,000.00	-	LRSZ [12015] No. 227 and No. 119 ZRSZ [2013] No. 82	Related to income
Others	-	26,400.00		Related to income
Subtotal	500,000.00	860,400.00		
Transferring-in of deferred revenue amortization	2,715,166.32	996,833.33		Related to assets
Transferring-in of deferred revenue amortization	1,591,178.23	5,025,038.40		Related to assets
Others	1,591,178.23	5,025,038.40		
Subtotal	4,306,344.55	6,021,871.73		
Total	4,806,344.55	6,882,271.73		

### 50. Non-operating expenditure

Item	Amount of Current Year	Amount of Previous Year	Amount Recognized in Non-recurring Profit and Loss of Current Year
Losses from disposal of non-current assets	424,844.28	2,625,581.66	424,844.28
Including: Losses from disposal of fixed assets	424,844.28	2,625,581.66	424,844.28
Economic compensation	2,806,014.65	3,276,385.03	2,806,014.65
Relocation losses	1,394,118.05	5,025,038.40	1,394,118.05
Others	2,602,281.12	1,207,858.56	2,602,281.12
Total	7,227,258.10	12,134,863.65	7,227,258.10

The amount included in non-recurring profit and loss in current year is RMB7,227,258.10 (previous year: RMB12,134,863.65).

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 51. Income tax expenses

#### (1) Income tax expenses

Item	Amount of Current Year	Amount of Previous Year
Current income tax expense	<b>12,763,098.20</b>	13,396,519.38
Including: China	<b>12,763,098.20</b>	13,396,519.38
Overstatements (understatements) from previous years	<b>1,262,290.69</b>	1,186,478.80
Deferred income tax expense	<b>1,273,157.78</b>	(1,199,946.12)
Total	<b>15,298,546.67</b>	13,383,052.06

#### (2) Adjustment process between accounting profit and income tax expense

Item	Amount of Current Year
Annual total profit from amalgamation	<b>67,886,265.86</b>
Income tax expense calculated in accordance with legal/applicable tax rate	<b>10,182,939.91</b>
Effect of different tax rate applicable to subsidiaries	<b>3,499,327.84</b>
Effect of income tax before adjustment	<b>1,262,290.69</b>
Effect of non-assessable income	—
Effect of cost, expense and loss non-deductible	—
Effect of deductible loss of the unrecognized deferred income tax assets before usage	<b>(42,864.09)</b>
Deductible temporary difference or effect of deductible loss of unrecognized deferred income assets in the current year	<b>396,852.32</b>
Income tax expenses	<b>15,298,546.67</b>

### 52. Depreciation and amortization

The depreciation recognized in the income statement in current year is RMB119,880,988.43, and amortization is RMB6,354,291.51 (the depreciation of the previous year is RMB110,620,295.86 and amortization is RMB6,394,574.32).

### 53. Rental income

The rent from land and buildings of current year (deducting the rent, rates and other expenses) is RMB3,002,280.00 (RMB2,977,280.00 of the previous year).



## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 54. Earnings per share (EPS)

#### (1) Basic EPS

Basic EPS is counted by the consolidated net profits of shareholders of ordinary shares attributable to the parent company divided by the weighted average of ordinary shares outstanding of the parent company.

Item	Current year	Previous Year
Consolidated net profit attributable to shareholders of ordinary shares of the parent company	<b>45,867,145.68</b>	25,859,577.55
Consolidated net profit attributable to shareholders of ordinary shares of the parent company (deducting non-recurring profit and loss)	<b>44,711,687.66</b>	15,451,869.97
Weighted average of ordinary shares outstanding of the parent company	<b>457,312,830.00</b>	457,312,830.00
Basic earnings per share (RMB/share)	<b>0.10</b>	0.06
Basic earnings per share (RMB/share) (deducting non-recurring profit and loss)	<b>0.10</b>	0.03

Calculation of weighted average of ordinary shares:

Item	Current year	Previous Year
Balance at the beginning of the year of issued outstanding ordinary shares	<b>457,312,830</b>	457,312,830
Balance at the end of the year of issued outstanding ordinary shares	<b>457,312,830</b>	457,312,830

#### (2) Diluted EPS

The diluted earnings per share shall be calculated based on the consolidated net profits of shareholders of ordinary shares attributable to the parent company after the adjustment of the diluted potential ordinary shares divided by the weighted average of the ordinary shares outstanding of the Company.

The adjustment factors of the consolidated net profit attributable to the parent company have been recognized as the diluted potential ordinary share dividend of the expense, the income or expenses resulting from the conversion of diluted potential ordinary shares as well as relevant income tax influence.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

The adjustment factors for the weighted average of the ordinary shares outstanding of the Company are assumed as the weighted average of the ordinary shares increased due to the conversion of the diluted potential ordinary shares into ordinary shares.

Item	Current year	Previous Year
Consolidated net profit attributable to shareholders of ordinary shares of the parent company after adjustment	<b>45,867,145.68</b>	25,859,577.55
Consolidated net profit attributable to shareholders of ordinary shares of the parent company after adjustment (deducting non-recurring profit and loss)	<b>44,711,687.66</b>	15,451,869.97
Weighted average of ordinary shares outstanding of the Company after adjustment	<b>457,312,830.00</b>	457,312,830.00
Diluted earnings per share (RMB/share)	<b>0.10</b>	0.06
Diluted earnings per share (RMB/share) (deducting non-recurring profit and loss)	<b>0.10</b>	0.03

### 55. Other comprehensive incomes

Item	Amount of Current Year	Amount of Previous Year
1. Amount of gains (losses) arising from financial assets available for sale	<b>(15,757,552.00)</b>	1,235,648.00
Less: Impact of income tax arising from financial assets available for sale	<b>(2,363,632.80)</b>	185,347.20
Subtotal	<b>(13,393,919.20)</b>	1,050,300.80
2. Conversion difference of foreign currency statement	<b>82,892.31</b>	(138,542.29)
Subtotal	<b>82,892.31</b>	(138,542.29)
Total	<b>(13,311,026.89)</b>	911,758.51

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## 56. Cash Flow Statement

### (1) Other cash received/paid related to operating/financing activities

#### 1) List of other cash received related to operating activities

Item	Amount of Current Year	Amount of Previous Year
Interest revenue	821,308.08	867,613.19
Subsidy income	7,670,000.00	5,470,400.00
Deposit for bank acceptance bill	9,845,398.00	11,232,001.07
Others	1,995,442.50	2,020,988.39
Total	<b>20,332,148.58</b>	19,591,002.65

#### 2) List of other cash paid for related operating activities

Item	Amount of Current Year	Amount of Previous Year
Office expenses	3,629,873.51	3,855,308.38
Travel expense	10,018,613.14	6,863,383.20
Annual fee of listing, audit fee, expenses of board of directors	2,180,709.49	1,689,654.17
Sewage charges	60,097.00	187,694.00
Advertising and market development fees	112,536,538.63	95,252,082.80
Transportation expense	11,393,110.19	15,741,103.52
Business entertainment expenses	2,426,112.15	2,498,036.23
Technology development expenses	7,000,636.32	8,444,279.16
Royalty fee of trademark	7,500,000.00	2,500,000.00
Cash deposit	6,900,000.00	17,871,988.84
Others	21,310,455.90	21,393,451.97
Total	<b>184,956,146.33</b>	176,296,982.27

#### 3) Other cash received related to financing activities

Item	Amount of Current Year	Amount of Previous Year
Financial lease payment received	90,000,000.00	—
Total	<b>90,000,000.00</b>	—

#### 4) Other cash paid related to financing activities

Item	Amount of Current Year	Amount of Previous Year
Payment of financial leasing service fees	18,156,254.70	2,564,102.56
Total	<b>18,156,254.70</b>	2,564,102.56

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

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

Item	Amount of Current Year	Amount of Previous Year
<b>1. Reconciliation of net profit to cash flows from operation activities:</b>		
Net Profit	52,587,719.19	31,096,064.50
Add: Provision for impairment of assets	2,197,249.58	(3,944,227.27)
Depreciation of fixed assets	119,880,988.43	110,766,012.34
Amortization of intangible assets	6,354,291.51	6,248,857.84
Loss from disposal of fixed assets, intangible assets and other long-term assets (gains to be listed with "-")	(804,888.61)	1,351,718.03
Losses on retirement of fixed assets (gains to be listed with "-")	-	-
Profit or loss from changes in fair value (gains are indicated by "-")	-	-
Financial expenses (gains to be listed with "-")	27,777,928.93	35,194,177.10
Investment loss (gain to be listed with "-")	(12,981.57)	(2,706,323.45)
Decrease of deferred income tax assets (increases to be listed with "-")	982,907.51	(1,590,167.76)
Increases of deferred income tax liabilities (decreases to be listed with "-")	(2,073,382.53)	575,568.84
Decrease of inventory (increases to be listed with "-")	101,278,775.50	85,549,459.52
Decreases of operational receivables (increases to be listed with "-")	(97,695,000.49)	(196,504,806.32)
Increases of operating payables (decreases to be listed with "-")	(126,642,950.72)	7,235,590.00
Net cash flows from operating activities	<b>83,830,656.73</b>	73,271,923.37
<b>2. Significant investing and financing activities not related to cash receipt and payment:</b>		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets acquired under finance leases	168,449,022.61	-
<b>3. Net change in cash and cash equivalents:</b>		
Balance at the end of the year of cash	296,302,882.31	477,491,963.56
Less: Balance at the beginning of the year of cash	366,638,884.09	281,435,164.77
Add: Balance at the end of the year of cash equivalents	-	-
Less: Balance at the beginning of the year of cash equivalents	-	-
Net increase in cash and cash equivalents	<b>(70,336,001.78)</b>	196,056,798.79

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (3) Cash and cash equivalents showed in the cash flow statement include the following items:

Item	Balance at the end of the year	Balance at the beginning of the year
Cash	<b>296,302,882.31</b>	366,638,884.09
Including: Cash on hand	<b>160,405.56</b>	146,951.21
Bank deposit available for payments at any time	<b>296,142,476.75</b>	328,491,932.88
Other monetary capital available for payments at any time	–	38,000,000.00
Cash equivalents	–	–
Balance at the end of the year of cash and cash equivalents	<b>296,302,882.31</b>	366,638,884.09
Including: Restricted cash and cash equivalents used by parent company and subsidiaries of the company	–	–

- (4) The bank acceptance endorsement transfer without cash receipt and payment in current year for the payment of the goods is RMB629,505,462.55, and that for the payment of engineering cost current year is RMB93,331,814.86.

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

Item	Ending Book Value	Reason
Monetary funds	<b>106,900,000.00</b>	Marginal deposit etc.

### 58. Monetary items for foreign currency

#### (1) Monetary items for foreign currency

Item	Ending Foreign Currency Balance	Translation Exchange Rate	Ending Equivalent Balance in RMB
<b>Monetary funds</b>			
Including: USD	11,405,675.66	6.6312	75,633,316.44
EUR	1,202.46	7.375	8,868.14
HKD	18,684.73	0.85467	15,969.28
GBP	239,744.25	8.9212	2,138,806.40
JPY	6,217.00	0.064491	400.94
<b>Account receivables</b>			
Including: USD	35,276,383.80	6.6312	233,924,756.25
GBP	600,246.36	8.9212	5,354,917.83
<b>Prepayments</b>			
Including: USD	82,533.20	6.6312	547,294.16
<b>Other accounts receivable</b>			
Including: USD	70,701.00	6.6312	468,832.47
<b>Accounts payable</b>			
Including: USD	7,384,846.00	6.6312	48,970,390.80
<b>Accounts received in advance</b>			
Including: USD	1,112,776.43	6.6312	7,379,043.06
EUR	11,018.70	7.375	81,262.91
<b>Other payables</b>			
Including: USD	108,715.03	6.6312	720,911.11

# Notes to the Financial Statements (Continued)

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

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## (2) Oversea business entity

Subsidiaries	Main Premise	Bookkeeping Base Currency	Basis for Currency Choice
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Rotterdam, Holland	USD	Statutory currency of the business place
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	Los Angeles, USA	USD	Statutory currency of the business place

## VII. CHANGES IN CONSOLIDATION SCOPE

The scope of the consolidated statements of current year has not been changed.

## VIII. INTERESTS IN OTHER ENTITIES

### Interests in subsidiaries

#### (1) Composition of the Group

Name of Subsidiary	Main Premise	Registration Place	Nature of Business	Proportion of Shareholding (%)		Acquisition Method
				Direct	Indirect	
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry marketing	100		Establishment
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry marketing	100		Establishment
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry design	100		Establishment
Zibo Xinhua Drug Store Chain Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Medicine chemistry marketing	100		Establishment
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	Rotterdam, Holland	Rotterdam, Holland	Medicine chemistry marketing	65		Establishment
Zibo Xinhua-Zhongxi Pharmaceutical Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical chemistry manufacturing	75		Establishment
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Zibo City, Shandong Province	Zibo City, Shandong Province	Pharmaceutical chemistry manufacturing	50.1		Establishment
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Pharmaceutical chemistry manufacturing	100		Establishment
Xinhua (Zibo) Real Estate Co., Ltd.	Zibo City, Shandong Province	Zibo City, Shandong Province	Real Estate Development	100		Establishment
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	Gaomi City, Shandong Province	Gaomi City, Shandong Province	Pharmaceutical chemistry manufacturing	100		Acquisition
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	Los Angeles, USA	Los Angeles, USA	Medicine chemistry marketing	100		Establishment
Shandong Xinhua Mechanical & Electrical 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	Pharmaceutical chemistry manufacturing	60		M&A

## Notes to the Financial Statements (Continued)

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

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

Name of Subsidiary	Shareholding Proportion of Minority Shareholders	Profits and Losses Attributable to Minority Shareholders in Current Year	Dividends to be Assigned to Minority Shareholders in Current Year	Balance at the end of the year of Minority Interest
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	35%	480,120.27	–	4,754,775.55
Zibo Xinhua-Zhongxi Pharmaceutical Co., Ltd.	25%	14,186.88	–	3,349,997.02
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	49.90%	2,217,751.61	–	34,993,608.53
Shandong Zibo Xincat Pharmaceutical Company Limited	40%	4,008,514.75	17,023,031.39	46,377,714.58
<b>Total</b>		<b>6,720,573.51</b>	<b>17,023,031.39</b>	<b>89,476,095.68</b>

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

Unit: RMB10,000

Name of Subsidiary	Balance at the end of the year						Balance at the 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.	5,363.49	1.93	5,365.42	3,972.94	–	3,972.94	4,226.82	2.38	4,229.20	2,960.41	–	2,960.41
Zibo Xinhua-Zhongxi Pharmaceutical Co., Ltd.	1,068.73	324.56	1,393.29	53.29	–	53.29	995.61	348.60	1,344.21	9.89	–	9.89
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	3,412.98	4,650.39	8,063.37	1,049.02	–	1,049.02	2,804.52	4,371.70	7,176.22	606.30	–	606.30
Shandong Zibo Xincat Pharmaceutical Company Limited	8,427.96	5,792.55	14,220.51	2,881.59	–	2,881.59	13,691.80	6,037.35	19,729.15	5,903.12	–	5,903.12

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.	4,365.62	137.18	123.69	(282.68)	3,977.85	135.94	122.68	7,193.82
Zibo Xinhua-Zhongxi Pharmaceutical Co., Ltd.	272.35	5.67	5.67	(47.31)	265.46	25.36	25.36	(211.07)
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	6,148.12	444.44	444.44	765.92	5,929.01	309.61	309.61	535.99
Shandong Zibo Xincat Pharmaceutical Company Limited	12,191.27	1,002.13	1,002.13	3,363.71	12,314.83	788.08	788.08	338.76

# Notes to the Financial Statements (Continued)

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

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## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

Major financial instruments of the Group include loan, receivables, payables, financial assets available for sale, tradable financial liabilities, etc. See footnote VI for more details about each financial instrument. The risks concerning these financial instruments, as well as the risk management measures applied to mitigate these risks are stated as follows. The management of the Group manages and monitors the risk exposure, to ensure that the risks mentioned above are controlled to the extent limited.

### 1. Objectives and policies of risk management

The objective of the risk management activities of the Group is to achieve a proper balance between risk and benefit, so as to minimize the negative effect of risks on the operational performance of the Group and to maximize interest of Shareholders and other equity investors. Based on this objective of risk management, the basic strategy of risk management of the Group is to identify and analyze the risks of all kinds the Group faces, so as to set a proper bottom line of risk tolerance for risk management, and to supervise the risks of all kinds in a timely and reliable way, so as to control the risks to the limited range.

#### (1) Market risk

##### 1) Exchange rate risk

The Group's foreign exchange risk is mainly related to USD, GBP and Euro. Except for the subsidiaries of the Group which uses USD for purchasing and sales transactions, other main business operations are settled in RMB. As of 30 June 2016, except for assets and liabilities with balances in USD and GBP described as below, all other assets and liabilities of the Group are reported in RMB. The risk associated with the assets and liabilities of such balances in USD may have influence on the Group's business performance.

Item	30 June 2016	31 December 2015
<b>Assets</b>		
–GBP	<b>7,493,724.23</b>	4,367,707.46
–USD	<b>310,574,199.32</b>	220,626,629.99
–EUR	<b>8,868.14</b>	8,878.59
–HKD	<b>15,969.28</b>	15,475.70
–JPY	<b>400.94</b>	3,567.44
<b>Liabilities</b>		
–USD	<b>57,070,344.97</b>	52,506,035.04
–EUR	<b>81,262.91</b>	78,179.88

The Group currently has no foreign currency hedging policy, but the management monitors the foreign currency exchange risk and will consider hedging significant foreign currency risks when necessary.

##### 2) Interest rate risk

The Group's interest rate risk arises from bank loans and liabilities with interest of Shareholders' loans. Due to financial liabilities with floating interest rate, the Group faces cash flow interest rate risk; due to financial liabilities with fixed interest rate, the Group faces fair value interest rate risk. As of 30 June 2016, the debts bearing interest of the Group mainly come from the RMB/US dollar denominated floating interest rate loan contract with the total amount of RMB595.85 million and RMB/US dollar denominated fixed rate contract with the amount of RMB929.25 million.





## Notes to the Financial Statements (Continued)

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

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Risk that change in interest rate causes change in fair value of financial instrument is mainly related to fixed-rate bank loan. The Group's policy lies in keeping the floating interest rate of the fixed-rate loan.

Risk that change in interest rate causes change in cash flow of financial instrument is mainly related to floating-rate bank loan. The Group's policy lies in keeping the floating interest rate of such loans to eliminate risk of fair value resulting from change in interest rate.

### 3) Price risk

The selling prices of the Group are based on the market prices of chemical raw medicine, preparations and chemical product. The Group, therefore, is influenced by the variation of market prices.

## (2) Credit risk

On 30 June of 2016, maximum credit risk exposure which may cause financial loss to the Group is mainly because the counterparties fail to perform their obligations so as to lead to losses of financial assets to the Group, including:

The book values of the financial assets that have been recognized in the consolidated balance sheet; for any financial instrument measured at the fair value, the book value indicates its risk exposure, but not the most significant one, which will change along with the fluctuation in the fair value in the future.

In order to minimize the credit risk, the management of the Group has appointed a group of people responsible for the determination of credit limits, credit approval and other monitoring procedures, to ensure that follow-up action is taken to recover overdue debts. In addition, the Group will review the recoverable amount of individual trade debts at the end of the reporting period, to ensure that adequate impairment losses are made for the unrecoverable amount. In view of this, the Group's management believes that the Group's credit risk has been significantly reduced.

The liquid reserves of this Group are deposited in banks with relatively higher credit rating, thus the credit risk of liquid reserves is relatively low.

The Group takes necessary policies to ensure that all the trade debtors have good credit records. Apart from the top five entities with largest amount in "receivables", the Group has no other significant credit concentration risk.

Total amount of the top five entities with largest amount in "account receivables" is RMB106,892,457.57.

## (3) Liquidity risk

Liquidity risk is a risk that the Group cannot perform its financial obligations till the due date. For management of the Group's liquidity risk, enough financial liquidity shall be guaranteed to perform the matured debts and thus to avoid unacceptable losses or damages to the Group's credit. The Group will analyze the debts structure and duration regularly so as to make sure sufficient capital. The management of the Group monitors the utilization condition of bank loans, and ensures adherence to loan agreements. Meanwhile, financing consultation will be performed with the financial authorities to keep a certain credit line and reduce the liquidity risk.

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

As of 30 June 2016, analysis of financial assets and financial liabilities held by the Group based on the expiration date of undiscounted residual contract obligations:

Item	Within 1 year	1 to 5 years	More than 5 years	Total
<b>Financial assets</b>				
Monetary funds	403,202,882.31	–	–	403,202,882.31
Bill receivables	163,773,295.30	–	–	163,773,295.30
Account receivables	490,381,807.79	–	–	490,381,807.79
Prepayments	21,095,015.70	–	–	21,095,015.70
Other accounts receivables	68,019,847.98	–	–	68,019,847.98
<b>Financial liabilities</b>				
Short-term loans	430,000,000.00	–	–	430,000,000.00
Notes payable	12,338,712.00	–	–	12,338,712.00
Accounts payable	439,853,012.18	–	–	439,853,012.18
Accounts received in advance	24,849,436.74	–	–	24,849,436.74
Other accounts payable	169,870,879.00	–	–	169,870,879.00
Dividends payable	14,456,856.13	–	–	14,456,856.13
Interests payable	20,386,618.73	–	–	20,386,618.73
Payroll payable	27,757,007.12	–	–	27,757,007.12
Non-current liabilities due within one year	663,316,666.66	–	–	663,316,666.66
Long-term loans	80,000,000.00	250,000,000.00	–	330,000,000.00
Long-term payables	66,666,666.66	35,115,689.29	–	101,782,355.95

## 2. Fair value

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

The financial assets and liabilities not measured by fair value include account receivables, short-term borrowing, accounts payable and long-term loans.

The difference between the book value and fair value of the financial assets and liabilities which are not measured by fair value is very small.

### (2) Financial instruments measured by fair value

The financial assets measured by the fair value are financial assets available for sale.

The estimation of fair value is made within a specific period of time according to the relevant market information and information about relevant financial instruments. Because these estimates are subjective and the uncertain factors and matters need to be determined, accurate determination cannot be made. If the assumptions used are changed, these estimates may be affected.

Fair value of financial assets and financial liabilities is determined according to the following methods:

Fair values of financial assets and financial liabilities with standard terms and conditions and in active market shall be recognized in reference to current offer or price in active market;

Fair values of other financial assets and financial liabilities (excluding derivatives) shall be determined in accordance with the general pricing model based on discounted future cash flow technique or recognized by using observable current market bargain price;

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

The fair value of derivative instruments is determined by the open quotation of active market. If there is no open quotation, the fair value of the derivative instruments without the right of option shall be determined based on the applicable income curve by the discount method of future cash flow.

## 3. Sensitivity analysis

The Group adopts sensitivity analysis method to analyze the potential impact of possible appropriate change in risk variables on current profits and losses or the owners' equity. As any risk variable seldom changes alone and correlation between variables greatly accounts for the final amount influenced by change of a certain risk variable, the following content is conducted under the assumption that change of each variable is independent.

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

Assumption for sensitivity analysis of foreign exchange risk: all investment hedging and cash flow hedging in overseas operations are highly effective.

Based on the assumption above, if other variables stay the same, pre-tax impact of potential appropriate change of exchange rate on the current profits and losses and equity is shown as follows:

Item	Change in Exchange Rate	Amount of Current Year		Amount of Previous Year	
		Impact on Net Profits	Impact on the Owner's Equity	Impact on Net Profits	Impact on the Owner's Equity
All foreign currencies	5% appreciated against RMB	11,065,341.81	11,065,341.81	9,006,326.23	9,006,326.23
All foreign currencies	5% depreciated against RMB	(11,065,341.81)	(11,065,341.81)	(9,006,326.23)	(9,006,326.23)

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

Sensitivity analysis of interest rate risk is based on the following assumption:

Change in market interest rate influences interest revenue or expense of variable-rate financial instrument;

As for fixed-rate financial instrument measured in fair value, market interest rate only influences its interest revenue or expense;

Change in fair value of derivative financial instrument and other financial assets and liabilities is calculated by using discounted cash flow method and in accordance with the market interest rate on the Balance Sheet Date.

Based on the assumption above, if other variables stay the same, pre-tax impact of potential appropriate change of interest rate on the current profits and losses and equity is shown as follows:

Item	Change in Interest Rate	Amount of Current Year		Amount of Previous Year	
		Impact on Net Profits	Impact on the Owner's Equity	Impact on Net Profits	Impact on the Owner's Equity
Floating interest rate loan	1% added	(1,637,492.19)	(1,637,492.19)	(357,591.93)	(357,591.93)
Floating interest rate loan	Decrease by 1%	1,637,492.19	1,637,492.19	357,591.93	357,591.93

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## X. DISCLOSURE OF FAIR VALUE

### 1. Amount of assets and liabilities measured at fair value at the end of year and the level of fair value measurement

Item	Ending Fair Value			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
Continuous fair value measurement				
Financial assets available for sale	–	–	–	–
Investment in equity instrument	181,474,096.00	–	–	181,474,096.00
Total assets continuously measured at fair value	181,474,096.00	–	–	181,474,096.00

### 2. Basis for determination of market prices for recurring level 1 fair value measurement items

The items measured by the fair value of Group are the stocks of the Bank of Communications and CPIC, and the fair value at the end of the year is determined based on the closing price on the last trading day of June 2016.

## XI. RELATIONSHIP WITH RELATED PARTIES AND TRANSACTIONS

### (I) Relationships of Related Parties

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

(1) Controlling shareholder and final controlling party (*monetary unit: RMB10,000*)

Name of Controlling Shareholder and Final Controlling Party	Registration Place	Nature of Business	Registered Capital	Proportion of Shareholding (%)	Proportion of Voting Right (%)
Shandong Xinhua Pharmaceutical Group Co., Ltd.	No. 14, Dongyi Road, Zhangdian District, Zibo, Shandong Province	Investment in the design of building engineering, property development and catering	29,850.00	34.46	34.46
Hualu Holdings Co., Ltd.	No. 1, Bangpeng Street, Jinan City, Shandong Province	Investment in fertilizer, petrochemical industry and investment management	85,000.00	–	–

(2) Registered capital of the controlling shareholder and changes

Name of 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 Co., Ltd.	298,500,000.00	–	–	298,500,000.00

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (3) Shares of controlling Shareholders and changes

Name of Controlling Shareholder	Amount of Shareholding		Proportions of shares	
	Amount of Current Year	Amount of Previous Year	Proportion of Current year	Proportion of Previous year
Shandong Xinhua Pharmaceutical Group Co., Ltd.	157,587,763.00	157,587,763.00	34.46	34.46

### 2. Subsidiaries

The details of the subsidiaries are described in the content of "Note VIII. Interests in Other Entities".

### 3. Other related party

Name of Related Party	Association Relationship	Content of Related Transactions with the Company
Shandong Xinhua Industry & Trade Co., Ltd.	Controlled by the same controlling Shareholders	Sales of engines, three kinds of wastes, purchase of raw materials
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Controlled by the same controlling Shareholders	Procurement of raw materials
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	Joint stock company of parent company	Sales of engines, purchase of raw materials
Hualu Holdings Co., Ltd.	Subsidiary of final controlling party	Sales of raw materials
Perrigo Company	Subsidiary's participation in shareholding	Sales of bulk drugs
America Eastwest Company Limited	Subsidiary's participation in shareholding	Sales of bulk drugs
Shandong Hualu Hengsheng Chemical Limited Liability Company	Subsidiary of final controlling party	Procurement of raw materials

## (II) Related Transactions

### 1. Pricing policy

The price of the products sold by the Group to related party and the price of the raw materials purchased from the related party shall be determined based on the market price.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 2. Purchase of materials

Related Party	Content of Related-party Transaction	Amount Incurred in Current Year	Amount Incurred in Previous Year
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Chemical raw material	24,643,356.49	20,871,401.69
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	Raw materials of preparations	6,001,089.73	7,615,897.44
Shandong Hualu Hengsheng Chemical Limited Liability Company	Chemical raw material	21,674,310.06	14,981,251.43
Total		52,318,756.28	43,468,550.56

### 3. Sales of goods and rendering of service

Related Party	Content of Related-party Transaction	Amount Incurred in Current Year	Amount Incurred in Previous Year
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Sales of engines	1,227,134.46	894,538.74
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Sales of by-products	2,833.93	693,778.84
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	Sales of wasted and outdated equipment	–	14,563.11
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	rendering of service	39,122.57	31,979.32
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	Sales of engines	2,492,564.31	3,482,190.08
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	rendering of service	326,417.94	31,562.39
Hualu Holdings Co., Ltd.	Sales of bulk drugs	–	29,268,164.33
Perrigo Company	Sales of bulk drugs	63,565,855.12	60,814,911.80
Total		67,653,928.33	95,231,688.61

### 4. Payment of interest on loans and underwriting fees

Name of Related Party	Content of Related-party Transaction	Amount of Current Year	Amount of Previous Year
Hualu Holdings Co., Ltd.	Interests on loans	16,951,277.79	20,538,472.33
Hualu Holdings Co., Ltd.	Commission of undertaking	750,000.00	1,050,000.00

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 5. Acceptance of the guarantee

The Company and Export-Import Bank of China, Qingdao Branch has signed the loan agreement with the loan principal of RMB80 million and loan term from 29 June 2015 to 29 June 2017, and Hualu Holdings Co., Ltd., the final controlling party shall provide the guarantee.

The Company and Export-Import Bank of China, Qingdao Branch has signed the loan agreement with the loan principal of RMB150 million and loan term from 14 September 2015 to 14 September 2017, and Hualu Holdings Co., Ltd., the final controlling party shall provide the guarantee.

### 6. Call loan of related parties

Name of Related Party	Loan to/from	Amount	From	To
Hualu Holdings Co., Ltd.	Loan to	499,250,000.00	2011-12-30	2016-12-30
Hualu Holdings Co., Ltd.	Loan to	100,000,000.00	2015-11-30	2020-11-30

### 7. Other transactions

- (1) Royalty fee of trademark

Name of Related Party	Content of Related-party Transaction	Amount of Current Year	Amount of Previous Year
Shandong Xinhua Pharmaceutical Co., Ltd.	Royalty fee of trademark	5,000,000.00	5,000,000.00

The Company has concluded a supplementary agreement ("Supplementary Agreement") on the trademark license agreement with the parent company, Shandong Xinhua Group on 27 October 2014. The Agreement has a valid period from 1 January 2015 to 31 December, 2017. According to the Supplementary Agreement, the Company's royalty fee of the trademark "Xinhua" is changed to RMB10 million and other provisions of the trademark license agreement remain unchanged.

## (III) Remunerations for related administrators

### 1. Remunerations for directors and supervisors and senior management

- (1) Salaries of key management:

Item	Amount of Current Year	Amount of Previous Year
Salaries of key management*	1,102,240.00	1,052,816.00

\* Salaries of key management are wages of members of the Board, members of board of Supervisors and Senior Management.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

There is not the amount of money paid or payable to the directors for urge to join the Company, and the Company does not pay to the directors at the time of joining the Company. There is not the amount of money paid or payable to the directors and outgoing directors as compensation for losing the post of director or other administrator.

The Company has determined the remuneration amount for the directors, supervisors and senior administrators according to the Company's remuneration management regulations, which shall be subject to the approval by the Remuneration Committee of the Board.

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

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

Related Party (Item)	Balance at the end of the year		Balance at the beginning of the year	
	Book balance	Provision for bad debt	Book balance	Provision for bad debt
<b>Account receivables</b>				
Shandong Xinhua Industry & Trade Co., Ltd.	1,110,088.04	1,110,088.04	1,150,088.04	1,150,088.04
Hualu Holdings Co., Ltd.	6,631.20	—	5,487,611.49	—
Perrigo Company	8,025,348.46	—	7,366,224.31	—
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	71,052.89	—	49,080.00	—
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	8,797.00	—	—	—
Total	<u>9,221,917.59</u>	<u>1,110,088.04</u>	<u>14,053,003.84</u>	<u>1,150,088.04</u>
<b>Prepayments</b>				
Shandong Hualu Hengsheng Chemical Limited Liability Company	869,150.99	—	1,188,339.17	—
Total	<u>869,150.99</u>	<u>—</u>	<u>1,188,339.17</u>	<u>—</u>
<b>Other accounts receivables</b>				
Shandong Xinhua Industry & Trade Co., Ltd.	—	—	8,293.36	—
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	—	—	286,693.79	—
Total	<u>—</u>	<u>—</u>	<u>294,987.15</u>	<u>—</u>



# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

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

Name of Related Party	Balance at the end of the year	Balance at the beginning of the year
Accounts payable		
Shandong Xinhua Wanbo Chemical & Industrial Co., Ltd.	8,725,820.82	6,306,145.19
DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd.	1,965,698.31	147.34
Total	10,691,519.13	6,306,292.53
Other non-current liabilities due within one year		
Hualu Holdings Co., Ltd.	499,250,000.00	498,500,000.00
Long-term loans		
Hualu Holdings Co., Ltd.	100,000,000.00	100,000,000.00

## XII. CONTINGENCIES

### 1. Contingent liabilities formed by the pending litigation

On 1 January 2011, the subsidiary of the Company Shandong Xinhua Pharmaceutical Trade Co., Ltd (hereinafter referred to as the "Pharmaceutical Trade Company") and Nanjing Huadong Pharmaceutical Co., Ltd. (hereinafter referred to as the Huadong Pharmaceutical) signed the "Dealership Agreement on Mailuoning Injection". On 26 October 2011, Pharmaceutical Trade Company performed the payment liability in the form of bank acceptance bill in accordance with the contract, Huadong Pharmaceutical received the bank acceptance bill endorsed by the Pharmaceutical Trade Company and then gave such endorsement to Nanjing Jinling Pharmaceutical Factory of Nanjing Jinling Co., Ltd. (hereinafter referred to as "Nanjing Jinling Pharmaceutical Factory").

On 31 December 2011, the prior endorser of the above bank acceptance bill, Jinan Jinbaisheng Steel Sales Co., Ltd. (hereinafter referred to as Baisheng Steel) filed to the Dongqu People's Court of Panzhihua City, Sichuan Province for reporting the loss of bill and for the public exhortation. On 12 March 2012, Dongqu People's Court of Panzhihua City declared the bank acceptance bill is invalid, and then Baisheng Steel discounted the bill and made a payment.

On July 2012, Huadong Pharmaceutical filed a sales contract dispute lawsuit against the Pharmaceutical Trade Company to the People's Court of Xuanwu District, Nanjing City, requesting the Pharmaceutical Trade Company to pay the RMB6 million and accrued interest. On August 2012, the bank deposits worth RMB6.5 million of Pharmaceutical Trade Company were frozen. On 31 December 2012, the People's Court of Xuanwu District, Nanjing City made a civil judgment (2012) XSCZ No. 00948, requesting the Pharmaceutical Trade Company to make a payment of RMB6 million and accrued interest. On November 15 2013, the People's Court of Xuanwu District issued the notice of execution (2013) XZZ No. 01685, transferring RMB6.6 million from Pharmaceutical Trade Company.

On 6 December 2013, Pharmaceutical Trade Company counter-filed sued to the People's Court of Huaiyi District, Jinan City against Baisheng Steel, Huadong Pharmaceutical and Nanjing Jinling Pharmaceutical Factory, requesting the above three companies to return RMB6.6 million and the accrued interest. On 12 December, 2013, the bank deposits worth RMB7 million of Huadong Pharmaceutical were frozen. On 14 May 2015, the freezing period of the above RMB7 million was extended till 9 May 2017.

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

The Company, after consulting with legal advisor, believed that the bank acceptance bill paid by the Pharmaceutical Trade Company to Huadong Pharmaceutical is a flawless and legal bill, without the unpaid payments. Huadong Pharmaceutical or Nanjing Jinling Pharmaceutical Factory has no right to declare to Dongqu People's Court of Panzhihua City, Sichuan Province during the public exhortation and failed to appeal to this court after the judgment. It is the negligence of Huadong Pharmaceutical or Nanjing Jinling Pharmaceutical Factory in exercising its legitimate right that causes the invalidity of the bank acceptance bill. Therefore, the dispute over the bill is relatively clear, and it is quite possible that the Company will win the case. The Company has withdrawn 50% of the above-mentioned transferred RMB6.6 million as a provision for bad debts.

2. **Up to 30 June 2016, the Group has no other significant contingencies except for the above-mentioned contingencies.**

### XIII. COMMITMENTS

1. **Large denominated contracts concluded or ready for performance**

Item	Contract Amount	Unpaid Amount
Modern medicine center for international cooperation	<b>88,597,270.74</b>	54,925,344.02
Modern chemical medicine industrialization center in Hutian Industrial Park II	<b>64,895,209.49</b>	29,713,499.77
Hormone series products project in Hutian Industrial Park	<b>29,673,303.00</b>	24,544,309.00
Sewage Treatment Project in Hutian Industrial Park	<b>43,442,299.66</b>	11,909,604.31
Innovation Park – R&D centre 2#	<b>9,750,000.00</b>	5,254,950.00
Innovation Park – R&D centre 1#	<b>9,405,444.00</b>	5,013,724.00
Pentamine series products project in Hutian Industrial Park	<b>66,287,392.86</b>	3,926,151.96
Carbidopa product project in Hutian Industrial Park	<b>3,230,652.00</b>	2,530,652.00
Aspirin Leveling and Filling Project of Hutian Park	<b>32,109,871.30</b>	1,713,946.65
Analginum Serious Product Project of Hutian Park	<b>12,962,930.23</b>	658,289.79
Total	<b>360,354,373.28</b>	140,190,471.50

2. **There was no other significant commitment to be disclosed for the Group as of 30 June 2016, except for the commitments above.**

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## XIV. EVENTS AFTER BALANCE SHEET DATE

### 1. Significant non-adjustment events

Item	Contents	Impact on Financial Position and Business Results	Reasons for Failure of Estimation
Issuance of shares and bonds	<p>The Company intended to issue not more than 77 million A shares by way of non-public issuance and placing. The original Plan of the Non-Public Issuance of A Shares of the Company was approved by the general meeting of Shareholders on 29 December, 2015 and by the State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government. The second extraordinary board meeting of the eighth session of the Board for year 2016 as convened on 24 March 2016 approved the adjustment of the A shares expected to be issued under the non-public issuance and placing down to 67 million A Shares. On 11 April 2016, the Company submitted the application papers of the proposed non-public issue and placing of A Shares to the CSRC. On 15 April 2016, the Company received the Acceptance Notice of the Application for Administrative Permission of the CSRC (《中國證監會行政許可申請受理通知書》). On 4 May 2016, the Company received the Notice Regarding CSRC'S Feedback on the Review of Administrative Permission Items (《中國證監會行政許可項目審查反饋意見通知書》) (the "Feedback Opinion"), and the Company published the announcement in respect of receiving the Feedback Opinion of the proposed issue and placing of A shares on 5 May 2016. As some of the matters in the Feedback Opinion would require further implementation, the Company published the announcement in respect of application for extension for replying to the Feedback Opinion on 26 May 2016. The Company published the announcement in respect of the adjournment of processing the application papers of the proposed issue and placing of A shares on 23 June 2016. The proposed placing plan still requires the approval of, inter alia, the CSRC.</p>	<p>The number of the shares to be issued by the Company through non-public offering does not exceed 67 million (including the number), with the total fund raised not exceeding RMB627.12 million, which, after deduction of the issuance expenses, will be all used for repaying the bank loans and supplementing the working capital.</p>	
Employee stock ownership plan of Phase I	<p>The proposal for the employee stock ownership plan of Phase I (Draft) (by means of subscription of non-public offering) was adopted by the resolution of General Meeting of Shareholders on 29 December 2015.</p>	<p>When the first phase of the employee stock ownership plan was formulated, the corresponding value of each share was RMB 1.00, the total number of the shares did not exceed 35.048 million at the setting, and the corresponding total amount of the funds did not exceed RMB35.048 million.</p>	

2. **As of the date of this financial statement (29 August 2016), the Company does not have any major event after the balance sheet date to be disclosed other than the above disclosed events after the balance sheet date.**

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## XV OTHER MAJOR MATTERS

### 1. Lease

#### (1) Fixed assets acquired under financing lease (Lessee of financing lease)

At the end of current year, the Group's financial leasing of fixed assets of the Group was detailed in the Note VI. 11.

#### (2) Minimum lease payment (Lessee of financing lease)

Remaining lease term	Balance at the end of the year	Balance at the beginning of the year
Within 1 year	66,666,666.66	32,444,786.58
1-2 years	66,666,666.66	34,212,474.81
2-3 years	35,115,689.29	17,799,015.34
Total	168,449,022.61	84,456,276.73

As of 30 June 2016, the balance of the financing expenses not recognized by the Group was RMB12,419,873.77.

### 2. Segment information

#### (1) Determination basis and accounting policy of reportable segments

The Group determines the operating segments on the basis of internal organization structure, management requirements and internal reporting system and adopts these operating segments as the basis for reporting segments for disclosure purposes. The operating segment refers to the constituent part within the Group, which simultaneously satisfies the following conditions: (1) this part can generate income and incur expenses in daily activities; (2) the senior management of the Group can evaluate the operating results of this part at regular intervals so as to decide to allocate resources to it and evaluate its performance; (3) the Company can access the relevant accounting information of this part such as financial position, operating results and cash flow, etc. If two or more operating units share the similar economic characteristics and meet certain conditions, they can be merged into a business unit.

#### Segment information for six months ended 30 June 2016

Item	Pharmaceutical raw materials	Reagents	Chemicals and other products	Unallocated	Offset Amount	Total
Operating revenue	919,977,340.93	1,019,799,135.66	466,048,770.72	-	(407,324,834.40)	1,998,500,412.91
Including: foreign transaction income	917,243,597.27	863,807,066.84	217,449,748.80	-	-	1,998,500,412.91
Inter-segment transaction income	2,733,743.66	155,992,068.82	248,599,021.92	-	(407,324,834.40)	-
Operating cost	701,099,189.29	805,223,485.84	442,971,224.89	-	(408,593,494.86)	1,540,700,405.16
Cost offsetting amount	38,599,832.66	120,125,979.82	249,867,682.38	-	(408,593,494.86)	-
Expenses for the period	133,858,824.84	206,482,846.25	31,252,954.78	-	-	371,594,625.87
Total profit of the unit (total loss)	-	-	-	86,614,936.59	(17,965,419.35)	68,649,517.24
Total assets	2,602,282,751.86	1,046,307,342.90	931,714,345.56	1,164,883,147.06	(1,358,141,144.14)	4,387,046,443.24
Total liabilities	695,780,097.23	602,217,459.23	471,935,304.99	1,490,235,506.26	(870,311,647.18)	2,389,856,720.53
Supplemental information						
Recognized impairment losses in the current period	2,736,091.86	(615,050.89)	76,208.61	-	-	2,197,249.58
Depreciation and amortization expenses	77,085,196.36	17,366,898.20	30,445,857.20	-	1,337,328.18	126,235,279.94

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## Segment information for six months ended 30 June 2015

Item	Pharmaceutical raw materials	Reagents	Chemicals and other products	Unallocated	Offset Amount	Total
Operating revenue	804,771,984.89	1,105,501,186.93	461,054,099.13	-	(422,919,219.37)	1,948,408,051.58
Including: foreign transaction income	802,117,390.87	875,300,401.89	270,990,258.82	-	-	1,948,408,051.58
Inter-segment transaction income	2,654,594.02	230,200,785.04	190,063,840.31	-	(422,919,219.37)	-
Operating cost	644,766,330.30	880,583,989.01	399,160,860.28	-	(394,645,864.43)	1,529,865,315.16
Cost offsetting amount	29,007,774.96	203,847,604.10	161,790,485.37	-	(394,645,864.43)	-
Expenses for the period	129,213,187.64	210,036,245.61	28,838,592.17	-	-	368,088,025.42
Total profit of the unit (total loss)	-	-	-	69,894,444.79	(29,638,055.48)	40,256,389.31
Total assets	2,546,855,821.65	1,251,514,251.37	939,108,588.24	1,057,854,880.25	(1,303,211,104.88)	4,492,122,436.63
Total liabilities	801,101,097.56	633,740,794.81	519,724,852.31	1,366,774,729.91	(813,301,356.36)	2,508,040,118.23
Supplemental information						
Recognized impairment losses in the current period	-	(3,944,227.27)	-	-	-	(3,944,227.27)
Depreciation and amortization expenses	71,168,137.07	16,272,391.00	28,209,641.57	-	1,364,700.54	117,014,870.18

The total foreign trade income of the Group in China and other countries and regions, as well as the total non-current assets other than the financial assets and deferred income tax assets in China and other countries and regions are listed below:

Foreign Transaction Income	Amount Incurred in Current Year	Amount Incurred in Previous Year
China (including Hong Kong)	<b>1,318,496,917.58</b>	1,239,237,696.83
Americas	<b>355,385,181.96</b>	329,511,478.67
Europe	<b>155,021,413.37</b>	232,633,512.35
Others	<b>169,596,900.00</b>	147,025,363.74
Total	<b>1,998,500,412.91</b>	1,948,408,051.58
Total non-current assets	Balance at the end of the year	Balance at the beginning of the year
China (including Hong Kong)	<b>2,658,252,186.76</b>	2,613,456,918.88
Americas	<b>896,121.34</b>	1,153,653.82
Europe	<b>19,307.53</b>	23,825.02
Total	<b>2,659,167,615.63</b>	2,614,634,397.72

### 3. There were no other material matters for the Group to disclose by 30 June 2016.

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

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

### 1. Account receivables

#### (1) Classification of account receivables

Item	Balance at the end of the year		Provision for bad debt	Proportion of Provision (%)
	Amount	Proportion (%)		
Account receivables with significant individual amount and drawn bad debt provision on single item	-	-	-	-
Account receivables with provisions for bad debt drawn according to combination	-	-	-	-
Account age combination	204,817,606.34	41.46	2,362,139.19	1.15
Combination of relationship with transaction object	289,145,484.95	58.54	-	-
Combination of special account nature	-	-	-	-
Combination subtotal	493,963,091.29	100.00	2,362,139.19	0.48
Account receivables with insignificant individual amount but drawn bad debt provision on single item	-	-	-	-
<b>Total</b>	<b>493,963,091.29</b>	<b>100.00</b>	<b>2,362,139.19</b>	<b>-</b>

Item	Balance at the beginning of the year		Provision for bad debt	Proportion of Provision (%)
	Amount	Proportion (%)		
Account receivables with significant individual amount and drawn bad debt provision on single item	-	-	-	-
Account receivables with provisions for bad debt drawn according to combination	-	-	-	-
Account age combination	145,672,085.05	33.56	2,061,703.61	1.42
Combination of relationship with transaction object	288,392,258.29	66.44	-	-
Combination of special account nature	-	-	-	-
Combination subtotal	434,064,343.34	100.00	2,061,703.61	0.47
Account receivables with insignificant individual amount but drawn bad debt provision on single item	-	-	-	-
<b>Total</b>	<b>434,064,343.34</b>	<b>100.00</b>	<b>2,061,703.61</b>	<b>-</b>

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

- 1) In combination, 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	Provision for bad debt	Drawing proportion (%)	Amount	Provision for bad debt	Drawing proportion (%)
Within 1 year	203,106,069.49	983,894.86	0.5	144,275,407.00	721,377.04	0.5
1-2 years	376,944.21	75,388.84	20	23,325.41	4,665.08	20
2-3 years	79,342.88	47,605.73	60	94,227.88	56,536.73	60
Over 3 years	1,255,249.76	1,255,249.76	100	1,279,124.76	1,279,124.76	100
Total	204,817,606.34	2,362,139.19	-	145,672,085.05	2,061,703.61	-

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

Combination Name	Book balance	Amount of Bad Debts
Combination of relationship with transaction object	289,145,484.95	-

**(2) Bad debt provisions provided, reversed or recovered in current year**

The provision for bad debts in current year is RMB300,435.58; and there was no accounts receivable which had been recovered and reversed.

**(3) Account receivables with top five ending balance collected as per the borrowers**

Organization Name	Amount	Account Age	Proportion (%)	Balance at the end of the year of Bad Debt Provision
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	248,398,716.70	Within 1 year	50.29	-
Shandong Xinhua Pharmaceutical (Europe) BV	29,866,357.83	Within 1 year	6.05	-
F.Hoffmann-La Roche AG	17,764,208.95	Within 1 year	3.60	88,821.04
Mitsubishi Corporation	16,299,638.47	Within 1 year	3.30	81,498.19
Shandong Xinhua Pharmaceutical (USA) Inc.	10,181,488.11	Within 1 year	2.06	-
Total	322,510,410.06		65.29	170,319.24

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 2. Other accounts receivables

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

Item	Balance at the end of the year		Provision for bad debt	Proportion of Provision (%)
	Amount	Proportion (%)		
Other accounts receivables with significant individual amount and bad debt provision drawn on single item	-	-	-	-
Other accounts receivables for which bad debt provision is collectively assessed on a combination basis	-	-	-	-
Account age combination	14,838,101.79	3.28	9,088,779.32	61.25
Combination of relationship with transaction object	416,196,680.89	92.12	-	-
Combination of special account nature	20,743,395.55	4.59	-	-
Combination subtotal	451,778,178.23	100.00	9,088,779.32	2.01
Other accounts receivables with insignificant individual amount but drawn bad debt provision on single item	-	-	-	-
<b>Total</b>	<b>451,778,178.23</b>	<b>100.00</b>	<b>9,088,779.32</b>	<b>-</b>

Item	Balance at the beginning of the year		Provision for bad debt	Proportion of Provision (%)
	Amount	Proportion (%)		
Other accounts receivable with significant individual amount and bad debt provision drawn on single item	-	-	-	-
Other accounts receivable for which bad debt provision is collectively assessed on a combination basis	-	-	-	-
Account age combination	16,074,883.82	3.87	8,803,123.04	54.76
Combination of relationship with transaction object	388,868,209.87	93.54	-	-
Combination of special account nature	10,763,746.43	2.59	-	-
Combination subtotal	415,706,840.12	100.00	8,803,123.04	2.12
Other accounts receivable with insignificant individual amount but drawn bad debt provision on single item	-	-	-	-
<b>Total</b>	<b>415,706,840.12</b>	<b>100.00</b>	<b>8,803,123.04</b>	<b>-</b>



## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

- 1) In combination, other accounts receivable of provisions for bad debt are drawn by aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Provision for bad debt	Drawing proportion (%)	Amount	Provision for bad debt	Drawing proportion (%)
Within 1 year	5,112,528.35	25,562.64	0.5	6,072,198.42	30,360.99	0.5
1-2 years	603,863.22	120,772.64	20	450,585.40	90,117.08	20
2-3 years	448,165.44	268,899.26	60	2,173,637.57	1,304,182.54	60
Over 3 years	8,673,544.78	8,673,544.78	100	7,378,462.43	7,378,462.43	100
Total	14,838,101.79	9,088,779.32	-	16,074,883.82	8,803,123.04	-

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

Name of Combination	Book balance	Amount of Bad Debts
Combination of relationship with transaction object	416,196,680.89	-
Combination of special account nature	20,743,395.55	-
Total	436,940,076.44	-

- (2) **Conditions about provision of bad debts of accruing proportion and turning (or withdrawal) in the current year**

In current year, the provided bad debt provision was RMB285,656.28; there were no bad debt provision to be recovered or reversed.

- (3) **Conditions of other accounts receivable classified by the nature**

Nature	Ending Book Balance	Beginning Book Balance
Petty cash	705,402.17	510,153.22
Tax receivable and to be deducted	6,348,794.78	6,559,656.49
Finance lease deposit	18,000,000.00	8,000,000.00
Advance investment funds	2,400,000.00	2,400,000.00
Inter office accounts	416,196,680.89	388,868,209.87
Others	8,127,300.39	9,368,820.54
Total	451,778,178.23	415,706,840.12

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (4) Conditions about other accounts receivable of top five balances as at the end of year collected by the borrowers:

Organization Name	Amount	Account Age	Proportion of the Total Amount (%)	Balance at the end of the year of Bad Debt Provision	Nature or Contents
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	299,999,735.00	Over 3 years	66.40	-	Inter office accounts
Xinhua (Zibo) Real Estate Co., Ltd.	58,532,518.83	Over 3 years	12.96	-	Inter office accounts
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	38,534,318.68	Over 1 year	8.53	-	Inter office accounts
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	9,754,508.39	Over 3 years	2.16	-	Inter office accounts
Zibo Xinhua Drug Store Chain Co., Ltd.	8,642,838.30	Over 3 years	1.91	-	Inter office accounts
Total	415,463,919.20		91.96		

### 3. Long-term equity investments

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

Item	Balance at the end of the year			Balance at the beginning of the year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	468,244,841.06	-	468,244,841.06	468,244,841.06	-	468,244,841.06
Total	468,244,841.06	-	468,244,841.06	468,244,841.06	-	468,244,841.06

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## (2) Investment to subsidiaries

Invested Entity	Balance at the beginning of the year	Increase in Current Year	Decrease in Current Year	Balance at the end of the year	Impairment Provision Withdrawn in Current Year	Balance of Provision for Impairment as at the end of year
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	48,582,509.23	-	-	48,582,509.23	-	-
Zibo Xinhua Drug Store Chain Co., Ltd.	2,158,900.00	-	-	2,158,900.00	-	-
Xinhua Pharmaceutical (Shouguang) Co., Ltd.	230,712,368.00	-	-	230,712,368.00	-	-
Xinhua Pharmaceutical (Gaomi) Co., Ltd.	35,000,000.00	-	-	35,000,000.00	-	-
Shandong Xinhua Pharmaceutical Chemical Industry Design Co., Ltd	3,037,700.00	-	-	3,037,700.00	-	-
Zibo Xinhua-Perrigo Pharmaceutical Company Limited	24,877,370.60	-	-	24,877,370.60	-	-
Shandong Xinhua Pharmaceutical (Europe) Co., Ltd.	4,596,798.56	-	-	4,596,798.56	-	-
Xinhua (Zibo) Real Estate Co., Ltd.	20,000,000.00	-	-	20,000,000.00	-	-
Zibo Xinhua-Zhongxi Pharmaceutical Co., Ltd.	9,008,212.50	-	-	9,008,212.50	-	-
Shandong Xinhua Pharmaceutical Import and Export Co., Ltd.	5,500,677.49	-	-	5,500,677.49	-	-
Shandong Xinhua Pharmaceutical (USA) Co., Ltd.	9,370,650.00	-	-	9,370,650.00	-	-
Shandong Xinhua Mechanical & Electrical Engineering Co., Ltd.	8,000,000.00	-	-	8,000,000.00	-	-
Shandong Zibo Xincat Pharmaceutical Company Limited	67,399,654.68	-	-	67,399,654.68	-	-
Total	468,244,841.06	-	-	468,244,841.06	-	-

## 4. Operating revenues and costs

Item	Amount Incurred in Current Year		Amount Incurred in Previous Year	
	Revenue	Cost	Revenue	Cost
Principal operation	1,034,370,850.32	839,974,164.31	1,004,250,609.79	815,401,486.54
Other operation	21,675,744.41	23,926,253.92	25,606,190.06	22,359,865.63
Total	1,056,046,594.73	863,900,418.23	1,029,856,799.85	837,761,352.17

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 5. Selling expenses

Item	Amount of Current Year	Amount of Previous Year
Wages	3,965,879.92	3,384,533.48
Transport charges	10,597,600.97	9,336,643.91
Travel expense	954,774.31	828,771.75
Selling expense and promotion expense	790,754.58	1,136,011.64
Office expenses	113,190.68	275,757.68
Others	5,052,026.76	3,009,003.56
Total	<u>21,474,227.22</u>	<u>17,970,722.02</u>

### 6. Administrative expenses

Item	Amount of Current Year	Amount of Previous Year
R&D cost	36,158,699.88	38,706,219.91
Wages and Welfare Expense	17,970,795.00	18,050,373.00
Taxes	10,985,248.61	9,554,657.46
Depreciation cost	7,052,824.08	5,836,589.42
Other welfare expense	5,729,350.89	5,729,772.23
Warehouse expenses	3,456,279.09	1,762,432.62
Amortization of intangible assets	2,927,390.64	3,025,942.33
Business entertainment expenses	1,364,411.36	1,368,423.18
Office expenses	555,783.15	465,410.49
Royalty fee of trademark	5,036,399.98	5,059,600.00
Annual fee of listing, audit fee, expenses of board of directors	904,989.78	600,688.24
Others	22,822,967.22	18,004,797.60
Total	<u>114,965,139.68</u>	<u>108,164,906.48</u>

### 7. Financial expenses

#### (1) Detail list

Item	Amount of Current Year	Amount of Previous Year
Interest expenditure	30,703,523.07	40,744,588.10
Less: Interest income	2,417,248.36	337,485.44
Add: Exchange loss	(4,643,814.83)	(4,384,451.82)
Add: Commission charge	2,867,871.48	2,625,934.25
Finance lease expenses	1,836,752.63	—
Total	<u>28,347,083.99</u>	<u>38,648,585.09</u>

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### (2) Details of interest expenditure

Item	Amount of Current Year	Amount of Previous Year
Bank loans, overdraft interests	30,703,523.07	40,817,051.06
Finance lease expenses	1,836,752.63	–
Total	<u>32,540,275.70</u>	<u>40,817,051.06</u>

### (3) Details of interest income

Item	Amount of Current Year	Amount of Previous Year
Interest income from bank deposits	2,417,248.36	337,485.44
Total	<u>2,417,248.36</u>	<u>337,485.44</u>

## 8. Investment income

### (1) Income from investment

Sources	Amount of Current Year	Amount of Previous Year
Investment income from holding financial assets available for sale	–	2,393,809.00
Dividend of subsidiaries	17,869,379.21	–
Others	–	91,764.93
Total	<u>17,869,379.21</u>	<u>2,485,573.93</u>

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

Item	Amount of Current Year	Amount of Previous Year
Shandong Zibo Xincat Pharmaceutical Company Limited	17,869,379.21	–
Total	<u>17,869,379.21</u>	<u>–</u>

## 9. Net current assets

Item	Balance at the end of the year	Balance at the beginning of the year
Current assets	1,534,280,284.00	1,602,945,569.86
Less: Current liabilities	1,733,416,238.12	1,782,285,108.49
Net current asset	<u>(199,135,954.12)</u>	<u>(179,339,538.63)</u>

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## 10. Total assets less current liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Total assets	<b>4,129,262,277.34</b>	4,163,695,830.25
Less: Current liabilities	<b>1,733,416,238.12</b>	1,782,285,108.49
Total assets less current liabilities	<b>2,395,846,039.22</b>	2,381,410,721.76

## 11. Supplementary information to the cash flow statement of parent company

Item	Amount of Current Year	Amount of Previous Year
<b>1. Reconciliation of net profit to cash flows from operation activities:</b>		
Net Profit	<b>34,396,778.08</b>	24,005,313.42
Add: Minority interest income	—	—
Provision for impairment of assets	<b>2,736,091.86</b>	—
Depreciation of fixed assets	<b>84,611,378.10</b>	77,882,875.18
Amortization of intangible assets	<b>2,927,390.64</b>	3,025,942.33
Amortization of long-term unamortized expenses	—	—
Loss from disposal of fixed assets, intangible assets and other long-term assets (gains to be listed with "-")	<b>(1,006,762.13)</b>	1,351,718.03
Losses on retirement of fixed assets (gains to be listed with "-")	—	—
Profit or loss from changes in fair value (gains are indicated by "-")	—	—
Financial expenses (gains to be listed with "-")	<b>28,461,513.09</b>	36,360,136.28
Investment loss (gain to be listed with "-")	<b>(17,869,379.21)</b>	(2,485,573.93)
Decrease of deferred income tax assets (increases to be listed with "-")	—	—
Increases of deferred income tax liabilities (decreases to be listed with "-")	<b>(1,725,806.07)</b>	933,220.38
Decrease of inventory (increases to be listed with "-")	<b>33,379,161.17</b>	26,759,833.62
Decreases of operational receivables (increases to be listed with "-")	<b>(358,184,153.45)</b>	(185,890,121.62)
Increases of operating payables (decreases to be listed with "-")	<b>154,967,284.67</b>	110,779,272.42
Others	—	—
Net cash flows from operating activities	<b>(37,306,503.25)</b>	92,722,616.11
<b>2. Significant investing and financing activities not related to cash receipt and payment:</b>		
Conversion of debt into capital	—	—
Convertible company bonds due within one year	—	—
Fixed assets acquired under finance leases	<b>168,449,022.61</b>	—
<b>3. Net change in cash and cash equivalents:</b>		
Balance at the end of the year of cash	<b>122,719,188.40</b>	345,729,201.10
Less: Balance at the beginning of the year of cash equivalents	<b>191,940,435.73</b>	165,486,227.41
Net increase in cash and cash equivalents	<b>(69,221,247.33)</b>	180,242,973.69

# Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

## XVII. APPROVAL OF FINANCIAL REPORTS

The financial report is released after being approved by the Board of the Company on 29 August 2016.

## XVIII. SUPPLEMENTARY INFORMATION

### 1. Non-recurring profit and loss statement

Based on provisions in Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public–Non-recurring Profit and Loss (2008) issued by the China Securities Regulatory Commission, the non-operating profit and loss for the Company during the Reporting Period is listed below:

Item	Amount of Current Year	Notes
Profits and losses from disposal of non-current assets	804,888.61	Disposal of fix assets or intangible assets
Tax return, reduction and exemption under occasional condition, approval beyond the authority or without official document	–	
Government subsidy included in current profits and losses	4,806,344.55	Received and amortized government subsidies recognized in the current period
Capital occupation fee charged from non-financial enterprises and included in current profits and losses	–	
In addition to the effective 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 dispose of trading financial assets, trading financial liabilities, and salable financial assets	12,981.57	Notice deposit income
Reversal for impairment provision of receivables subject to separate impairment test	840,000.00	Reversal of provision for impairment of accounts receivable of subsidiary
Other non-Operating incomes or expenditures except the above items	(6,374,484.54)	
Subtotal	<u>89,730.19</u>	
Less: Effect of income tax	(25,225.61)	
Impact of minority interest income (after-tax)	<u>(1,040,502.22)</u>	
Total	<u><u>1,155,458.02</u></u>	

## Notes to the Financial Statements (Continued)

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

Financial Report Prepared in accordance with CASBE (Unaudited)

### 2. Return on net worth and earnings per share

Profit for the Reporting Period	Weighted Average ROA (%)		Earnings per share (EPS)			
	Amount of current year	Amount of previous year	Basic EPS		Diluted EPS	
			Amount of current year	Amount of previous year	Amount of current year	Amount of previous year
Net profit attributable to shareholders of the parent company	<b>2.40%</b>	1.41%	<b>0.10</b>	0.06	<b>0.10</b>	0.06
Net profit attributable to shareholders of the parent company after deducting non-recurring profit and loss	<b>2.34%</b>	0.84%	<b>0.10</b>	0.03	<b>0.10</b>	0.03





## Documents for Inspection and Address for Inspection

### (1) DOCUMENTS FOR INSPECTION

- (1) The original copy of the Company's 2016 interim Report signed by the Chairman of the Board.
- (2) Financial statements for the six months ended 30 June 2016 signed and stamped by the legal representative, the financial controller and the manager of the accounting department of the Company.

### (2) ADDRESS 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*

29 August 2016, 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 Guanhu  
Mr. Chan Chung Kik, Lewis