THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shandong Xinhua Pharmaceutical Company Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

山 東 新 華 製 藥 股 份 有 限 公 司

Shandong Xinhua Pharmaceutical Company Limited

(a joint stock company established in the People's Republic of China with limited liability)

(Stock Code: 0719)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO XINCAT PHARMACEUTICAL ACQUISITION AND ELECTION OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

A letter from the Board is set out on pages 1 to 14 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 15 to 16 of this circular. A letter from Cinda International, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Xincat Pharmaceutical Acquisition is set out on pages 17 to 35 of this circular.

A notice convening the EGM together with the form of proxy and reply were issued on 29 January 2014. A revised notice convening the EGM together with the revised form of proxy were issued on 13 February 2014.

Shareholders are advised to read the revised notice. Whether or not you are able to attend the meeting, we encourage you to complete and return the enclosed form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours prior to the commencement of the EGM to the Company Secretary's Office of the Company at No.1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC.

Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

3 March 2014

CONTENTS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Acquisition Agreement"	the agreement to be entered into between Hualu Holdings and the Company in respect of the Xincat Pharmaceutical Acquisition
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"Cinda International"	信達國際融資有限公司(Cinda International Capital Limited), a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Xincat Pharmaceutical Acquisition
"Company"	山東新華製藥股份有限公司 (Shandong Xinhua Pharmaceutical Company Limited), a joint stock company incorporated in the PRC with limited liability
"connected person"	has the meaning ascribed to it under the Listing Rules
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting to be held to consider and, if deemed appropriate, approve, among other things, the Xincat Pharmaceutical Acquisition
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hualu Holdings"	華魯控股集團有限公司 (Hualu Holdings Company Limited), a wholly state-owned company, the controlling shareholder of SXPGC

"Independent Board Committee"	the independent board committee of the Company comprising all the independent non-executive Directors, namely, Mr. Zhu Baoquan, Mr. Bai Huiliang and Mr. Kwong Chi Kit, Victor, constituted for the purpose of advising the Independent Shareholders in respect of the Xincat Pharmaceutical Acquisition
"Independent Shareholders"	Shareholders other than SXPGC and its respective associates (as defined in the Listing Rules)
"Latest Practicable Date"	24 February 2014, being the latest practicable date for ascertaining certain information referred to in this circular prior to the printing of this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, which for the purpose of this announcement shall exclude Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Relevant Equity Interest"	the state-owned equity in Xincat Pharmaceutical (being 40% of the equity interest in Xincat Pharmaceutical)
"RMB"	Renminbi, the lawful currency of the PRC for the time being
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	the shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisors"	the supervisors of the Company
"SXPGC"	山東新華醫藥集團有限責任公司(Shandong Xinhua Pharmaceutical Group Company Limited), a wholly-state owned company which holds and owns 36.32% of the total issued share capital of the Company and is currently the largest shareholder of the Company

"Valuation Date"	30 April 2013
"Valuer"	Beijing Pan-China Assets Appraisal Co. Ltd. (北京天健興業資產評估有限公司), a valuer commissioned by Hualu Holdings to prepare a valuation report in relation to Xincat Pharmaceutical for the purpose of the sale of the Relevant Equity Interest in an open tender process at the Shandong Property Right Exchange Center
"Xincat Pharmaceutical"	山東淄博新達製藥有限公司 (Shandong Zibo Xincat Pharmaceutical Company Limited), a company incorporated in the PRC with limited liability
"Xincat Pharmaceutical Acquisition"	the proposed acquisition of the Relevant Equity Interest by the Company

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

(a joint stock company established in the People's Republic of China with limited liability)

(Stock Code: 0719)

Executive Directors:
Mr. Zhang Daiming *(Chairman)*
Mr. Du Deping
Mr. Zhao Songguo

Non-executive Directors:
Mr. Ren Fulong
Mr. Xu Lie
Mr. Zhao Bin

Independent Non-executive Directors:
Mr. Zhu Baoquan
Mr. Bai Huiliang
Mr. Kwong Chi Kit, Victor

Registered Address:
Chemical Industry Area of Zibo Hi-tech
Industry Development Zone, Zibo City,
Shandong Province, The PRC

3 March 2014

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE XINCAT PHARMACEUTICAL ACQUISITION
AND
ELECTION OF INDEPENDENT NON-EXECUTIVE DIRECTOR

1 INTRODUCTION

The purpose of this circular is to provide you with the information regarding resolutions to be proposed at the EGM. These include (i) the discloseable connected transaction in relation to the Xincat Pharmaceutical Acquisition; and (ii) the election of a independent non-executive Director.

Reference is made to the announcements of the Company dated 29 January 2014 and 18 February 2014 in relation the Xincat Pharmaceutical Acquisition.

The Company proposes to bid in an open tender process at Shandong Property Right Exchange Center (山東產權交易中心) for the acquisition of the Relevant Equity Interest in Xincat Pharmaceutical from Hualu Holdings and the Board wishes to bid at a price of not more than RMB112 million. If the Company is successful in the bidding, the Acquisition Agreement will be entered into between Hualu Holdings and the Company.

As at the Latest Practicable Date, Hualu Holdings is the controlling shareholder of SXPGC, a substantial shareholder of the Company holding 36.32% equity interest in the Company. Therefore, Hualu Holdings is a connected person of the Company under the Listing Rules.

As the applicable ratios pursuant to Rule 14.07 of the Listing Rules and the alternative percentage ratio pursuant to Rule 14.20 of the Listing Rules in respect of the Xincat Pharmaceutical Acquisition exceed 5% but are less than 25%, if the Company is successful in the bidding, the Xincat Pharmaceutical Acquisition will constitute a discloseable and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules respectively and will be subject to reporting and announcement requirements and approval by the Independent Shareholders at the EGM by way of poll. SXPGC and its associates shall abstain from voting on the resolution approving the Xincat Pharmaceutical Acquisition.

2 XINCAT PHARMACEUTICAL ACQUISITION

2.1 The Xincat Pharmaceutical Acquisition through Shandong Property Right Exchange Center

(a) The proposed tender

Vendor:	Hualu Holdings
The proposed purchaser:	The Company

The Board proposes to bid in an open tender process at the Shandong Property Right Exchange Center for the acquisition of the Relevant Equity Interest from Hualu Holdings.

(b) ***The current structure***

As at the Latest Practicable Date, Xincat Pharmaceutical was owned as to 80% by Hualu Holdings and 20% by the Company.

(c) ***The proposed consideration***

Hualu Holdings has put up the Relevant Equity Interest for sale through an open tender process at the Shandong Property Right Exchange Center at a proposed price with reference to the appraised value of the total equity interest in Xincat Pharmaceutical as per the valuation report prepared by the Valuer.

As at the Valuation Date, the appraised value of the total equity interest in Xincat Pharmaceutical as per the valuation report prepared by the Valuer for Hualu Holdings, which was endorsed by the State-owned Assets Supervision and Administration Commission of Shandong Province (山東省國有資產監督管理委員會) for the purpose of sale was RMB222.20 million. Accordingly, the value in relation to the Relevant Equity Interest would be RMB88.88 million. The appraised value of the total equity of Xincat Pharmaceutical was computed based on the income approach. The net profits (both before and after taxation and extraordinary items) of Xincat Pharmaceutical were RMB18.71 million and RMB16.36 million for the financial year ended 31 December 2012 and approximately RMB16.56 million and approximately RMB14.08 million for the financial year ended 31 December 2013. The original investment cost of the Relevant Equity Interest by Hualu Holdings was approximately RMB33.97 million, being the registered capital contributed by Hualu Holdings in respect of the Relevant Equity Interest of Xincat Pharmaceutical. The registered capital of Xincat Pharmaceutical is RMB84.93 million.

The Directors have resolved to bid at a price of not more than RMB112 million in cash having considered various factors, including the historical earnings and future prospects of Xincat Pharmaceutical.

In determining the maximum bidding price, the Directors have made reference to the weighted average static price to earnings ratio of the pharmaceutical industry in Shanghai and Shenzhen (滬深兩市醫藥製造業加權平均靜態市盈率) as indicated on the website of China Securities Index Co. Ltd (中証指數有限公司), being 42.93 times as of 29 January 2014. The Directors are of the view that the maximum bidding price should be based on a price per earnings multiple of not more than 20 times, which was arrived at by making reference to the general yield rate of the PRC government bond, being approximately 5% per annum and hence a price per earnings ratio of 20 times. Given the price per earnings multiple adopted for setting the maximum bidding price is far lower than the weighted average static price to earnings ratio of the pharmaceutical industry as referred to above, the Directors are of the view that the consideration is fair and reasonable.

By multiplying this price per earnings multiple with the earnings of Xincat Pharmaceutical of 2013, the Directors have resolved that the maximum bidding price for the Relevant Equity Interest in Xincat Pharmaceutical should be no more than RMB 112 million.

If the Company is successful in the bidding, the final consideration will be determined by the bidding result and the Acquisition Agreement will be entered into between Hualu Holdings and the Company for the acquisition of the Relevant Equity Interest. In any event, the final consideration shall not exceed RMB112 million which is the maximum bidding price that the Company will seek the approval from the Independent Shareholders at the EGM. The Company intends to make payment for this acquisition out of its internal resources.

(d) The terms of the proposed Acquisition Agreement

If the Company is successful in the bidding, the Company will enter into the Acquisition Agreement with Hualu Holdings and will purchase the Relevant Equity Interest. The major terms of the proposed Acquisition Agreement will be as follows:

(i) Consideration

The Directors have resolved to bid at a price of not more than RMB112 million. Therefore, the consideration of the Xincat Pharmaceutical Acquisition will not, in any event, exceed RMB112 million.

(ii) Conditions Precedent

Completion of the Xincat Pharmaceutical Acquisition is subject to the satisfaction or waiver by the Company of certain conditions precedent, including:

(A) the Company and Hualu Holdings having obtained all necessary internal authorisations, consents and approvals;

(B) Xincat Pharmaceutical having obtained all necessary internal authorisations, consents and approvals;

(C) all necessary consent, if any, having been obtained from the creditors and other relevant third parties of Xincat Pharmaceutical in respect of the Xincat Pharmaceutical Acquisition;

(D) all relevant filing procedures for the valuation report having been completed;

(E) the sale of the Relevant Equity Interest in Xincat Pharmaceutical having completed the open tender process in accordance with the laws and regulations of the PRC and the Shandong Property Right Exchange Center;

(F) the Xincat Pharmaceutical Acquisition having obtained all necessary governmental approvals; and

(G) the representations, warranties and undertakings to the Acquisition Agreement given by both parties remaining true and accurate from the date of the Acquisition Agreement to the date of completion.

(iii) Completion and payment

Completion will take place and full payment of the consideration shall be made, within 20 working days after the Acquisition Agreement is signed.

Upon completion of the Xincat Pharmaceutical Acquisition, Xincat Pharmaceutical will be owned as to 60% by the Company and 40% by Hualu Holdings.

2.2 Tender Process at Shandong Property Right Exchange Center

A summary of the tender process at Shandong Property Right Exchange Center in relation to the Relevant Equity Interest is as follows:

(a) Hualu Holdings specifies the proposed selling price and terms of sale.

(b) Shandong Property Right Exchange Center specifies a date upon which the Relevant Equity Interest will be openly available for tender.

(c) Upon obtaining the Independent Shareholders' approval at the EGM in relation to the Xincat Pharmaceutical Acquisition, the Company will then submit the bidding application to Shandong Property Right Exchange Center to bid for the Relevant Equity Interest from Hualu Holdings. Within 2 working days after its qualification as potential transferee being accepted by Shandong Property Right Exchange Center, the Company is required to pay a deposit of RMB20 million to Shandong Property Right Exchange Center for the Xincat Pharmaceutical Acquisition.

(d) After the expiration of the period for Hualu Holdings to list the relevant open tender on Shandong Property Right Exchange Center, Shandong Property Right Exchange Center will notify the Company as to whether it has succeeded in the bidding.

(e) Within 2 working days of the confirmation of the successful bidding by the Company, the Company will enter into the Acquisition Agreement with Hualu Holdings. Within 2 working days after the entering into of the Acquisition Agreement, the Company has to pay the balance of the purchase price into the account designated by Shandong Property Right Exchange Center.

Shandong Property Right Exchange Center is responsible for administering the tender process (including the selection and the finalisation of the successful bidder). It is the intention of the Company to submit the bidding application to Shandong Property Right Exchange Center upon obtaining the Independent Shareholders' approval at the EGM in relation to the Xincat Pharmaceutical Acquisition. Further announcement will be made by the Company upon the announcement of the bidding results by Shandong Property Right Exchange Center.

The Acquisition Agreement will be entered into between Hualu Holdings and the Company within 2 working days once Shandong Property Right Exchange Center can confirm with the Company that it has succeeded in the bidding. The RMB20 million deposit paid by the Company when submitting the tender offer will be used as part of the purchase price. As the bidding of the Relevant Equity Interest is subject to Independent Shareholders' approval, such approval has to be obtained by the Company at the EGM before the Company can enter into the Acquisition Agreement. The Company has applied for and has been granted a waiver from strict compliance with Rules 14.34 and 14A.47 of the Listing Rules in this regard.

The Directors are of the view that (i) this circular provides sufficient information for the Shareholders to make informed decision; (ii) the Company is able to comply with the requirements under Rule 2.13 of the Listing Rules despite the fact that the date of the Acquisition Agreement is not able to be disclosed in this circular. Further, if the Xincat Pharmaceutical Acquisition is approved by the Independent Shareholders and that the Company is successful in the bidding, the Company will publish an additional announcement to disclose the results of the bidding and the date of the Acquisition Agreement.

2.3 Reasons for, and benefits of, the Xincat Pharmaceutical Acquisition

The Board considers that the Xincat Pharmaceutical Acquisition is beneficial to the Company for the following reasons:

1. The Xincat Pharmaceutical Acquisition can help to consolidate resources of both the Company and Xincat Pharmaceutical so as to strengthen the business of the Company and is in line with the Company's business development strategy. In particular:

    - through the Xincat Pharmaceutical Acquisition, resources that were allocated to the development of network channeling, branding, research and development and marketing of the preparations can be consolidated;

    - the Xincat Pharmaceutical Acquisition allows the Company to better manage the composition and arrangement of preparation types;

    - the Xincat Pharmaceutical Acquisition allows the Company and Xincat Pharmaceutical to complement each other;

- the Xincat Pharmaceutical Acquisition helps the Company and Xincat Pharmaceutical to progress and promote business development together so that the business of the Group as a whole can be strengthened; and

- the Group's strategic goal to attain significant improvement in the development of preparations so as to change the production method and adjust the composition of the preparations can be achieved.

2. In relation to the historical earnings of Xincat Pharmaceutical, the profits after taxation for the years ended 31 December 2011, 2012 and 2013 were RMB22.463 million, RMB16.364 million and RMB14.075 million respectively. The decrease in net profit in 2013 against that in 2012 was due to the effect of tender procurement of certain pharmaceutical products and the decrease in sales of the higher profit margin products. Despite the downward trend in the profits of Xincat Pharmaceutical, the Directors are of the view that the successful bidding of the Relevant Equity Interest would allow the Company to fully develop its strength in research and development, consolidate the resources, strengthen the production of new products and achieve costs reduction through advancement in technology. As such, the Directors are of the view that the Xincat Pharmaceutical Acquisition is fair and reasonable and in the interest of the Company and its shareholders.

3. The Xincat Pharmaceutical Acquisition has the effect of reducing "connected transactions" (as defined under the listing rules of the Shenzhen Stock Exchange) within the Group from a PRC perspective. Under the listing rules of the Shenzhen Stock Exchange, Xincat Pharmaceutical would not be regarded as a "connected person" (as defined under the listing rules of the Shenzhen Stock Exchange) of the Company after it becomes a subsidiary of the Company. The Xincat Pharmaceutical Acquisition will therefore allow for a streamline intra-group distribution process so as to improve the overall competitiveness of the Group.

   However, under the Listing Rules, Xincat Pharmaceutical is still a connected person of the Company under Rule 14A.11(5) upon completion of the Xincat Pharmaceutical Acquisition as Hualu Holdings would be the holder of 40% of equity interest of Xincat Pharmaceutical and a controlling shareholders of the Company.

4. Further, the Directors are of the view that the terms of the Xincat Pharmaceutical Acquisition are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

2.4 Possible financial effects of the Xincat Pharmaceutical Acquisition

Upon completion of the Xincat Pharmaceutical Acquisition, the Company's interest in Xincat Pharmaceutical will be increased from 20% to 60% and the Directors confirmed that Xincat Pharmaceutical will become a subsidiary of the Group and its financial results will be consolidated into the Group's financial results.

The Directors expected that:

- the Group's net assets would not be materially affected by the Xincat Pharmaceutical Acquisition;
- The Xincat Pharmaceutical Acquisition would likely have a positive impact on the future earnings of the Group, which is in the interests of the Company and the Shareholders as a whole; and
- As the Company will satisfy the Xincat Pharmaceutical Acquisition with internal resources of the Group, the Group's working capital would be reduced following the Xincat Pharmaceutical Acquisition. Nevertheless, the Directors consider that it will not affect the Group's normal operations.

2.5 Waiver application on the disclosure as required under Rules 14.62, 14A.56(8) and paragraph 29(2) of Appendix 1B and 14A.59(3) of the Listing Rules

The appraised value of the total equity interest in Xincat Pharmaceutical as per the valuation report prepared by the Valuer for Hualu Holdings was computed based on the income approach. A valuation of assets based on the income approach is regarded as a profit forecast under the Listing Rules. Accordingly, the Company is required to comply with Rules 14.62, 14A.56(8) and paragraph 29(2) of Appendix 1B and Rule 14A.59(3) of the Listing Rules in relation to profit forecast requirements. Having considered the factors below, the Company has applied for and has been granted a waiver from strict compliance with Rules 14.62, 14A.56(8) and paragraph 29(2) of Appendix 1B and Rule 14A.59(3) of the Listing Rules:

(a) the Company was not involved in preparing the valuation report which was prepared by the Valuer for Hualu Holdings;

(b) however, Rules 14.62 and 14A.56(8) assume that the Company's directors made the forecast; and

(c) while the initial asking price for the bid fixed and disclosed in the tender notice by Shandong Property Right Exchange Center has been based on the valuation report under PRC regulations, the Board of the Company will take into account other factors, including the historical earnings and future prospects of Xincat Pharmaceutical, when it assesses the Xincat Pharmaceutical Acquisition and the maximum price for the bid to be proposed to the Shareholders in the EGM.

2.6 Implication of the Listing Rules

As at the Latest Practicable Date, Hualu Holdings is the controlling shareholder of SXPGC, which holds 36.32% equity interest in the Company and as such, Hualu Holdings is a connected person of the Company.

Application has been made to, and approval has been obtained from, the Stock Exchange for the adoption of an alternative percentage ratio pursuant to Rule 14.20 of the Listing Rules in respect of the Xincat Pharmaceutical Acquisition. As the applicable ratios pursuant to Rule 14.07 of the Listing Rules and the alternative percentage ratio in respect of the Xincat Pharmaceutical Acquisition exceed 5% but are below 25%, if the Company is successful in the bidding, the Xincat Pharmaceutical Acquisition will constitute a discloseable and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules respectively and will be subject to reporting and announcement requirements and approval by the Independent Shareholders at the EGM by way of poll. SXPGC and its associates shall abstain from voting on the resolution approving the Xincat Pharmaceutical Acquisition.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Xincat Pharmaceutical Acquisition and Cinda International has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

3 INFORMATION OF THE COMPANY AND OTHER PARTIES

(a) Information of the Company

The Company is mainly engaged in the development, manufacture and sales of bulk pharmaceuticals, preparations and chemicals products.

(b) Information of Hualu Holdings

Hualu Holdings is mainly engaged in the investment of fertilisers, petrochemical industries and investment in sectors which are not prohibited by the state (or the local community). Hualu Holdings is also engaged in asset management.

(c) Information of Xincat Pharmaceutical

Xincat Pharmaceutical is principally engaged in the production and sale of tablets, capsules, granules, dry suspension agent, bulk pharmaceuticals, freeze dried powder for injection.

As the Xincat Pharmaceutical Acquisition may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the shares of the Company.

4 ELECTION OF NEW INDEPENDENT NON-EXECUTIVE DIRECTOR

Reference is made to the announcement of the Company dated 24 December 2013 in relation to the resignation of Mr. Bai Huiliang as the Company's independent non-executive director. In this connection, it is proposed that Mr. Liu Hongwei is to be elected as an independent non-executive Director of the Company at the EGM to replace Mr Bai Huiliang.

Particulars of Mr. Liu Hongwei

The following are the particulars of Mr. Liu Hongwei:

Mr. Liu Hongwei, 51, a professor with doctor's degree, is a certified public accountant in China. Mr. Liu was previously the deputy head of Management School of Shandong University, and is currently the head of the Financial Department of Shandong University and the independent director of Joyoung Company Limited(九陽股份有限公司), Shandong Dong-E E-jiao Co., Ltd. (東阿阿膠股份有限公司), Tungkong Inc.(東港股份有限公司) and Minsheng Investment Co.,Ltd (民生投資股份有限公司). Save as disclosed above, Mr. Liu did not hold any other directorship in any listed companies in the past three years or any other positions in the Company or other members of the Group. Mr. Liu has no relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

As at the date hereof, Mr. Liu does not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Liu has not entered into any service contract with the Company. The proposed amount of Mr. Liu's emolument for 2014 is approximately RMB70,000, determined by reference to his experience and the emoluments of other independent non-executive Directors of the Company. The term of office of Mr. Liu, if elected, will commence from the date of approval by the Shareholders at the EGM and will end on the expiry of the term of the current session of the Board.

Save as disclosed herein, there is nothing in respect of Mr. Liu which needs to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules nor is there anything that needs to be brought to the attention of the Shareholders of the Company.

5 EGM

The Directors have resolved to convene the EGM to be held at the Company's conference room at No.1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC on 18 March 2014 at 2:00 p.m. to consider and approve the Xincat Pharmaceutical Acquisition and the election of an independent non-executive director of the Company. A notice convening the EGM together with the form of proxy and reply were issued on 29 January 2014. A revised notice convening the EGM together with the revised form of proxy were issued on 13 February 2014.

Resolutions will be voted by poll in the meeting. As Hualu Holdings is the controlling shareholder of SXPGC, a substantial shareholder of the Company holding 36.32% equity interest in the Company, Hualu Holdings is a connected person of the Company under the Listing Rules and SXPGC and its associates shall abstain from voting on the resolution approving the Xincat Pharmaceutical Acquisition.

Whether or not you are able to attend the meeting, we encourage you to complete and return the enclosed form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours prior to the commencement of the EGM to the Company Secretary's Office of the Company at No.1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC. The completion and return of the form of proxy will not preclude you from attending and voting at the meeting, or any adjournment thereof, if you so wish.

For the purpose of the EGM, the Board has established the Independent Board Committee to consider and advise the Independent Shareholders with respect to the Xincat Pharmaceutical Acquisition. The Board has also appointed Cinda International, the independent financial adviser, to advise the Independent Board Committee and the Independent Shareholders in respect of the Xincat Pharmaceutical Acquisition.

6 RECOMMENDATION

(a) Xincat Pharmaceutical Acquisition

Your attention is drawn to the letter from the Independent Board Committee set out on pages 15 to 16 of this circular which contains its recommendation to the Independent Shareholders in relation to the Xincat Pharmaceutical Acquisition. Your attention is also drawn to the letter of advice from Cinda International set out on pages 17 to 35 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Xincat Pharmaceutical Acquisition and the principal factors and reasons taken into account in arriving at its recommendation.

The Independent Board Committee, having taken into account the advice of Cinda International, considers that (i) the bidding by the Company of the Relevant Equity Interest at Shandong Property Right Exchange Center; and (ii) if the bidding is successful, the entering into of the Acquisition Agreement, the terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve (i) the bidding by the Company of the Relevant Equity Interest at Shandong Property Right Exchange Center and (ii) if the bidding is successful, the entering into of the Acquisition Agreement, the terms and the transactions contemplated thereunder. The full text of the letter from the Independent Board Committee is set out on pages 15 to 16 of this circular.

The Board is of the view that (i) the bidding by the Company of the Relevant Equity Interest at Shandong Property Right Exchange Center; and (ii) if the bidding is successful, the entering into of the Acquisition Agreement, the terms and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

(b) Proposed election of a new independent non-executive Director

The Board considers that the proposed election of the new independent non-executive Director is fair and reasonable so far as the Shareholders are concerned.

7 ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Shandong Xinhua Pharmaceutical Company Limited
Zhang Daiming
Chairman

山東新華製藥股份有限公司
Shandong Xinhua Pharmaceutical Company Limited
(a joint stock company established in the People's Republic of China with limited liability)

(Stock Code: 0719)

Independent Non-executive Directors:	*Registered Address:*
Mr. Zhu Baoquan	Chemical Industry Area of Zibo Hi-tech
Mr. Bai Huiliang	Industry Development Zone, Zibo City,
Mr. Kwong Chi Kit, Victor	Shandong Province, the PRC

3 March 2014

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE XINCAT PHARMACEUTICAL ACQUISITION

We refer to this circular dated 3 March 2014 issued by the Company to its Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on whether (i) the bidding by the Company of the Relevant Equity Interest at Shandong Property Right Exchange Center; and (ii) if the bidding is successful, the entering into of the Acquisition Agreement, the terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. None of the members of the Independent Board Committee has any direct or indirect interest in the aforesaid discloseable and connected transaction. In addition, Cinda International has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the bidding by the Company of the Relevant Equity Interest at Shandong Property Right Exchange Center; and (ii) if the bidding is successful, the entering into of the Acquisition Agreement, the terms and the transactions contemplated thereunder.

We wish to draw your attention to (i) the letter of advice from Cinda International as set out on pages 17 to 35 of this circular; and (ii) the letter from the Board on pages 1 to 14 of this circular, which set out information relating to, and the reasons for and benefits of the approval of the Xincat Pharmaceutical Acquisition.

Having considered the advice given by Cinda International and discussed with the management of the Company the reasons for and benefits of the approval of the Xincat Pharmaceutical Acquisition, we are of the opinion that (i) the bidding by the Company of the Relevant Equity Interest at Shandong Property Right Exchange Center and (ii) if the bidding is successful, the entering into of the Acquisition Agreement, the terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Xincat Pharmaceutical Acquisition as set out in the notice of the EGM to be held on 18 March 2014.

Yours faithfully,
The Independent Board Committee of
Shandong Xinhua Pharmaceutical Company Limited
Mr. Zhu Baoquan, Mr. Bai Huiliang, Mr. Kwong Chi Kit, Victor

The following is the text of a letter of advice from Cinda, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this Circular

信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

3 March 2014

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE XINCAT PHARMACEUTICAL ACQUISITION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the discloseable and connected transaction regarding the Xincat Pharmaceutical Acquisition, details of which is set out in the "Letter from the Board" (the "**Letter**") contained in the circular dated 3 March 2014 (the "**Circular**") issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular, unless the context requires otherwise.

As at the date hereof, Xincat Pharmaceutical was owned as to 80% by Hualu Holdings and 20% by the Company. According to the Letter, the Company will bid in an open tender process at Shandong Property Right Exchange Center for the acquisition of the Relevant Equity Interest in Xincat Pharmaceutical from Hualu Holdings and the Board wishes to bid at a price of not more than RMB112 million. If the Company is successful in the bidding, the Acquisition Agreement will be entered into between Hualu Holdings and the Company.

As at the Latest Practicable Date, Hualu Holdings is the controlling Shareholder of SXPGC, a substantial shareholder of the Company and is directly holding 36.32% equity interest in the Company. Accordingly, Hualu Holdings is a connected person of the Company under the Listing Rules.

If the Company is successful in the bidding, the Xincat Pharmaceutical Acquisition will constitute a discloseable and connected transaction of the Company under the Listing Rules and is therefore subject to reporting, announcement and Independent Shareholders' approval requirements at the EGM by way of poll under the Listing Rules. As stated in the Letter, SXPGC and its associates shall abstain from voting on the resolution approving the Xincat Pharmaceutical Acquisition.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Zhu Baoquan, Mr. Bai Huiliang and Mr. Kwong Chi Kit, Victor, has been formed to advise the Independent Shareholders on the Xincat Pharmaceutical Acquisition. We, Cinda International Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders whether the terms of the Xincat Pharmaceutical Acquisition is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and whether the Xincat Pharmaceutical Acquisition is in the interest of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and assumed that they are true, accurate and complete in all material aspects. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to believe that any material information has been withheld from us, nor to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendations as set out in this letter and to justify our reliance on such information. We have not, however, conducted any independent investigation into the business and affairs of the Group or its associates, nor have we carried out any independent verification of the information supplied.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other matters the omission of which would make any statement in the Circular misleading.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Xincat Pharmaceutical Acquisition is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and whether the Xincat Pharmaceutical Acquisition is in the interest of the Company and the Shareholders as a whole, we have taken into consideration the following principal factors and reasons:

1. Overview of the Xincat Pharmaceutical Acquisition

As stated in the Letter, the Board proposes to bid in an open tender process at the Shandong Property Right Exchange Center for the acquisition of the Relevant Equity Interest from Hualu Holdings, as Hualu Holdings intends to put up the Relevant Equity Interest for sale. The Company intends to submit the bidding application to Shandong Property Right Exchange Center upon obtaining the Independent Shareholders' approval at the EGM in relation to the Xincat Pharmaceutical Acquisition. A summary of the tender process is set out in the Letter. If the Company is successful in the bidding, the Company will enter into the Acquisition Agreement with Hualu Holdings and will acquire the Relevant Equity Interest.

According to the Letter, the Directors have resolved to a maximum bidding price of not more than RMB112 million (the "**Maximum Bidding Price**") for the Relevant Equity Interest. The proposed Maximum Bidding Price is with reference to the valuation report dated 20 July 2013 (the "**Valuation Report**") prepared by the Valuer computed based on income approach, which is further mentioned in the section 5(b) below. We were also advised by the Company that the Maximum Bidding Price is also based on a price per earnings multiple of not more than 20 times for Xincat Pharmaceutical for the years ended 31 December 2012 and 2013. As set out in the Letter, the benchmark of 20 times was arrived at by making reference to the general yield rate of the PRC government bond, being approximately 5% per annum and hence a price per earnings ratio of 20 times was derived. We were also advised by the Company that the Maximum Bidding Price was also considered taking into account the Group's present funding and financial situation and the fact that Xincat Pharmaceutical is not a listed company.

The Acquisition Agreement will be entered into between Hualu Holdings and the Company within two working days once Shandong Property Right Exchange Center has confirmed with the Company that it has succeeded in the bidding. The Company will publish an announcement to disclose the results of the bidding and the date of the Acquisition Agreement. Completion of the Xincat Pharmaceutical Acquisition is subject to the satisfaction or waiver by the Company of certain conditions precedent which are set out in the Letter.

As stated in the Letter, the final consideration of not more than RMB112 million will be payable in cash by the Company to Hualu Holdings subject to the bidding result. The final consideration will deduct the RMB20 million which is the deposit to be paid by the Company when submitting the tender offer and will be part of the purchase price. As the bidding of the Relevant Equity Interest is subject to Independent Shareholders' approval, such approval has to be obtained by the Company at the EGM before the Company enters into the Acquisition Agreement. The consideration shall not exceed the Maximum Bidding Price and the Company will seek the approval from the Independent Shareholders at the EGM in this regards. The Company has applied for and the Stock Exchange has granted a waiver from strict compliance with Rules 14.34 and 14A.47 of the Listing Rules to seek a prior mandate from the Shareholders to acquire the Relevant Equity Interest at the Maximum Bidding Price.

2. Information on Xincat Pharmaceutical

Xincat Pharmaceutical was established on 11 March 1993 and is principally engaged in the production and sale of tablets, capsules, granules, dry suspension agent, bulk pharmaceuticals, freeze dried powder for injection. The original investment cost of the Relevant Equity Interest by Hualu Holdings was approximately RMB33.97 million, being the registered capital contributed by Hualu Holdings in respect of the Relevant Equity Interest. The registered capital of Xincat Pharmaceutical is RMB84.93 million.

Xincat Pharmaceutical is situated in the Hi-tech Industry Development Zone, Zibo City, Shandong Province, the PRC, occupying a site area of 55,000 square metres. According to the Company, there are 441 employees in Xincat Pharmaceutical.

The following summarizes the audited financial information of Xincat Pharmaceutical for the two years ended 31 December 2012 and the unaudited financial information of Xincat Pharmaceutical for the year ended 31 December 2013, prepared in accordance with PRC Accounting Standards ("**PRC Accounting Standards**"):

(in RMB'000)

	For the year ended 31 December 2011 (audited)	**For the year ended 31 December 2012** (audited)	**For the year ended 31 December 2013** (unaudited)
Turnover	253,025	278,418	223,047
Profit before taxation	25,599	18,710	16,559
Profit after taxation	22,463	16,364	14,075

	As at 31 December 2011 (audited)	**As at 31 December 2012** (audited)	**As at 31 December 2013** (unaudited)
Total assets	154,288	186,002	186,884
Total liabilities	62,431	77,780	74,810
Net asset value	91,858	108,222	112,073

For the years ended 31 December 2012 and 2013, the turnover of Xincat Pharmaceutical increased by approximately 10.0% and decreased by approximately 19.9% as compared to those of the respective last corresponding years. For the years ended 31 December 2012 and 2013, the profit after taxation decreased by 27.2% and 14.0% as compared to those of the respective last corresponding years. Gross profit margin decreased from 10.1% for the year ended 31 December 2011 to 6.7% for the year ended 31 December 2012 and increased to 7.4% for the year ended 31 December 2013. A reconciliation of Xincat Pharmaceutical's 2012 financial information illustrating the differences (the "**Differences**") between the PRC Accounting Standards and the Hong Kong General Accepted Accounting Principles ("**HKGAAP**") was also prepared by the reporting accountants of Xincat Pharmaceutical as shown in Appendix II to this Circular. If it was prepared under the HKGAAP, the profit before and after tax of Xincat Pharmaceutical for the year ended 31 December 2012 were approximately RMB18,710,000 and RMB16,013,000 respectively, while the net asset value of Xincat Pharmaceutical as at 31 December 2012 was approximately RMB111,142,000. The Differences are insignificant.

According to the Company, the decrease in net profit of Xincat Pharmaceutical in 2013 against that in 2012 was due to the effect of tender procurement and the decrease in sales of the higher profit margin products; while the decrease in net profit in 2012 was mainly due to provision made for impairment allowance which was a one-off provision for the disputes in relation to banks acceptance bills and the increase in marketing expenses of preparations products which have higher profit margin.

3. Overview of the Group

The Company is principally engaged in the development, manufacture and sales of bulk pharmaceuticals, preparations and chemicals products. The Company is a joint stock limited company established in the PRC and the H Shares and A Shares of which are listed on the Stock Exchange and the Shenzhen Stock Exchange respectively.

The following summarizes the key audited financial information of Group for the years ended 31 December 2011 (the "**FY2011**") and 31 December 2012 (the "**FY2012**"), and the unaudited financial information of the Group for the six months ended 30 June 2013 (the "**1H2013**"), prepared under HKGAAP, as extracted from the Company's 2012 annual report and 2013 interim report:

(in RMB'000)

	FY2011	**FY2012**	**1H2013**
	(audited)	(audited)	(unaudited)
Revenue:			
Bulk pharmaceutical	1,491,589	1,422,469	781,092
Preparations	553,395	586,292	303,471
Medical commercial Logistics	734,364	718,835	411,502
Chemical products and other products	138,512	204,520	103,937
Total revenue	2,917,860	2,932,116	1,600,002
Profit attributable to the owners of the Company	74,375	22,417	4,510

	As at 31 December 2011 (audited)	As at 31 December 2012 (audited)	As at 30 June 2013 (unaudited)
Total assets	3,017,412	3,639,490	3,636,675
Total liabilities	1,259,624	1,855,699	1,886,246
Total equity	1,757,788	1,783,791	1,750,429

According to the Company's 2013 interim report, the Group's turnover for principal operations by geographical location of customers was approximately RMB949.7 million from the PRC (including Hong Kong), approximately RMB249.7 million from Europe, approximately RMB291.2 million from Americas and approximately RMB109.5 million from other area. The Directors expect that turnover and contribution from this business segment, particularly in the PRC, would continue to grow and become one of the Group's major segments, which is the key revenue contributor of the Group.

As disclosed in the Company's 2013 interim report, the objective of the Company is "exploring international emerging markets and developing new domestic pharmaceuticals client" and "strengthen quality control to boost corporate comprehensive competitiveness". For the 1H2013, the revenue and net profit attributable to owners of the Company were approximately RMB1,600 million and RMB4.5 million respectively, representing an increase of 4.9% and a decrease of 85.2% respectively, as compared to those of the same period last year. The Company attributed the significant decrease in net profit to various factors including a continuous downturn of international market demands, the appreciation of RMB, the increasing downward pressure on the domestic economy, price competitions of pharmaceutical products, bidding of preparation products, increasing pressures on environmental protection, price drop of the Company's products, the increase of financial expenses arising from products relocation and the rise of production costs resulted from the initial operation stage of new production lines. In response to these, the Group stated that it took measures during the 1H2013 to have actively explored markets and expanded sales scale, applied scientific and technological innovation and consolidated development potential, and accelerated construction of the relocation project and improved the product mix, which helps to boost the market competitiveness of the Group's products.

It was also disclosed in the Company's third quarterly results for the nine months ended 30 September 2013 ("**3Q2013**") prepared under PRC Accounting Standards that the unaudited total operating income and net profit attributable to the equity holders of the Company for the nine months ended 30 September 2013 were approximately RMB2,381 million (2012: RMB2,280 million) and RMB35 million (2012: RMB32 million) respectively, representing only a slight increase in net profit of approximately 9% as compared with that for the last corresponding period. Unaudited net assets attributable to equity holders of the Company as at 30 September 2013 was approximately RMB1,737 million.

On 27 January 2014, the Company made a positive profit alert announcement stating that it estimated a 30% to 70% increase in net profit attributable to Shareholders for the year ended 31 December 2013 as compared with that for the year ended 31 December 2012. However, the Company stated that the increase was primarily due to the increase of non-current assets disposal income and government subsidies.

4. Reasons for and benefits of the Xincat Pharmaceutical Acquisition

It was stated in the Letter that the Xincat Pharmaceutical Acquisition can help to consolidate resources of both the Company and Xincat Pharmaceutical so as to strengthen the business of the Company and is in line with the Company's business development strategy based on the following grounds:

a) through the Xincat Pharmaceutical Acquisition, resources that were allocated to the development of network channeling, branding, research and development and marketing of preparations can be consolidated;

b) the Xincat Pharmaceutical Acquisition allows the Company to better manage the composition and arrangement of preparation types;

c) the Xincat Pharmaceutical Acquisition allows the Company and Xincat Pharmaceutical to complement each other;

d) the Xincat Pharmaceutical Acquisition helps the Company and Xincat Pharmaceutical to progress and promote business development together so that the business of the Group as a whole can be strengthened; and

e) the Group's strategic goal to attain significant improvement in the development of preparations so as to change the production method and adjust the composition of the preparations can be achieved.

We were advised that both the Company and Xincat Pharmaceutical have their respective sales network and brand establishment. According to the Company's 2012 annual report, the Company has an advantage in technological innovation, strong in research and development and has a national-level enterprise technology centre. As advised by the Company, Xincat Pharmaceutical is experienced in sales of preparations, especially pediatric medicines and has a distribution network supported by more than 136 sales and marketing staff. However, it is not strong in research and development. This could bring synergy effect with and advantages to the Group's existing pharmaceutical business, such as sharing of research expertise and wider coverage of sales network of existing pharmaceutical products of both companies.

The Company considers that, upon the completion of the Xincat Pharmaceutical Acquisition, the resources of both companies can be consolidated and both companies' businesses can be complementary to each other. Through the consolidation of resources, new pharmaceutical products which are developed by the Company and are suitable for the business development of Xincat Pharmaceutical can be passed to Xincat Pharmaceutical in priority for its production and sales, avoiding business competition between both companies. It will also increase the business competitiveness of the Group and can take advantage of its strong research and development. The Group can also consolidate the resource advantage of both companies and will benefit from the pediatric medicines production advantage of Xincat Pharmaceutical. The Company believes that the business consolidation will increase the future earnings of the enlarged Group. Given that the Company has greater market influence and reputation in the pharmaceutical market, the Directors consider that the market influence of Xincat Pharmaceutical will be enhanced after the Xincat Pharmaceutical Acquisition and it will speed up the launching of the medicine products of Xincat Pharmaceutical, which will in turn benefit the Group.

We noted from the financial statements of Xincat Pharmaceutical that it showed a decrease in profit for the two years ending 31 December 2013 as shown in section 2 above. Having discussed with the management of the Company and reviewed the financial statements of Xincat Pharmaceutical, we noted that the decrease in 2012 was mainly due to the provision made for impairment of allowance and concurred with the Directors' view that it was a one-off provision of Xincat Pharmaceutical, while the decrease in profit in 2013 was mainly due to the effect of tender procurement and the decrease in sales of products with higher profit margins. Given the Xincat Acquisition will result in the Group controlling the interest in Xincat Pharmaceutical, the Directors are of the view that the synergy effect after the Xincat Acquisition as detailed above will benefit both the Company and Xincat Pharmaceutical, as well as to improve the profitability of Xincat Pharmaceutical supported by the Group's advantages in research and development capability. We concur with the view of the Directors and considered that the Xincat Acquisition is fair and reasonable in this regards.

Having considered that (i) the Company has strong commitment in its pharmaceutical industry; and (ii) the Xincat Pharmaceutical Acquisition will provide an opportunity to the Company to focus its resources, we are of the view that the Xincat Pharmaceutical Acquisition is in line with the corporate strategy of the Company and is in the interests of the Company and the Shareholders as a whole.

According to the website of the National Bureau of Statistic of China, the PRC's gross domestic product per capita grew from RMB16,500 in 2006 to RMB38,420 in 2012. There is also an increase in the life expectancy and people are becoming more conscious of health. The annual consumption expenditure per capita on healthcare and medical services in China increased from approximately RMB748 in 2006 to approximately RMB2,056 in 2012. It is expected that the significant growth of China's population aged 65 or above will drive the demand for healthcare and medical services in China. The proportion of the population aged 65 or above in China has increased by about 22% from approximately 104.2 million in 2006 to approximately 127.1 million in 2012. The rising life expectancy is also expected to contribute to the growth of China's aging population, both as an absolute number and as a percentage of the total population. There also has been an increase in the prevalence of diseases caused by social changes in the PRC, either directly or indirectly by adopting certain lifestyles, for example, smoking, physical exercise behavior, alcohol use, etc. These trends are expected to drive up the demands for the relevant drugs healthcare products and medical services in the PRC.

In the Twelfth Five-Year Plan for National Economic and Social Development, the pharmaceutical industry is one of the named industries that will be supported by the PRC government's polices. The PRC government has not only made huge investments in innovative studies and encouraged development of the pharmaceutical industry, but also put forward the structural reform on the health care and medical system which will increase the medical expenditure. Meanwhile, the population growth, improvement in living standards, and as well as change of disease spectrums will also increase the need for pharmaceutical products.

Since Xincat Pharmaceutical is being one of the participants in the pharmaceutical industry, it would benefit from the sound prospect of pharmaceutical industry in the PRC and the positive support from the PRC government as mentioned above. We are of the view that with the favorable development of the industry, it is expected that Xincat Pharmaceutical will contribute positively towards the revenue and profit of the Group and we concur with the Directors' view that the Xincat Pharmaceutical Acquisition is in the interests of the Company and the Shareholders as a whole and is in the ordinary and usual course of business of the Company.

The Directors are of the view that, taking into consideration of the financial position and profitability of Xincat Pharmaceutical, the Xincat Pharmaceutical Acquisition would be beneficial to the Company and Shareholders as a whole. We consider that the Directors' view is reasonable in this regard.

5. Evaluation of the consideration

(a) Comparable company analysis

For the purpose of assessing the fairness and reasonableness of the Maximum Bidding Price for the Xincat Pharmaceutical Acquisition, we have made reference to the price to book ratio (the "**PBR**") and price per earnings ratio ("**PER**") of the other comparable listed companies ("**Comparable Companies**"). PER is defined as the ratio of a company's current share price to its per share earnings, while PBR is derived from dividing the market capitalization (based on the latest number of issued shares and the closing share price of the Comparable Companies as at the Latest Practicable Date) by net asset attributable to shareholders of the Comparable Companies as disclosed in their latest published financial statements. The Comparable Companies are listed on the Main Board of the Stock Exchange and have similar businesses with Xincat Pharmaceutical which are principally engaged in the production and sales of pharmaceutical and biotechnology products. To the best of our knowledge, we have identified, on a best effort basis, the following Comparable Companies and made a comparison with the PBR and PER as represented by the Maximum Bidding Price for the Xincat Pharmaceutical Acquisition as detailed in the table below.

Company name (Stock code)	Principal business	PBR (times)	PER (times)
Sihuan Pharmaceutical Holdings Group Ltd. (460)	Manufacture and sales of pharmaceutical products	4.90	39.93
Wuyi International Pharmaceutical Co., Ltd. (1889)	Development, manufacture, marketing and sales of pharmaceutical products	0.53	NA(*)
China Shineway Pharmaceutical Group (2877)	Research and development, manufacture and trading of Chinese Pharmaceutical products	1.83	11.91
Tong Ren Tang Technologies Co., Ltd (1666)	Development, production and sales of pharmaceutical raw materials, preparations, chemical products and other products	4.74	34.44
Lansen Pharmaceutical Holdings Ltd. (503)	Development, production and sales of specialty prescription western pharmaceuticals for the treatment of autoimmune rheumatic diseases	1.66	12.10
CSPC Pharmaceutical Group Ltd. (1093)	Manufacture and sales of pharmaceutical products	5.58	18.00
Sino Biopharmaceutical Ltd. (1177)	Research and development, production and sales of a series of modernized Chinese medicines and chemical medicines	5.58	23.95
Hua Han Bo-Pharmaceutical Holdings Ltd. (587)	Research and development, manufacture and sales of gynecological medicine, feminine medicinal, feminine medicinal healthcare products and bio-pharmaceutical products	1.55	19.01
The United Laboratories International Holdings Ltd. (3933)	Manufacture and sales of antibiotics finished products and the bulk medicine and intermediate products	1.22	34.92
U-Home Group Holdings Ltd. (2327)	Research, manufacture, sales and trading of pharmaceutical and health care products	5.70	13.55

(*) *The company recorded a loss for the financial year ended 31 December 2012.*

Company name (Stock code)	Principal business	PBR (times)	PER (times)
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (874)	Manufacture and sales of Chinese patent medicine, wholesales, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; research and development of natural medicine and biological medical	3.72	61.01
Essex Bio-Technology Ltd. (1061)	Development, manufacture and sales of biopharmaceutical products	7.95	44.18
China Traditional Chinese Medicine Co. Ltd. (570)	Production and sales of Chinese medicine and pharmaceutical products	4.92	43.87
Lee's Pharmaceutical Holdings Ltd. (950)	Development, manufacture and sales of pharmaceutical products	6.38	36.80
China Grand Pharmaceutical and Healthcare Holdings Ltd. (512)	Manufacture and sales of pharmaceutical, healthcare products and chemical products	3.00	25.83
Maximum		7.95	61.01
Minimum		0.53	11.91
Average		3.91	29.97
Maximum Bidding Price			
based on Xincat Pharmaceutical's 2012 audited account		2.6	17.1
based on Xincat Pharmaceutical's 2013 unaudited account		2.5	19.9

Source: *Stock Exchange's website as at Latest Practicable Date and this analysis is for illustration purpose only*

As shown in the above table, the PER of the Comparable Companies ranged relatively widely from approximately 11.9 times to 61.0 times, with average of approximately 30.0 times. We have calculated the maximum PER of Xincat Pharmaceutical as implied by the Maximum Bidding Price based on Xincat Pharmaceutical's 2012 audited net profit and 2013 unaudited net profit prepared under PRC Accounting Standards (the "**Xincat Max Implied 2012 PER**" and "**Xincat Max Implied 2013 PER**" respectively). The Xincat Max Implied 2012 PER and the Xincat Max Implied 2013 PER of 17.1 times and 19.9 times respectively are within the range of the PERs of the Comparable Companies and are lower than the average PER of the Comparable Companies of 30.0 times.

The PBR of the Comparable Companies also ranged relatively widely from approximately 0.5 times to 8.0 times, with average of approximately 3.9 times. We have calculated the maximum PBR of Xincat Pharmaceutical as implied by the Maximum Bidding Price based on Xincat Pharmaceutical's 2012 audited net asset value and 2013 unaudited net asset value (the "**Xincat Max Implied 2012 PBR**" and "**Xincat Max Implied 2013 PBR**" respectively). The Xincat Max Implied 2012 PBR and Xincat Max Implied 2013 PBR of 2.6 times and 2.5 times are within the range of the PBRs of the Comparable Companies and are lower than the average PBR of the Comparable Companies of 3.9 times.

We also noted from the Letter that the Directors have made reference to the weighted average static price to earnings ratio of the pharmaceutical industry in Shanghai and Shenzhen (滬深兩市醫藥製造業加權平均靜態市盈率) as indicated on the website of China Securities Index Co. Ltd (中証指數有限公司), being 42.93 times as of 29 January 2014.

As the Xincat Max Implied 2012 PER, the Xincat Max Implied 2013 PER, the Xincat Max Implied 2012 PBR and the Xincat Max Implied 2013 PBR are all lower than the respective average PER and PBR of the Comparable Companies, and that the Xincat Max Implied 2012 PER and the Xincat Max Implied 2013 PER are also lower than the weighted average static price to earnings ratio of the pharmaceutical industry in Shanghai and Shenzhen as mentioned above, the Directors are of the view, and we concur, that the consideration for the Xincat Pharmaceutical Acquisition is fair and reasonable.

(b) Independent business valuation of Xincat Pharmaceutical

As advised by the Company, the consideration of the Xincat Pharmaceutical Acquisition of not more than RMB112 million was determined with reference to the appraised value as per the Valuation Report prepared by the Valuer, an independent qualified asset appraisal firm in the PRC and commissioned by Hualu Holdings, to conduct a business valuation of the Xincat Pharmaceutical. An English translation of the Valuation Report is set out in Appendix III to this Circular.

The appraised value of the total equity of Xincat Pharmaceutical was computed based on the income approach. As at the Valuation Date, the appraised value of the total equity interest in Xincat Pharmaceutical which was endorsed by the State-owned Assets Supervision and Administration Commission of Shandong Province (山東省國有資產監督管理委員會) for the purpose of sale was RMB222.20 million, representing a value in relation to the Relevant Equity Interest of RMB88.88 million. The Maximum Bidding Price represents a premium of approximately 26% of the appraised value.

According to the Valuation Report and our discussion with the Valuer, we understand that the Valuer has considered three generally accepted approaches, namely, the asset-based approach, market approach and income approach. The Valuer confirmed that, because of the enterprise equity transactions market is not well developed and there is lack of market data in the enterprise equity transactions, it is difficult to appraise the 100% equity interest in Xincat Pharmaceutical using market approach.

The Valuer considered that, by adopting the asset-based approach, the appraised value of the net assets of Xincat Pharmaceutical was approximately RMB160.86 million. By adopting the income approach, the appraised value of Xincat Pharmaceutical was approximately RMB222.20 million, which is approximately RMB61.34 million higher than the appraised value using the asset-based approach. The Valuer considers that asset-based approach uses the replacement costs of assets as the valuation standards, reflecting the labour of the society required and spent on the investment in the assets (costs of purchase and construction)while income approach uses the expected income of assets as the valuation standards, reflecting the degree of the operating capability (profitability) of the assets. Hence, the asset-based approach does not reflect intangible assets such as trademarks, distribution networks, drug approval numbers, patents, goodwill, which are not recorded on the accounts and do not reflect future profitability.

In conclusion, the Valuer considered that the income approach could take into consideration of the future operation and business of Xincat Pharmaceutical, which is more comprehensive and reasonable to reflect the value attributable to the owners of Xincat Pharmaceutical. Accordingly, the Valuer considered that the income approach is the most appropriate valuation approach for the valuations of the Xincat Pharmaceutical and arrived at an appraised value of RMB222.2 million. Taking into account the characteristics, business nature of the pharmaceutical industry, we concur with the Valuer's opinion that the income approach is the most appropriate valuation approach for valuing the equity interests of Xincat Pharmaceutical. In assessing the fairness and reasonableness of the principal basis and assumptions adopted for the income approach, we noted from the Valuation Report that the appraised value of Xincat Pharmaceutical contained in the Valuation Report has been prepared based on certain principal bases and assumptions which are set out under the section headed "IX. Valuation Assumptions" as set out in Appendix III to this Circular.

We are of the view that the relevant assumptions made by the Valuer are reasonable. We have also discussed with the Valuer and understand that the Valuer has made reference to the latest audited report of Xincat Pharmaceutical for adoption of certain assumptions and the Valuer has also explained the basis and methodology of its assumptions. We are satisfied with the valuation basis of the income approach, its reliance on the audited report of Xincat Pharmaceutical, the assumptions adopted and the opinion made by the Valuer in considering the continuous development of Xincat Pharmaceutical and are of the view that their opinion is justifiable.

We note that the Maximum Bidding Price represents a premium of approximately 26% of the appraised value of RMB88.88 million as appraised by the Valuer. Given that the Company considers that the Maximum Bidding Price is also based on a price per earnings multiple of not more than 20 times for Xincat Pharmaceutical for the years ended 31 December 2012 and 2013, which taking into account the Group's present funding and financial situation, and the comparable company analysis set out in section 5(a) above, we consider that the premium is fair and reasonable.

Given the valuations of the equity interests of Xincat Pharmaceutical in the Valuation Report involve the use of income approach, it is regarded as a profit forecast under Rule 14.61 of the Listing Rules and should have been required to comply with Rules 14.62, 14A.56(8) and paragraph 29(2) of Appendix 1B under Rule 14A.59(3) of the Listing Rules. Based on the factors stated in the Letter, the Stock Exchange has granted a waiver to the Company from strict compliance with the relevant Listing Rules.

6. Possible financial effects of the Xincat Pharmaceutical Acquisition

Upon completion of the Xincat Pharmaceutical Acquisition, the Company's interest in Xincat Pharmaceutical will be increased from 20% to 60% and the Directors confirmed that Xincat Pharmaceutical will become a subsidiary of the Group and its financial results will be consolidated into the Group's financial results.

Effect on net assets

As extracted from the Company's 2013 interim report, the unaudited consolidated net assets value of the Group was approximately RMB1,750.4 million as at 30 June 2013. The Directors expected that the Group's net assets would not be materially affected by the Xincat Pharmaceutical Acquisition.

Effect on earnings

In light of the existing profitable operations and the future business prospects of Xincat Pharmaceutical as expected by the Company, the Directors are of the view that the Xincat Pharmaceutical Acquisition would likely have a positive impact on the future earnings of the Group, which is in the interests of the Company and the Shareholders as a whole.

Effect on working capital

As the Company will satisfy the Xincat Pharmaceutical Acquisition by internal resources of the Group, the Group's working capital would be reduced following the Xincat Pharmaceutical Acquisition. Nevertheless, the Directors consider that it will not effect the Group's normal operations.

As stated in the Letter, the Directors are of the view that (i) the Circular has provided sufficient information for the Shareholders to make informed decision; (ii) the Company is able to comply with the requirements under Rule 2.13 of the Listing Rules despite the fact that the date of the Acquisition Agreement is not able to be disclosed in the Circular. Further, if the Xincat Pharmaceutical Acquisition is approved by the Independent Shareholders and that the Company is successful in the bidding, the Company will publish an additional announcement to disclose the results of the bidding and the date of the Acquisition Agreement. We concur with the view of the Directors in this regards.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Xincat Pharmaceutical Acquisition is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the Xincat Pharmaceutical Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the relevant resolution at the EGM to approve the Xincat Pharmaceutical Acquisition, namely, (i) the bidding by the Company of the Relevant Equity Interest at Shangdong Property Right Exchange Center and (ii) if the bidding is successful, the entering into of the Acquisition Agreement.

Yours faithfully,
For and on behalf of
Cinda International Capital Limited
Adrian Tsang
Managing Director
Head of Investment Banking Division

The following is the English translation of the audited report of Xincat Pharmaceutical which was prepared in the Chinese language. In the event of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

Auditor's Report

[2013] Jing Kuai Xing Shen Zi No. 12120107

Hualu Holdings Company Limited,

We have audited the accompanying financial statements of Shandong Zibo Xincat Pharmaceutical Company Limited ("**Xincat Pharmaceutical Company**"), including the balance sheets as at 31 December 2010, 31 December 2011, 31 December 2012 and 30 April 2013, the income statements for the year 2010, 2011, 2012 and from January to April for the year 2013, the cash flow statements, the statements of changes in equity and notes to financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Xincat Pharmaceutical Company's management is responsible for the preparation and fair presentation of the financial statements. This responsibility includes: (1) preparing the financial statements in accordance with the Accounting Standards for Business Enterprises of PRC so as to allow a fair reflection; (2) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

II. CERTIFIED PUBLIC ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an auditing opinion on the financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards for PRC Certified Public Accountants. Those standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the certified public accountant's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, certified public accountant considers internal control relevant to the preparation of the financial statements and fair presentation in order to design appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate, providing a basis for expressing our audit opinion.

III. AUDIT OPINION

In our opinion, the aforementioned financial statements, which are prepared in accordance with the requirements in Accounting Standards for Business Enterprises in all material respects, have given a fair view of the financial position of Xincat Pharmaceutical Company as of 31 December 2010, 31 December 2011, 31 December 2012 and 30 April 2013 and of its operating results and cash flows for the year 2010, 2011, 2012 and from January to April for the year 2013.

Beijing Xinghua Certified Public Accountants Company Limited

PRC certified public accountant: **Dong Meihua**

PRC certified public accountant: **Zhou Junqiang**

Beijing, the PRC

1 July 2013

BALANCE SHEET

Prepared by:
Shandong Zibo Xincat Pharmaceutical Company Limited *Unit: RMB*

Assets	*Notes*	As at 30 April 2013	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Current assets:					
Funds in Cash and cash equivalents	IV. (1)	25,831,055.87	43,243,527.33	37,475,214.41	34,820,680.33
Held-for-trade financial asset					
Note receivable	IV. (2)	12,708,511.70	11,970,651.33	12,059,309.40	1,860,536.79
Accounts receivable	IV. (3)	18,813,405.24	13,118,998.32	7,828,963.26	5,959,237.44
Advances to suppliers	IV. (4)	241,210.65	8,689.00	3,450,569.92	1,224,947.16
Interest receivable					
Dividend receivable					
Other receivable	IV. (5)	27,389,931.23	27,483,349.96	5,166,721.13	3,736,803.32
Inventories	IV. (6)	29,545,419.41	34,744,441.58	32,283,077.14	31,475,097.00
Non-current assets due within one year					
Other current asset					
Sub-total of current assets		114,529,534.10	130,569,657.52	98,263,855.26	79,077,302.04
Non-current assets:					
Available-for-sale financial asset					
Held-to-maturity investment					
Long-term receivable					
Long-term equity investment					
Investment property					
Fixed assets	IV. (7)	47,508,557.24	49,084,513.19	51,190,013.53	47,764,918.28
Construction in progress	IV. (8)	390,539.00	390,539.00	259,584.00	1,409,594.67
Construction material					
Disposal of fixed asset					
Biological asset					
Oil and natural gas					
Intangible asset	IV. (9)	3,848,674.84	3,904,452.72	4,071,786.32	4,239,119.96
Research & development cost					
Long-term prepayment					
Deferred tax assets	IV. (10)	2,061,713.08	2,053,020.95	503,098.75	20,696.80
Other non-current asset					
Sub-total of non-current assets		53,809,484.16	55,432,525.86	56,024,482.60	53,434,329.71
Total Assets		168,339,018.26	186,002,183.38	154,288,337.86	132,511,631.75

Person in charge of the Company:	*Principal in charge of accounting:*	*Head of accounting department:*
Mr. Li Tianzhong	**Ms. Chen Lijun**	**Ms. Guo Haifeng**

BALANCE SHEET *(Continued)*

Prepared by:
Shandong Zibo Xincat Pharmaceutical Company Limited *Unit: RMB*

Liabilities & Owners' equity	*Notes*	**As at 30 April 2013**	**As at 31 December 2012**	**As at 31 December 2011**	**As at 31 December 2010**
Current liabilities:					
Short-term loans	IV. (11)	20,000,000.00	35,000,000.00	30,000,000.00	30,000,000.00
Held-for-trade financial liabilities					
Note payable	IV. (12)			7,000,000.00	2,300,000.00
Account payable	IV. (13)	17,075,183.49	19,310,800.46	13,431,780.09	16,732,798.08
Advances from customers	IV. (14)	1,236,601.18	2,564,294.17	6,709,132.62	3,682,168.44
Employees' wage payable	IV. (15)	540,651.66	399,815.58	192,071.96	166,349.58
Tax payable	IV. (16)	1,069,902.15	2,193,485.24	–97,266.44	295,539.36
Interest payable					
Dividends payable					
Other payable	IV. (17)	5,294,401.03	8,871,985.15	5,195,101.62	9,940,028.13
Non-current liabilities within one year					
Other current liabilities					
Sub-total of current liabilities		45,216,739.51	68,340,380.60	62,430,819.85	63,116,883.59
Non-current liabilities:					
Long-term borrowings					
Bonds payable					
Long-term payable					
Specific payable					
Provisions	IV. (18)	9,440,000.00	9,440,000.00		
Deferred tax liabilities					
Other non-current liabilities					
Sub-total of non-current liabilities		9,440,000.00	9,440,000.00		
Total liabilities		54,656,739.51	77,780,380.60	62,430,819.85	63,116,883.59
Owners' equity:					
paid-in capital	IV. (19)	84,930,000.00	84,930,000.00	84,930,000.00	26,928,750.00
Capital reserve	IV. (20)	290,905.61	290,905.61	290,905.61	290,905.61
Less: Treasury stock					
Special reserve					
Surplus reserve	IV. (21)	9,791,745.07	9,245,697.47	7,609,268.99	5,362,992.00
General risk provision					
Undistributed profits	IV. (22)	18,669,628.07	13,755,199.70	–972,656.59	36,812,100.55
Exchange difference arising from transaction of financial statements denominated in foreign currencies					
Sub-total of owners' equity		113,682,278.75	108,221,802.78	91,857,518.01	69,394,748.16
Total liabilities & owners' equity		168,339,018.26	186,002,183.38	154,288,337.86	132,511,631.75

Person in charge of the Company:	*Principal in charge of accounting:*	*Head of accounting department:*
Mr. Li Tianzhong	**Ms. Chen Lijun**	**Ms. Guo Haifeng**

INCOME STATEMENT

Prepared by:
Shandong Zibo Xincat Pharmaceutical Company Limited *Unit: RMB*

Item	Notes	January – April 2013	Year 2012	Year 2011	Year 2010
I. Operating Income	IV. (23)	92,839,796.92	278,417,908.15	253,024,692.36	210,223,469.98
Less: Operating cost	IV. (23)	55,676,092.36	153,312,933.73	147,097,883.44	135,663,734.18
Business taxes and surcharges	IV. (24)	1,023,332.78	2,821,976.96	2,165,197.49	1,282,193.96
Selling expenses	IV. (25)	24,224,262.26	75,405,204.58	51,242,245.79	26,414,501.03
Administrative expenses	IV. (26)	5,263,572.83	17,966,475.13	22,594,780.04	13,448,606.66
Financial expense	IV. (27)	157,464.67	951,594.20	1,313,583.32	1,469,135.41
Impairment loss of assets	IV. (28)	57,947.52	892,814.65	3,216,012.97	–13,679.01
Add: Gain or loss from changes in fair value (Losses is marked with "–")					
Investment gain (Losses is marked with "–")					
Including: Gain or loss from investment in associates and joint ventures					
II. Operating profit		6,437,124.50	27,066,908.90	25,394,989.31	31,958,977.75
Add: Non-operating income	IV.(29)	22,500.00	1,117,000.00	329,000.00	60,938.26
Less: Non-operating expenses	IV.(30)		9,474,062.75	124,861.56	40,123.41
III. Total profit (Total losses is marked with "–")		6,459,624.50	18,709,846.15	25,599,127.75	31,979,792.60
Less: Income tax expenses	IV.(31)	999,148.53	2,345,561.38	3,136,357.90	4,442,546.48
IV. Net profit (Net losses is marked with "–")		5,460,475.97	16,364,284.77	22,462,769.85	27,537,246.12
V. Earnings per share:					
(I) Basic earning per share					
(II) Diluted earning per share					
VI. Other comprehensive income					
VII. Total of comprehensive incomes		5,460,475.97	16,364,284.77	22,462,769.85	27,537,246.12

Person in charge of the Company:	*Principal in charge of accounting:*	*Head of accounting department:*
Mr. Li Tianzhong	**Ms. Chen Lijun**	**Ms. Guo Haifeng**

CASH FLOW STATEMENT

Prepared by:
Shandong Zibo Xincat Pharmaceutical Company Limited *Unit: RMB*

Item		January-April 2013	Year 2012	Year 2011	Year 2010
I.	**Cash flow from operating activities:**				
	Cash receipts from the sale of goods or rendering of services	47,721,766.81	154,218,085.63	145,377,426.63	98,258,635.29
	Receipts of tax refunds				
	Other cash receipts relating to operating activities	4,148,696.80	66,184,485.46	91,364,187.39	40,053,242.71
	Sub-total of cash inflows from operating activities	51,870,463.61	220,402,571.09	236,741,614.02	138,311,878.00
	Cash payments for goods purchased and services received	12,984,663.43	44,194,818.15	36,596,357.66	17,803,087.03
	Cash paid to and on behalf of employees	8,465,129.45	23,144,311.73	22,480,063.42	17,901,217.19
	Payments of all types of taxes	11,283,957.07	26,784,065.87	24,825,382.93	18,903,971.32
	Other cash payments relating to operating activities	21,348,619.46	120,979,333.17	152,601,906.72	64,657,263.74
	Sub-total of cash outflow from operating activities	54,082,369.41	215,102,528.92	236,503,710.73	119,265,539.28
	Net cash flow from operating activities	–2,211,905.80	5,300,042.17	237,903.29	19,046,338.72
II.	**Cash flows from investment activities:**				
	Cash receipts from disposals of investments				
	Cash receipts from returns on investments				
	Net cash receipts from disposals of fixed assets intangible assets and other long-term assets		1,900.00	81,000.00	
	Net cash receipts from disposals of subsidiaries and other business units				
	Other cash receipts relating to investing activities				
	Sub-total of cash inflow from investment activities		1,900.00	81,000.00	
	Cash paid to acquire/construct fixed assets. intangible asset and other long-term assets	12,899.00	406,829.33	517,797.04	321,372.22
	Cash payments for making investments				
	Net cash payments for acquisition of subsidiaries and other business units				
	Other cash payments relating to investment activities				
	Sub-total of cash outflow from investment activities	12,899.00	406,829.33	517,797.04	321,372.22
	Net cash flows from investment activities	–12,899.00	–404,929.33	–436,797.04	–321,372.22

Item	January-April 2013	Year 2012	Year 2011	Year 2010
III. Cash flow from financing activities:				
Cash receipts from investments				
Including: Cash receipts from the minority shareholders of subsidiaries				
Cash receipts from borrowings	15,000,000.00	35,000,000.00	30,000,000.00	30,000,000.00
Other cash receipts relating to financing activities				
Sub-total of cash inflow from financing activities	15,000,000.00	35,000,000.00	30,000,000.00	30,000,000.00
Cash repayments of amounts borrowed	30,000,000.00	30,000,000.00	30,000,000.00	30,000,000.00
Cash payments for distribution of dividends or profits, or cash payments for interest expenses	187,666.66	1,426,799.92	1,846,572.17	1,553,372.92
Including: Cash payments to the minority shareholders for distribution of dividends or profits				
Other cash payments relating to financing activities				
Sub-total of cash outflow from financing activities	30,187,666.66	31,426,799.92	31,846,572.17	31,553,372.92
Net cash flows from financing activities	–15,187,666.66	3,573,200.08	–1,846,572.17	–1,553,372.92
IV. Effect on cash and cash equivalents due to change in foreign currency exchange rate				
V. Net increase in cash and cash equivalents	–17,412,471.46	8,468,312.92	–2,045,465.92	17,171,593.58
Add: Beginning balance of cash and cash equivalents	38,943,527.33	30,475,214.41	32,520,680.33	15,349,086.75
VI. Ending balance of cash and cash equivalents	21,531,055.87	38,943,527.33	30,475,214.41	32,520,680.33

Person in charge of the Company:	*Principal in charge of accounting:*	*Head of accounting department:*
Mr. Li Tianzhong	**Ms. Chen Lijun**	**Ms. Guo Haifeng**

STATEMENT OF CHANGES IN OWNERS' EQUITY

Prepared by:

Shandong Zibo Xincat Pharmaceutical Company Limited

Unit: RMB

Item	January-April 2013 paid-in capital (or share capital)	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Total of owners' equity	Year 2012 paid-in capital (or share capital)	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Total of owners' equity
I. Ending balance of last year	84,930,000.00	290,905.61			9,245,697.47		13,755,199.70	108,221,802.78	84,930,000.00	290,905.61			7,609,268.99		–972,656.59	91,857,518.01
Add: Effects of the changes in accounting policies																
Correction of prior period accounting errors																
II. Beginning balance of the year	84,930,000.00	290,905.61			9,245,697.47		13,755,199.70	108,221,802.78	84,930,000.00	290,905.61			7,609,268.99		–972,656.59	91,857,518.01
III. Increase/decrease in the year (Decrease is marked with "–")					546,047.60		4,914,428.37	5,460,475.97					1,636,428.48		14,727,856.29	16,364,284.77
(I) Net profit							5,460,475.97	5,460,475.97							16,364,284.77	16,364,284.77
(II) Other comprehensive income																
1. Net increase in fair value of available-for-sale financial asset																
2. Other owners' equity in investee under equity method																
3. Income tax related to items recorded in owners' equity																
4. Others																
Sub-total of (I) and (II)							5,460,475.97	5,460,475.97							16,364,284.77	16,364,284.77
(III) Owners' contribution capital and decrease in capital																
1. Owners' contribution capital																
2. Share-based payments recorded in owners' equity																
3. Others																
(IV) Profits distribution					546,047.60		–546,047.60						1,636,428.48		–1,636,428.48	
1. Transfer to surplus reserve					546,047.60		–546,047.60						1,636,428.48		–1,636,428.48	
2. Transfer to general risk provision																
3. Distribution to owners (or shareholders)																
4. Others																

STATEMENT OF CHANGES IN OWNERS' EQUITY *(Continued)*

Prepared by:
Shandong Zibo Xincat Pharmaceutical Company Limited

Unit: RMB

Item	January-April 2013								Year 2012							
	paid-in capital (or share capital)	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Total of owners' equity	paid-in capital (or share capital)	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Total of owners' equity
(V) Internal transfer to owners' equity																
1. Capital reserve to capital (or share capital)																
2. Surplus reserve to capital (or share capital)																
3. Making good of loss with surplus reserve																
4. Others																
(VI) Special reserve																
1. Transfer for the period																
2. Utilization of the period																
IV. Ending balance of the period	84,930,000.00	290,905.61			9,791,745.07		18,669,628.07	113,682,278.75	84,930,000.00	290,905.61			9,245,697.47		13,755,199.70	108,221,802.78

Person in charge of the Company:
Mr. Li Tianzhong

Principal in charge of accounting:
Ms. Chen Lijun

Head of accounting department:
Ms. Guo Haifeng

STATEMENT OF CHANGES IN OWNERS' EQUITY

Prepared by:

Shandong Zibo Xincat Pharmaceutical Company Limited

Unit: RMB

Item	Year 2011 paid-in capital (or share capital)	Year 2011 Capital reserve	Year 2011 Less: Treasury stock	Year 2011 Special reserve	Year 2011 Surplus reserve	Year 2011 General risk provision	Year 2011 Un-distributed profits	Year 2011 Total of owners' equity	Year 2010 paid-in capital (or share capital)	Year 2010 Capital reserve	Year 2010 Less: Treasury stock	Year 2010 Special reserve	Year 2010 Surplus reserve	Year 2010 General Risk Provision	Year 2010 Undistributed profits	Year 2010 Total of owners' equity
I. Ending balance of last year	26,928,750.00	290,905.61			5,362,992.00		36,812,100.55	69,394,748.16	26,928,750.00	290,905.61			2,609,267.39		27,028,579.04	56,857,502.04
Add: Effects of the changes in accounting policies																
Correction of prior period accounting errors																
II. Beginning balance of the year	26,928,750.00	290,905.61			5,362,992.00		36,812,100.55	69,394,748.16	26,928,750.00	290,905.61			2,609,267.39		27,028,579.04	56,857,502.04
III. Increase/decrease in the year (Decrease is marked with "–")	58,001,250.00				2,246,276.99		–37,784,757.14	22,462,769.85					2,753,724.61		9,783,521.51	12,537,246.12
(I) Net profit							22,462,769.85	22,462,769.85							27,537,246.12	27,537,246.12
(II) Other comprehensive income																
1. Net increase in fair value of available-for-sale financial asset																
2. Other owners' equity in investee under equity method																
3. Income tax related to items recorded in owners' equity																
4. Others																
Subtotal of (I) and (II)							22,462,769.85	22,462,769.85							27,537,246.12	27,537,246.12
(III) Owners' contribution capital and decrease in capital	58,001,250.00							58,001,250.00								
1. Owners' contribution capital	58,001,250.00							58,001,250.00								
2. Share-based payments recorded in reserve																
3. Others																
(IV) Profits distribution					2,246,276.99		–2,246,276.99						2,753,724.61		–17,753,724.61	–15,000,000.00
1. Transfer to surplus reserve					2,246,276.99		–2,246,276.99						2,753,724.61		–2,753,724.61	
2. Transfer to general risk provision																
3. Distribution to owners (or shareholders)															–15,000,000.00	–15,000,000.00
4. Others																

STATEMENT OF CHANGES IN OWNERS' EQUITY *(Continued)*

Prepared by:

Shandong Zibo Xincat Pharmaceutical Company Limited

Unit: RMB

Item	Year 2011								Year 2010							
	paid-in capital (or share capital)	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Un-distributed profits	Total of owners' equity	paid-in capital (or share capital)	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General Risk Provision	Undistributed profits	Total of owners' equity
(V) Internal transfer to owners' equity							−58,001,250.00	−58,001,250.00								
1. Capital reserve to capital (or share capital)							−58,001,250.00	−58,001,250.00								
2. Undistributed profit to capital (or share capital)																
3. Making good of loss with surplus reserve																
4. Others																
(VI) Special reserve																
1. Transfer for the period																
2. Utilization of the period																
IV. Ending balance of the period	84,930,000.00	290,905.61			7,609,268.99		−972,656.59	91,857,518.01	26,928,750.00	290,905.61			5,362,992.00		36,812,100.55	69,394,748.16

Person in charge of the Company: **Mr. Li Tianzhong**

Principal in charge of accounting: **Ms. Chen Lijun**

Head of accounting department: **Ms. Guo Haifeng**

Shandong Zibo Xincat Pharmaceutical Company Limited
Notes to financial statements for the year 2010, 2011, 2012 and from January to April for the year 2013

I. BASIC SITUATION OF THE COMPANY

Shandong Zibo Xincat Pharmaceutical Company Limited (the "**Company**") was established in 11 March 1993 as approved by Zibo Municipal Administration of Industry and Commerce. It obtained enterprise legal business license with the registered no. of 370303018806014. Its registered capital is RMB84,930,000.00 (in words: RMB eighty-four million and nine hundred and thirty thousand), of which 80.00% capital contribution of RMB67,944,000.00 was made by Hualu Holdings Company Limited make a capital contribution; 20.00% capital contribution of RMB16,986,000.00 was made by Shandong Xinhua Pharmaceutical Company Limited. The legal representative is Li Tianzhong.

The operating scope of the Company: production and sales of health food products including Coenzyme Q10 Granule of Zhongkang Brand (the food hygiene license of which is effective to 27 December 2013) commissioned by Beijing Shiji Zhongkang Pharmaceutical and Technology Company Limited; production and sales of tablets, hard gelatin capsules (each containing Cephalosporins, Penicillins, anti-tumor components), granules, Suspension (each containing Cephalosporins, Penicillins), bulk medicine (Mitiglinide), lyophilized powder for injection(anti-tumor components)(the medicine production license of which is effective to 31 December 2015). The aforesaid operating scope is subject to the approval and procedures of the application for the business license. General operating item: nil.

The Company's address: 1 Lutai Road, Gaoxin District, Zibo

II. THE PRINCIPAL ACCOUNTING POLICY AND ACCOUNTING ESTIMATES ADOPTED BY THE COMPANY

(I) Statement of compliance with accounting standard

The financial statements of the Company have been prepared in accordance with "Enterprise Accounting Standard - Basic Standards" (Decree No. 33 of the Ministry of Finance of the People's Republic of China)and 38 specific accounting standards including "Enterprise Accounting Standard" No. 1 - Inventories" (Cai Hui [2006] No. 3), and the Application Guidance and other relevant requirements, which truly and completely present the relevant information of the Company including the financial position and operating result.

(II) Basis of preparation

The Company has operated business on an on-going basis and based on the actual transactions and events, prepared the financial statements and to confirm and measure in accordance with "Enterprise Accounting Standards - Basic Standards" and other accounting standard.

(III) Accounting period

The accounting year of the Company starts on 1 January and ends on 31 December.

(IV) Recording currency

The recording currency of the Company is Renminbi (RMB).

(V) Measurement Basis used and its Changes in this year

Accounting elements are usually measured at historical cost by the Company. Replacement cost, net realizable value, present value or fair value are applied in measurement of individual accounting elements on the premise that the availability and reliable measurement of the monetary amount of the accounting elements can be secured.

1. Changes in Measurement Basis in this year

The measurement basis of financial statement items of the Company having no change during the period.

2. Measurement Basis Adopted During the Period

Historical cost. Under the measurement by historical cost, assets are measured based on the amount of cash or cash equivalents paid upon acquisition or based on the fair value of considerations paid upon acquisition of assets. Liabilities are measured based on the payment or amount of assets received upon settlement of obligation or the amount of contract upon settlement of current obligation, or the amount of cash or cash equivalents expected to pay upon settlement of liabilities in the ordinary course of business.

(VI) Accounting treatments for business combinations involving entities under common control and those that are not

1. Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. Combination date is the date on which the acquirer effectively obtains control of the acquiree.

For a business combination involving entities under common control, the assets and liabilities obtained are measured at the carrying value as recorded by the entity being combined on the combination date. Where the accounting policy adopted by the entities being combined is inconsistent with that of the Company, relevant items will be adjusted according to the accounting policy of the Company and recognised at the adjusted carrying value on the combination date.

The difference between the carrying value of the net assets obtained and the carrying value of the consideration paid for the combination (or the aggregate nominal value of shares issued as consideration) shall be adjusted to share premium under capital reserve. If the capital reserve is not sufficient to offset the difference, any excess shall be adjusted against retained earnings.

Any direct costs attributable to business combination, including fees paid for audit, valuation and legal services, shall be recognised in the current profit or loss when they are incurred.

Expenses including handling charges and commission incurred in issue of equity securities under a business combination shall offset against premium income of equity securities; where premium income is insufficient, retained earnings shall be used to offset such amount.

2. Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination.

The Company measured the assets paid, liabilities incurred or assumed as consideration for business combination at fair value on the acquisition date. Differences between fair value and book value will be included in the profit or loss for the current period.

The Company allocated its costs of combination on the acquisition date, and the fair value of identifiable assets, liabilities and contingent liabilities acquired from the acquiree were recognized.

The Company recognized the difference of the cost of business combination over the fair value of the identifiable net assets acquired from the acquiree as goodwill; such difference will be included in the profit or loss for the current period after audit where the cost of business combination is less than the fair value of the share of the identifiable net assets acquired from the acquiree.

The economic benefits from the other assets acquired from the acquiree in business combination, not limited to those previously recognized by the acquiree and except intangible assets, that are likely to flow to the Company and can be reliably measured should be recognized separately and measured at fair value; intangible assets whose fair value can be reliably measured should be separately recognized at intangible assets at fair value; other liabilities acquired from the acquiree except contingent liabilities where the performance of relevant obligations is likely to result in outflow of economic benefits from the Company and whose fair value can be reliably measured, will be separately recognized at fair value; contingent liabilities acquired from the acquiree whose fair value can be reliably measured will be recognized separately as liabilities at fair value.

Deductible temporary differences acquired from the acquiree by the Company in business combination will not be recognized if the conditions of deferred tax assets cannot be met on the acquisition date. If new or further information with 12 months from the acquisition date indicated that relevant condition existed on the acquisition date, relevant deferred tax assets will be recognized if the economic benefits expected to be brought by the deduction of temporary differences by the acquiree on the acquisition date can be realized. In addition, goodwill can be reduced and relevant difference will be recognized as profit or loss for the current period if the goodwill is not sufficient to be offset; save for the above circumstances, deferred tax assets recognized to be related to business combination will be included in the profit or loss for the current period.

The intermediary fees including audit, legal service, assessment and consultation fees and other relevant management fees incurred by the acquirer for business combination in respect of the combination for entities not under common control will be included in the profit or loss for the current period of such expenses; transaction fees for the equity securities or debt securities issued by the acquirer for the business combination will be included in the initial recognition amount for equity securities or debt securities.

(VII) Presentation of Consolidated Financial Statement

The scope of combination of the consolidated financial statement of the Company is determined on the basis of control, all subsidiaries will be included in the consolidated financial statement.

The accounting policies and accounting period adopted by the subsidiaries included in the consolidated financial statement will be consistent with the Company. In the event that the accounting policies and accounting period adopted by the subsidiaries are not consistent with the Company, necessary adjustments will be made by the Company in accordance with its accounting policies and accounting period in preparing consolidated financial statements. The financial statements of the subsidiaries acquired by business combination not under common control will be adjusted on the basis of the fair value of their identifiable net assets as at the acquisition date. The consolidated financial statement is prepared by the Company based on the financial statements of the Company and its subsidiaries, and its long-term equity investment in subsidiaries will be adjusted by equity method based on other relevant information.

The impact of internal transactions incurred between the Company and its subsidiaries and among the subsidiaries on the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in owners' equity will be offset in the consolidated financial statement.

The equity and profit or loss attributable to the minority shareholders of the subsidiaries are presented separately under total equity attributable to equity holders on the consolidated balance sheet and net profit on consolidated statement of income. Minority interest will be written off for the balance of current loss attributable to minority shareholders of subsidiaries in excess of the owners' equity attributable to the minority shareholders of the subsidiary at the beginning of the period.

During the reporting period, the sums as at the beginning of the period on the consolidated balance sheet will be adjusted if those of subsidiaries are increased as a result of business combination under common control; income, expenses and profit of the subsidiaries for the beginning to the end of the period of combination will be included in the consolidated income statement; cash flow of subsidiaries from the beginning to the end of the period of combination will be included in the consolidated cash flow statement, and at the same time adjustment will be made to relevant items in the comparative statement as if the main reporting entity after the combination had always been present in the preceding period.

During the reporting period, the sums as at the beginning of the period in the consolidated balance sheet will not be adjusted if the increase in those of the subsidiaries is not caused by business combination under common control; income, expenses and profit of subsidiaries from the acquisition date to the end of the period will be included in the consolidated income statement; cash flow of the subsidiary from the acquisition date to the end of the reporting period will be included in the consolidated statement of cash flow. When a business combination not under common control is accomplished through several transactions, the equity interests of the acquiree held prior to the acquisition date will be re-measured at the fair value of those equity interests on the acquisition date by the Company, and the difference between the fair value and book value will be included in the investment gains for the period. Other comprehensive income in respect of the equity interests of the acquiree held prior to the acquisition date will be converted to the investment gain for the period as at the acquisition date together with the other related comprehensive income.

During the reporting period, the income, expenses and profit of subsidiaries from the beginning of the period to the acquisition date of the subsidiaries will be included in the comprehensive statement of income of the Company if the Company disposed the subsidiaries. The cash flow of the subsidiary from the beginning of the period to the disposal date will be included in the consolidated statement of cash flow. In the event that control to existing subsidiaries is ceased as a result of disposal of part of the equity investment or otherwise, the remaining equity investment following disposal will be re-measured by the Company at the fair value on the date on which its control is ceased. The difference from the sum of the consideration from the disposal of equity interests and the fair value of the remaining equity interests less the difference to the share of net assets of the previous subsidiaries that the Company shall be entitled to attributable toin accordance with the its previous shareholding continuously calculated from the acquisition date will be included in the investment gains for the period in which the control is ceased. Other comprehensive income related to the equity investment in the previous subsidiaries will be converted into investment gain for the period in which control is lost.

The difference between the long-term equity investment that the Company newly acquired as a result of the acquisition of minority shareholding and the share of identifiable net assets from subsidiaries that should the Company shall be entitled to in accordance with its newly increased shareholding, as well as the difference between consideration from the disposal of disposing part of its equity investment in subsidiaries and share of net assets that the Company shall be entitled to in its disposal of long-term equity investment, will be adjusted for share premium in the capital reserve in the consolidated balance sheet; if the share premium in capital reserve is not sufficient to be offset, it will be adjusted in retained earnings.

(VIII) Standards in Determining Cash and Cash Equivalent

In preparing its cash flow statement, the Company will recognize its cash on hand and the deposit that can be ready for payment as cash. Investments that meet the four conditions of short duration (within 3 months from the date of purchase), strongly liquidated, easy to convert in known cash amount and substantially low risk in change in value will be recognized as cash equivalent.

(IX) Foreign Currency Business and Foreign Currency Statement Translation

1. Translation of Foreign Currency Transactions

The amount in foreign currency in foreign currency business will be translated into Renminbi for accounting purposes using spot exchange rate as at the transaction date.

The balance of monetary items denominated in foreign currencies will be translated at spot exchange rate as at the balance sheet date, the translation difference arisen thereby will be included in the profit or loss for the period, except the exchange differences arisen from specific-purpose borrowing denominated in foreign currency in respect of the purchase of assets that are eligible for capitalization, which will be processed in accordance with the principles of capitalization of borrowing expenses. Non-monetary items measured at historic cost will be translated at spot exchange rate on the transaction date without changing the amounts in their respective currencies for accounting records. Non-monetary items which are denominated in foreign currency at fair value will be translated at the spot exchange rate as at the determination date of fair value, and the exchange difference arisen will be included in the profit or loss or capital reserve for the period.

2. Foreign Currency Statement Translation

Assets and liabilities items on the balance sheet are translated at the spot exchange rates as at the balance sheet date; the equity items, except for “undistributed profits”, are translated at the spot exchange rate when they occurred. Income and expenses in the income statement denominated in foreign currencies are translated at the spot exchange rate on the transactions dates. The resulting differences are presented as a separate component of shareholders’ equity in the balance sheet.

In disposing foreign operation, translation differences presented under the equity items on the balance sheet and related to foreign operations on the financial statements denominated in foreign currencies will be transferred from equity items to profit or loss from disposal for the current period; part of the disposal of foreign operations will be transferred to profit or loss from disposal for the current period, with the relevant translation difference arising from transactions of the financial statements denominated in foreign currency calculated at the proportion of disposal.

(X) Accounting for Financial Assets and Financial Liabilities

1. Classification of Financial Assets and Financial Liabilities

The management of the Company classifies financial assets and financial liabilities based on the purposes of the financial assets and financial liabilities acquired or assumed, the requirements of risk management and strategic investment and the characteristics of the financial assets and financial liabilities into the followings: financial assets or financial liabilities at fair value through profit or loss, including held-for-trading financial assets or financial liabilities and financial assets or financial liabilities directly designated to be measured at fair value through profit or loss; held-to-maturity investments; loans and receivables; financial assets available for sale; other financial liabilities. The aforementioned classification is not likely to be changed once determined.

2. Recognition and measurement of Financial Assets and Financial Liabilities

(1) Financial assets (financial liabilities) at fair value through profit or loss

Using fair value as initial recognition amount when acquired (net of cash dividend declared but not yet distributed or bond interest due but not yet collected).

Interest or cash dividend received during the period of holding will be recognized as investment gain and included in the profit or loss for the period at fair value as at the end of the period.

Upon disposal, the difference between fair value and initial recognition amount will be recognized as investment gain and the profit or loss from changes in fair value will be adjusted.

(2) *Held-to-maturity investments*

The initial recognition amount will be the sum of the fair value upon acquisition (net of bond interest due but not yet collected) and relevant transaction fees.

During the period of holding, interest income will be recognized based on amortized cost and effective interest rate (coupon rate if the difference between effective interest rate and coupon rate is minimal) and included in investment gain. Effective interest rate is determined upon acquisition and remains unchanged during the expected duration period or any shorter period applicable.

Upon disposal, the difference between the consideration acquired and the book value of the investment will be included in investment gain.

If the Company dispose or re-classifies a higher amount of held-to-maturity investment (higher amount means an amount in relation to the total amount before disposing or re-classifying the investment), the Company will re-classify the remaining portion of the type of investment as available-for-sale financial assets and such financial assets will not be classified as held-to-maturity investment for the current accounting period and the subsequent two complete accounting years except in the following circumstances: the date of disposal or re-classification is closer to the maturity date or redemption date of the investment (such as within 3 months to maturity), and changes in market rates do not have significant impact on the fair value of the investment; almost all the initial principal of the investment is recovered in accordance with the periodic payment or pre-mature repayment stipulated in the contract, and the remaining portion is to be disposed or re-classified; disposal or re-classification is out of the control of the Company, not expected to occur again and caused by individual event that is difficult to be reasonably anticipated.

(3) Receivables

The initial recognition amount of the account receivables formed by external sale of goods or provision of services of the Company is usually based on the consideration contracted or agreed to be payable by the buyers.

Upon recovery or disposal, the difference between the consideration to be received and the book value of the receivables is included in the profit or loss for the period.

(4) Available-for-sale Financial Assets

Using fair value when acquired (net of cash dividend declared but not yet distributed or bond interest due but not yet collected) and the relevant transaction fees as initial recognition amount.

Interest or cash dividend received during the period of holding will be recognized as investment gain and included in the capital reserve (other capital reserve) at fair value as at the end of the period.

Upon disposal, the difference between the consideration acquired and the book value of the investment will be included in investment gain or loss; in addition, the accumulated amount in changes in fair value previously directly included in owners' equity will be transferred corresponding to the portion disposed to investment gain or loss.

(5) Other Financial Liabilities

The initial recognition amount is the sum of the fair value and relevant transaction fees.

Usually, measurement is done subsequently using amortized cost.

3. Recognition Basis and Measurement Methods for Transfer of Financial Assets

In the event of transfer of financial assets in the Company, recognition of financial assets will be terminated if almost all of the risks and return of the ownership of the financial assets have been transferred to the recipient; if almost all of the risks and return of the ownership of financial assets are retained, the recognition of financial assets will not be terminated. In determining whether the transfer of financial assets fulfils the requirements of accounting principles for terminating the recognition of financial assets, the principle of substance over form will be adopted. The Company distinguishes transfer of financial assets into complete transfer and partial transfer of financial assets.

The difference between the following two amounts will be included in profit or loss if the transfer of financial assets meets the requirements of terminating recognition:

(1) the book value of the financial assets transferred;

(2) if consideration is received as a result of transfer, the sum with the accumulated amount from changes in fair value that is previous directly included in the value of the owners' equity, in the cases where the financial assets involved in the transfer are available-for-sale financial assets.

In the event that partial transfer of financial assets does not meet the requirements of terminating recognition, the full book value of the financial assets transferred will be divided into parts of terminating recognition and not terminating recognition (the service assets retained shall be deemed as part of the financial assets where recognition are not terminated in such case) in accordance with the respective fair value and the following two amounts will be included in profit or loss for the period:

(1) the book value of the part where recognition is terminated;

(2) the sum of the consideration of the part where recognition is terminated and the accumulated amount from changes in fair value that is previous directly included in the value of the owners' equity in respect of the part where recognition is terminated, in cases where the financial assets involved in the transfer are available-for-sale financial assets.

In the event that the transfer of financial assets does not meet the requirements of terminating recognition, the assets transferred will still be recognized as financial assets, and the consideration received will be recognized as a financial liability.

4. ***Method of determination of the fair value of the financial assets and financial liabilities***

The financial assets and financial liabilities measured at fair value are adopted by the Company with direct reference to the quoted price in the active market.

5. ***Exchange rate risk of financial instruments***

The financial instruments that are exposed to the risk of exchange rate fluctuation (referring to the risk of fluctuations in the fair value or future cash flow of financial instruments due to the changes in exchange rate) of that Company include cash on bank and in hand, account receivables, other receivables and other payables.

6. ***For impairment of financial assets, please see (XX). 2 to section II.***

(XI) Accounting methods for inventories

1. ***Classification of inventories***

Inventories include finished goods, raw materials, work in process, low-value consumables, packaging materials, etc.

2. ***Method of costing***

Inventories are measured at actual cost upon acquisition during the daily accounting while weighted average method is adopted in the case of delivering raw materials.

The fixed assets acquired from debtor under debt restructuring are measured at the fair value of such inventories.

If the exchange of non-monetary assets transaction is commercial in nature and the fair value of the assets received or transferred can be reliably measured, the transaction involving inventories received inexchange of non-monetary assets shall normally be measured at the fair value of the assets transferred to determine its carrying value, unless there is objective evidence indicating that the fair value of the assets received is more reliable; For the exchange of non-monetary assets transaction which does not meet the above conditions, the cost of inventories received is recognised at the carrying value of the assets transferred with the relevant taxes.

3. Amortisation methods for consumables

Low-value consumables and packaging materials are amortised in full.

4. Inventory system

The Company maintains a perpetual inventory system.

5. For impairment of inventories, please see (XX). 1 to section II.

(XII) Long-term equity investments

1. Investment cost

(1) Long-term equity investments acquired through a business combination

Business combination involving entities under common control: The initial investment cost of a long-term equity investment is the Company's share of the carrying value of the acquiree's equity on the combination date when the consideration of combination is paid by cash, non-cash assets transferred or debts assumption and otherwise issue of equity securities as the consideration of combination. The difference between the initial investment cost of the long-term equity investments and the consideration of combination is adjusted to share premium in capital reserve. If the balance of the share premium is insufficient to be offset, any excess is adjusted to retained earnings. All costs directly attributable to the combination, including audit fees, valuation fees and legal service fees, shall be recognised in the current profit or loss when they are incurred.

Business combination involving entities not under common control: The initial investment cost of a long-term equity investment is the combination cost recognised by the Company on the combination date which comprises the a fair value of assets transferred, liabilities incurred or assumed, and the fair value of equity securities issued by the Company, in exchange for control of the acquiree. Any direct costs attributable to business combination, including audit fees, valuation fees and legal service fees and other relevant administrative expenses, shall be recognised in the current profit or loss when they are incurred; The costs of the issuance of equity or debt securities as a part of the consideration of combination are included as a part of initial recognition amount of the equity or debt securities. For a business combination involving entities not under common control and achieved in stages, the initial cost of such investment shall be the sum of the carrying value of equity investment held in the acquiree before the acquisition date and the additional investment cost on the acquisition date. The contingent consideration of the combination agreement shall be part of the consideration of the business combination and included into cost of business combination at fair value on the acquisition date.

(2) Long-term equity investments acquired otherwise than through a business combination

If a long-term equity investment is acquired by cash, the actual cost paid shall be the cost of investment initially recognised.

If a long-term equity investment is acquired by the issue of equity securities, the initial cost of investment is initially recognised at the fair value of the equity securities issued.

If a long-term equity investment is contributed by shareholders, the initial cost of investment is initially recognised at the value stipulated in the investment contract or agreement (net of any cash dividends or profits that have been declared but not yet distributed), excluding any values stipulated in the investment contract or agreement that are not at fair value.

If the exchange of non-monetary assets transaction is commercial in nature and the fair value of the assets received or transferred can be reliably measured, the long-term equity investment received in the exchange of non-monetary assets transaction shall be measured at the fair value of the assets transferred, unless there are objective evidences indicating that the fair value of the assets received is more reliable. For the exchange of non-monetary assets transaction that does not meet the above conditions, the cost of long-term equity investment received is initially recognised at the carrying value of the assets transferred with the relevant taxes, and no gain or loss are recognised in the profit or loss.

If a long-term equity investment is acquired by debt restructuring, initial cost of investment is recognised at the fair value.

2. Subsequent measurement and recognition of profit or loss

(1) Subsequent measurement

Long-term equity investments in subsidiaries are accounted based on the cost method and adjusted in accordance with the equity method upon the preparation of the consolidated financial statements.

For investments that the Company does not have common control or significant influence over the investee, and investments that are not quoted in an active market and their fair value cannot be reliably measured, it is accounted based on the cost method.

For a long-term equity investment in an investee which the Company has common control or significant influence, it is accounted based on the equity method. Where the initial investment cost exceeds the Company's interest in the fair value of the investee's identifiable net assets on the acquisition date, it is no need to adjust the initial investment cost of the long-term equity investment; in the case that the Company's interest in the fair value of the investee's identifiable net assets on the acquisition date exceeds the initial investment cost, the excess shall be recognised in profit or loss for the period.

Measurement for changes in investee's ownership interests other than net profit or loss: where any changes are made to investee's ownership interests other than net profit or loss, in the case that the shareholdings remain unchanged, the proportion attributable to the investee shall be measured according to its interests in shares while adjustment shall be made to the carrying value of long-term equity investment and increase or decrease the capital reserves (other capital reserves) at the same time.

(2) Recognition of profit or loss

Under the cost method, except for the actual price paid upon acquisition and cash dividends and profits included in consideration that have been declared but not yet distributed, the investment income shall be recognised at the Company's share in cash dividends or profits declared and paid by the investee.

Under the equity method, on the basis of the carrying value of net profits of the investees, the following will be considered: Where the accounting policies and accounting periods of the investees are inconsistent with those adopted by the Company, the financial statements of the investees shall be adjusted according to the Company's accounting policies and accounting periods; the effects of the provision for depreciation or amortization or the relevant assets impairment provided based on the fair values of fixed assets or intangible assets of the investees upon acquisition to the net profits of the investee; appropriate adjustments are made to the matters such as offsetting the unrealised inter-transactions occurred between the Company and associates and jointly controlled entities, the Company's share of net profits or losses in the investees shall be recognised.

In recognising the Company's share of losses incurred by the investees, measurement shall be made in the following order: First, to reduce the carrying value of the long-term equity investment. Second, where the carrying value of the long-term equity investment is not sufficient, the investment loss shall continue to be recognised to the extent of the carrying value of other long-term equities that in substance constitute the net investment in the investees, and reduce the carrying value of long-term receivables and other items. Finally, after the above steps, where the enterprise still bears additional obligations as stipulated in the investment contract or agreement, the expected liabilities shall be recognised based on the obligations expected to be undertaken, and charged to the investment loss for the current period. Where the investees realise profits in subsequent periods, after deducting its share of unrecognised losses, the Company shall treat in a reverse order with the above: write down the carrying value of expected liabilities that is recognised, restore the carrying value of other long-term equities that in substance constitute the net investment in the investees and long-term equity investment, and recognise investment income simultaneously.

During the period the investments being held, where the investees was able to provide consolidated financial statements, accounting shall be made based on the net profits or changes in other equities in the consolidated financial statements.

3. Basis for determining the existence of joint control or significant influence over an investee

Joint control is the contractually agreed sharing of control over an investee's economic activities, and exists only when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties sharing the control. An investee under the joint control of the investor and other parties is deemed as the joint venture of the investor.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies. An investee affected significantly by the investor and other parties is deemed as the affiliate of the investor.

4. Measurements on impairment test and provision

For long-term equity investments characterised with significant impact, not quoted in active markets, and whose fair value cannot be reliably measured, the impairment loss is determined on basis of the difference between their carrying value and the present value of similar financial assets whose market rate of return on future cash flow can be discounted.

Other than goodwill arising from business combination, long-term equity investment with the evidence of impairment is impaired if the recoverable amount of the measurement results shows that the recoverable amount of the long-term equity investment is below its carrying value, and the difference will be recognised as impairment loss.

The impairment loss of long-term equity investments cannot be reversed once recognised.

(XIII) Investment properties

Investment property refers to the real estate held with purpose of rent earning, capital gaining or both of them, including land usage right which has been rented out or is held for transference after capital appreciation, and buildings which has been rented out (including buildings for rent after the completion of construction and development by the company itself, and those being constructed and developed for the purpose of future rent).

The Company adopts cost mode for measurement of existing investment property. On calculating the depreciation of investment properties that are measured on cost basis, the Company adopts the same policy of fixed assets for measurement of buildings for rent, and the same policy of intangible assets for measurement of land usage right for rent.

On appearance of evidence for depreciation, the Company estimates the recoverable value and determines the impairment loss when the recoverable value is lower than its carrying value.

The impairment loss of investment property cannot be reversed once recognised.

(XIV) Measurements on valuation and depreciation of fixed assets

1. Conditions for recognition of fixed assets

Fixed assets refer to tangible assets with useful life more than one year and held for commodity production, labor services, lease and operating management. The fixed assets are recognised when they meet the following conditions:

(1) The economic benefits pertinent to the fixed asset are likely to flow into the enterprise;

(2) The cost of the fixed asset can be measured reliably.

2. Classification of fixed assets

Fixed assets can be classified into different categories including buildings and structures, machinery and equipment, electronic equipment, motor vehicles and others.

3. Initial measurement of fixed assets

Generally, fixed assets are initially measured at cost.

Where the payment for acquisition of a fixed asset is postponed beyond the normal credit terms, which is substantially of a financing nature, the cost of fixed assets is determined based on the present value of the purchase.

The fixed assets acquired from debtor under debt restructuring are accounted at the fair value, and the difference between the carrying value of the restructured debt and the fair value of the fixed assets acquired from debtor under debt restructuring is recognised in the profit or loss for the current period. If the exchange of non-monetary assets transaction is commercial in nature and the fair value of the assets received or transferred can be reliably measured, the fixed assets received in the exchange of non-monetary assets transaction shall normally be accounted at the fair value of the assets transferred, unless there is objective evidence indicating that the fair value of the assets received is more reliable; For the exchange of non-monetary assets transaction which does not meet the above conditions, the cost of fixed assets received is recognised at the carrying value of the assets transferred with the relevant taxes, and no gain or loss are recognised in the profit or loss.

The costs of dismantling and removing a fixed asset is measured at present value to determine its carrying value.

The fixed assets acquired in the business combinations involving enterprises under common control are measured at the carrying value of the fixed assets recognised by the acquiree. The fixed assets acquired in the business combinations involving enterprises not under common control are measured at fair value to determine its carrying value.

For fixed asset held under finance lease, its carrying value is accounted at the lower of either the fair value of the fixed asset on the commencement date of lease or minimum lease payment.

4. Method for measurement of depreciation of fixed assets

Fixed assets are depreciated using the straight-line method over their estimated useful lives with the depreciation rate determined on the basis of the class, estimated useful lives and estimated residual values of fixed assets.

Repair costs of fixed assets that are eligible for capitalisation should be depreciated separately on straight-line basis over the time until next repair or the estimated useful lives of fixed assets, whichever is shorter.

For fixed assets under finance lease, if it can be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation will be measured over the remaining useful life of the leased asset; if it cannot be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation will be determined during the lease term or the remaining useful life of the leased asset, whichever is shorter.

The useful life and annual depreciation rate for different categories of fixed assets are as follows:

Category	Estimated useful life *(year)*	Rate of residual value *(%)*	Annual depreciation rate *(%)*
Buildings and structures	20.00	5.00	4.75
Machinery and equipment	10.00	5.00	9.50
Electronic equipment	3.00	5.00	31.67
Motor vehicles	4.00	5.00	23.75
Others	3.00 – 5.00	5.00	19.00 – 31.67

5. Details of fixed assets impairment please see (XX). 3 to Note 2.

(XV) Construction in progress

1. Classification of construction in progress

Construction in progress is classified into individual projects for accounting.

2. Standards and occasion for conversion of construction in progress to fixed assets

The carrying value of a fixed asset under construction in progress is accounted at all the expenses occurred before such asset is available for its intended use. If the construction in progress achieved in a stage that the assets constructed are ready for their intended use but the final account of the completed project has not been issued, the assets constructed are transferred to fixed assets on the date when such assets is ready for their intended use based on the estimated cost determined by the construction budget, construction price or actual cost and the depreciation is recognised in accordance with the Company's depreciation policy of fixed assets. When the final account of completed project is issued, the estimated cost is adjusted according to the actual cost, while the depreciation provided is not adjusted.

3. *Testing and provision for impairment of construction in progress*

The Company determines whether there is evidence of impairment that may occur upon construction in progress at the end of each period.

If there is indication of impairment of construction in progress, the company shall estimate its recoverable amount. If there are indications showing that impairment of certain construction in progress is possible, the company shall estimate its recoverable amount based on individual construction. If difficult to do so, the company shall determine the recoverable amount of the assets group on basis of the asset groups to which the construction in progress belongs.

The recoverable amount is to be determined based on the net price of the fair value of construction in progress after deducting costs of disposal or the present value of expected future cash flow from construction in progress, whichever is higher.

When the recoverable amount of construction in progress is below their carrying value, the carrying value of construction in progress shall be written down to its recoverable amount, and the amount of written-down shall recognised as impairment loss of construction in progress, and included into current profit or loss. At the same time, the provision for depreciation of construction in progress shall be accrued.

After the recognition, the impairment loss of construction in progress shall not be reversed in subsequent accounting period.

(XVI) Borrowing costs

1. *Principles of recognition for capitalisation of the borrowing costs*

Borrowing costs represent interest expenses, amortisation of discount or premium and auxiliary charges incurred in connection with the foreign exchange differences arising from foreign currency borrowings.

For the borrowing costs incurred by the company directly attributable to the acquisition and construction or production of assets eligible for capitalisation, they are capitalised as part of the relevant cost of assets. Other borrowing costs are recognised as expenses when incurred and charged to profit or loss for the current period.

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

The capitalisation of borrowing costs commences only when all of the following conditions are satisfied:

(1) expenditures for the asset are being incurred. Expenditures for the asset include payment by cash, transfer of non-cash assets, or costs caused by undertaking of interest bearing liability for the purpose of acquisition and construction or production of assets eligible for capitalisation;

(2) borrowing costs have been incurred;

(3) activities relating to the acquisition and construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

2. Period of capitalisation of the borrowing costs

The capitalisation period refers to the period from the commencement to the cessation of capitalisation of the borrowing costs, excluding the period of suspension of capitalisation of the borrowing costs.

When the assets of acquisition and construction or production are available for their intended use or marketable condition, the capitalisation of borrowing costs ceases.

When certain part of the assets of acquisition and construction or production is separately completed and available for its intended use, the capitalisation of borrowing costs for this part of assets ceases.

If different parts of the assets of acquisition and construction or production are separately completed but available for their intended use or marketable condition only after the completion of the construction in entirety, the capitalisation of borrowing costs ceases upon the entire completion of the asset.

3. Suspension period of capitalisation

Where the acquisition and construction or production of assets eligible for capitalisation is interrupted abnormally and the suspension period lasts for more than three months, the capitalisation of the borrowing costs shall be suspended. Where the interrupted acquisition and construction or production of assets eligible for capitalisation is available for intended use or marketable condition, the capitalisation of the borrowing costs shall reinitiate. The borrowings occurred during the suspension period shall be recognised as profit or loss for the current period, and the capitalisation will not reinitiate until the reactivation of the interrupted acquisition and construction or production of assets eligible for capitalisation.

4. Calculation of capitalised borrowing costs

Where funds are borrowed specifically for the acquisition and construction or production of a qualified asset, the amount of borrowing costs to be capitalised is calculated by using effective borrowing costs during the period that it occurred less any interest income earned from outstanding borrowings deposited in the bank or any investment income on the temporary investment made from such borrowings.

Where funds are borrowed generally and used for the acquisition and construction or production of a qualified asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

Where there is any discount or premium for the borrowings, the amount of discounts or premiums is amortised during each accounting period based on the effective interest method and adjusted to the amount of interests in each period.

(XVII) Intangible assets

1. Measurement of intangible assets

(1) Initial measurement at cost upon acquisition of intangible assets by the Company;

The cost of outsourcing intangible assets shall include the purchase price, relevant taxes and other necessary expenditures directly attributable to intangible assets for the intended purpose. Where the payment of purchase price for intangible assets is delayed beyond the normal credit conditions, and is substantially of a financing nature, the cost of intangible assets shall be determined on the basis of the present value of the purchase price.

The intangible assets acquired from debtor under debt restructuring are measured at the fair value, and the difference between the carrying value of the restructured debt and the fair value of the intangible assets acquired from debtor under debt restructuring is recognised in profit or loss for the current period.

If the exchange of non-monetary assets transaction is commercial in nature and the fair value of the assets received or transferred can be reliably measured, the intangible assets received in the exchange of non-monetary assets transaction shall be accounted at the fair value of the assets transferred, unless there are objective evidences indicating that the fair value of the assets received is more reliable. For the exchange of non-monetary assets transaction that does not meet the above conditions, the cost of intangible assets received is recognised at the carrying value of the assets transferred with the relevant taxes, and no gain or loss are recognised in the profit or loss.

The intangible assets acquired from business combinations involving enterprises under common control are accounted at the carrying value of the intangible assets recognised by the acquiree. The intangible assets acquired in the business combinations involving enterprises not under common control are recognised at its fair value.

The cost of intangible assets developed internally includes: material and labor expenses, register fee, amortisation of other patent and franchise fee, interest expense eligible for capitalisation during development process, and other direct expenses for making the intangible assets available for its intended use.

(2) Subsequent measurement

The useful life of the acquired intangible assets is determined upon acquisition.

For the intangible assets with limited useful life, the economic benefits shall be amortised using the straight-line method; the intangible assets whose useful life of economic benefits cannot be predicted are deemed as intangible assets with indefinite useful life and are not amortised.

1. Estimate of useful life for the intangible assets with limited useful life:

Project	**Estimated useful life** *(year)*	**Basis**
Land usage right	30.00	Land use certificate

The useful life and amortisation method of intangible assets with limited useful life are reviewed at the end of each period.

After review, the useful life and amortisation method of intangible assets at the end of the year remain the same as the previous period.

2. Basis for determining intangible assets with indefinite useful life:

As at the balance sheet date, the Company has no intangible assets with indefinite useful life.

3. Provision for impairment of intangible assets

Intangible assets with definite useful life are subject to impairment test at the end of the period when there is obvious evidences of impairment.

Intangible assets with indefinite useful life are subject to impairment test at the end of each period.

Impairment test of intangible assets is used to estimate their recoverable amount. If there are evidences of possible impairment of intangible assets, the Company shall estimate the recoverable amount based on the individual intangible assets. If difficult to do so, the Company shall determine the recoverable amount of such intangible assets based on the assets group to which the individual intangible assets belong.

The recoverable amount of intangible assets represents the higher of either the net fair value of intangible assets less disposal fees or the present value of estimated future cash flow of intangible assets.

Where the recoverable amount of intangible assets is lower than their carrying value, the carrying value of such intangible assets shall be written down to its recoverable amount, and the amount of written-down is recognised as impairment losses of intangible assets and included in current profit or loss. In the meantime, the corresponding provision for impairment shall be accrued.

After the recognition of impairment losses of intangible assets, the Company shall adjust accordingly the depreciation or amortisation costs in future periods so that the adjusted carrying value of intangible assets (net of estimated net residual value) can be systematically amortised during the remaining useful life.

The impairment losses of intangible assets shall not be reversed in subsequent accounting period after the recognition.

4. Criteria for the division of research stage and development stage during internal R&D

The expenses accrued from our internal R&D projects include expenses in research stage and development stage.

Research stage: the stage during which original and planned investigation and research is carried out with purpose of obtaining and understanding new scientific or technical knowledge.

Development stage: the stage before the commercial production and utilisation, during which the research achievement or other knowledge is applied to a particular project or design in order to produce new or substantially improved materials, devices, products, etc. (stages of activity).

5. Criteria for the capitalisation of R&D expenses

The expenses of internal R&D projects during the development stage are recognised as intangible assets when all of the following conditions are satisfied:

(1) The completion of such intangible assets for use or sale is technically feasible;

(2) The Company has the intention to use or sell the intangible assets upon completion;

(3) The way in which the intangible assets bring economic benefits shows that there exists consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilisation;

(4) The Company has sufficient technological, financial and other resources to complete the development of the intangible assets and the ability to make them available for use or sale;

(5) The expenses attributable to such intangible assets can be measured reliably at the development stage.

Expenses incurred during the development stage that do not meet the conditions mentioned above and those incurred during the research stage will be accounted into current profit or loss when they are incurred.

(XVIII)Goodwill

The initial cost of goodwill resulting from the business combination involving entities not under common control represents the excess of cost of acquisition over the acquirer's interests in the fair value of the identifiable net assets of the acquiree.

On disposal of an asset group or a set of asset groups, any attributable amount of purchased goodwill is written off and included in the current profit or loss on disposal.

Goodwill will not be amortised by the Company provided that it is subject to impairment test at the end of each year.

The Company will carry out impairment test on goodwill. The carrying value of goodwill acquired in a business combination is allocated to each of the related asset groups from the acquisition date on a reasonable basis; if there is a difficulty in allocation, it will be allocated to the relevant set of asset groups. The carrying value of goodwill will be allocated to relevant asset groups or sets of asset groups on the proportion that fair value of each asset group or each set of asset groups takes part in the total fair value of relevant asset groups or sets of asset groups. In the case that fair value is difficult to be measured reliably, the goodwill will be allocated to relevant asset groups or sets of asset groups on the proportion that carrying value of each asset group or each set of asset groups takes part in the total carrying value of relevant asset groups or sets of asset groups.

For the purpose of conducting impairment test on the relevant asset groups or the sets of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or sets of asset groups related to goodwill is possible, an impairment test will be made firstly on the asset groups or sets of asset groups not containing goodwill, thus calculating the recoverable amount and comparing it with the relevant carrying value so as to recognise the corresponding impairment loss. A impairment test will then be made on the asset groups or sets of asset groups containing goodwill, comparing the carrying value of these asset groups or sets of asset groups (including the carrying value of the goodwill amortised thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or sets of the asset groups is lower than the carrying value thereof, it shall recognise the impairment loss of the goodwill.

The impairment loss of goodwill will be recognised when it incurs and it cannot be reversed once recognised.

(XIX) Long-term deferred expenses

Expenses with a deferred period more than one year that have incurred but shall be undertaken during the current and subsequent periods, including improvement expenses of fixed assets under finance lease, shall be amortised as long-term deferred expenses over the estimated useful life. In the case that subsequent accounting periods cannot benefit from long-term deferred expenses, all the remaining value that has not yet been amortised shall be transferred to profit or loss for the current period.

(XX) Impairment of major assets

1. Inventories

At the end of the reporting period, provision for diminution in value of inventories will be made after a thorough inspection of the inventories and adjusted at the lower of cost and the net realisable value. For commodity inventories for direct sales such as inventory commodities and saleable materials, the net realisable value is the estimated selling price of the inventories in the ordinary course of business less the estimated selling expenses and related taxes;

The net realisable value of material inventories which require processing was determined in accordance with the estimated selling price of the products produced less the amount of the estimated costs incurred upon completion, the estimated selling fee and relevant taxes in an ordinary production operating process;

The net realisable value of inventories held for performing sale contracts or service contracts was calculated based on their contract value. If the number of inventories held exceeds the number ordered by the sales contract, the net realisable value of the excessive part of inventories would be calculated based on their ordinary selling price.

Provision for diminution in the value of inventories is normally determined on an item-by-item basis at the end of the reporting period;

Provision for diminution in the value of inventories is determined on a collective basis when inventories are numerous and with low unit price. For items of inventories relating to a product line that is produced and marketed in the same geographical area and with the same or similar uses or purposes, which cannot be evaluated separately from other items in that product line, provision for diminution in value of inventories are determined on an aggregate basis.

For previous influential factors of the write-down of inventories which no longer exist, the amount of the provision for diminution in value of inventories that has been made will be reversed and the amount of reversal is recognised in the profit or loss for the current period.

2. Financial instruments

The Company examines the carrying amount of financial assets apart from tradable financial assets on each of the balance sheet day in order to determine whether there is proof indicating that impairment of financial assets has occurred due to the occurrence of one or more events. Impaired matters refer to matters that occurred on initial recognition of the assets, which will affect the expected cash flow in the future and the Company can make reliable calculations to that influence.

(1) Receivables

If there are objective proof proving that the receivables have depreciated at the end of the reporting period, the carrying amount will be written down to their recoverable amount. The write-down amount will be recognised as losses of asset impairment and as profit or loss for the period. The amount of receivables is recognised though its future cash flow, excluding credit losses that have not occurred, in accordance with its original discounted effective interest rate, including the value of relevant collaterals, less estimated disposal fee and so on. The original effective interest rate is the effective interest rate calculated and recognised upon initial recognition of the receivables. If the receivables are financial assets with a floating interest rate, the effective interest of the period stated on the contracts can be adopted as the discount rate when calculating the recoverable amount.

Impairment tests were carried out for individual receivables for items of significant amount at the end of the reporting period. If there are objective proofs proving that impairment has occurred, then the impairment losses should be recognised in accordance with the difference between the present value of the estimated future cash flows and its carrying amount. Provisions for bad debts shall be calculated.

Individual receivables insignificant at the end of the period is categorised to certain groups in accordance with its credit risk characteristics. Its impairment losses and provision for bad debts are confirmed in accordance with certain balance ratio of the receivable groups at the end of the period, and impairment tests can be accounted individually. The ratio reflects the actual impairment losses of the items, i.e. the difference between the carrying amount of each of the groups and the amount of the present value of the estimated future cash flows. The impairment losses of receivables which are recognised individually are no longer included in receivable groups with similar credit risk characteristics for impairment tests.

The following ratios of provision for bad debts of receivables are recognised on the actual rate of loss of receivable groups, i.e. combination of aging, that are the same or similar and have similar credit risk characteristics in the previous year and the present position.

Aging	**Ratio of provisions** *(%)*
Within 1 year (including 1 year, same as below)	0.50
1-2 years	10.00
2-3 years	30.00
3-4 years	50.00
4-5 years	80.00
5 years or above	100.00

3. Fixed assets

For fixed assets, the Company judges whether there are possibilities of impairment for relevant assets at the end of each period.

If impairment is possible for certain assets, its recoverable amount will be estimated. The recoverable amount is recognised as the higher of the fair value of assets net disposal fee and the present value of the estimated future cash flow of the assets.

If the recoverable amount of the assets fall below its carrying value after accounting for the recoverable amount, the carrying amount of the assets will be written down to the recoverable amount. The amount that has written down will be recognised as impairment losses of the assets for profit or loss. Relevant provision in relation to the impairment for assets will be given at the same time.

After recognising the impairment losses of the assets, the depreciated and amortizationed fees of the impaired assets will be adjusted accordingly in the future period so that the adjusted carrying amount, less the estimated residual value, of the assets shall be amortized systematically in the remaining useful lives of the assets.

Once recognising the impairment losses of the fixed assets, the amount will not be reverted in later accounting periods.

If there are indicators of impairment for an asset, the enterprise will estimate its recoverable amount on an individual asset basis. If it is difficult to estimate the recoverable amount of individual assets, then the recoverable amount of the asset group will be recognised on the basis that which asset group does the asset constitute.

The recognition of asset groups is based on whether the major cash inflow that the asset group incurs is independent of the cash inflow of other assets or asset groups. Meanwhile, when recognising the asset groups, the way of management, production and operating activities of the management of the Company and the way of determination of continuing use or disposal of an asset etc. Once the asset groups are determined, they will be maintained in each of the accounting periods.

If the products, or other products, of several asset groups have an active market, then those several asset groups shall be recognised as one asset group although part or all of those products, or other products, are for internal use under the conformation to the requirements of the previous term. If the cash inflow of the asset group is affected by the internal transferred price, then the estimated future cash flow of the asset groups will be recognised by the best estimate of future prices in fair transactions by the management of the Company.

(XXI) Estimated liabilities

When the Company is involved in litigations, liabilities and guarantees, onerous contracts and reorganisation matters, the amount will be recognised as estimated liabilities if the possibility of delivering assets or providing services is high and the amount can be calculated reliably.

The estimated liability is preliminarily accounted in accordance with the best estimate that requires paying when performing relevant present obligations and considering factors such as relevant risks, uncertainties and time value of money on a consolidated basis. If the influence of time value of money is significant, the best estimate will be recognised after the realisation of the relevant future cash outflow; the increased amount of the estimated carrying amount of liabilities caused by restoration of realisation over time will be recognised as interests.

The estimated carrying amount of liabilities will be reviewed and adjusted appropriately on the balance sheet day in order to reflect the present best estimate.

(XXII) Revenue recognition

1. Sale of goods

Income is recognised when the significant risks and rewards of ownership of goods have been transferred by the Company to the buyer, and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and when it is highly probable that the relevant economic benefits will flow to the Company and the amount of costs incurred or to be incurred can be measured reliably.

2. Rendering of services

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, income from the rendering of services is recognised by reference to the percentage of completion of the transaction. The percentage of completion of the transaction is determined according to the progress of work performed by the following methods:

(1) Survey of work performed.

(2) Services performed to date as a percentage of total services to be performed.

(3) The proportion of the costs incurred to date to the estimated total costs of the transaction.

Total income from rendering of services is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value. At the balance sheet date, the income arising from the rendering of services for the current period is recognised with reference to the total income of rendering of services multiplied by the percentage of completion (net of the cumulative amount of revenue recognised in the prior accounting periods).

Where outcome of rendering of services cannot be estimated reliably at the balance sheet date, the income is determined as follows:

(1) If the costs incurred are expected to be recoverable, incomes are recognised to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged as service cost.

(2) If the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss for the current period and no service income is recognised.

3. Alienation of asset use rights

If it is highly probable that economic benefits associated with the transaction will flow to the enterprise, and the amount of income can be reliably estimated, the income from the alienation of asset use rights is recognised by the following methods:

(1) Interest income is recognised on a time proportion basis with reference to the company's currency and the applicable effective interest rate.

(2) Licensing revenue is recognised by reference to the period and method stated under the relevant contract or agreement.

(XXIII) Construction Contract

1. At the balance sheet date of the Company, the results of construction contracts can be reliably estimated and the income and expenses of the contract was recognized by the percentage-of-completion method. The percentage-of-completion method is to recognize income and expenses according to the completion schedule of the contract. The Company ascertained the completion schedule of the contract with the adoption of proportion of the accumulative and actual contract cost incurred against the estimated whole contract cost.

   The outcome of a fixed price contract can be estimated in a reliable way subject to the following basis: ①the total contract revenue can be measured in a reliable way; ②the economic benefits pertinent to the contract are likely to flow into the Company; ③the actual contract costs incurred can be clearly distinguished and measured reliably; and ④both the schedule of the contracted project and the contract costs to complete the contract can be measured in a reliable way.

   The outcome of a cost plus contract can be estimated in a reliable way subject to the following basis: ①the economic benefits pertinent to the contract are likely to flow into the Company; and ②the actual contract costs incurred can be clearly distinguished and can be measured in a reliable way.

2. If the outcome of a construction contract cannot be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: If the contract costs can be recovered, the contract revenue shall be recognized in accordance with contract costs that can be recovered and the contract costs shall be acknowledged as contract expenses in the current period when they are incurred; If the contract costs cannot be recovered, it shall be recognized as contract expenses when incurred and no contract revenue shall be recognized.

(XXIV) Government Subsidies

Government subsidies include government subsidies pertinent to assets and government subsidies pertinent to income. The government subsidies obtained by the Company to purchase or construct long-term assets or otherwise are government subsidies pertinent to assets. Other than government subsidies pertinent to assets, other government subsidies are government subsidies pertinent to income.

The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses.

The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows:

(1) those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall be included in the current profits and losses during the period when the relevant expenses are recognized.

(2) those subsidies used for compensating the related expenses or losses incurred to the Company shall be directly included in the current profits and losses.

(XXV) Accounting Method of Income Tax

Based on current income tax (current income tax payable) and deferred income tax (deferred income tax expense or benefits) calculated and determined, the Company recognizes the sum of them as income tax expense (or benefits) in the income statement, but does not include the income tax impact of transactions or events recognized directly into the owners' equity.

Deferred tax is the tax expected to be payable or recoverable on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

On the balance sheet date, the Company recognizes deferred income tax liabilities, deferred income tax assets and the corresponding deferred income tax expenses (or benefits) according to the computation results of temporary differences and applicable income tax rate. In general, deferred income tax liabilities from all taxable temporary differences shall be recognized, while deferred income tax assets shall be recognized only if the future taxable profit could sufficiently offset temporary differences. If temporary differences are incurred by goodwill, or initial recognition of other assets and liabilities from transactions that have no impact on taxable profits or accounting profit (other than actual merger), the deferred income tax assets and liabilities shall not be recognized.

The Company reviews the carrying value of deferred income tax assets on each balance sheet date, and deducts deferred income tax assets on the basis of unrecoverable part if it is no longer probable that sufficient taxable income can recover certain or all deferred income tax assets.

Deferred income tax is calculated with the tax rate that is expected to be utilized in the period of relevant assets realized or relevant liabilities cleared off. Deferred income tax is usually recognized in profit or loss. Unless it is related to items directly recognized in equity, deferred income tax will be treated as items under owners' equity in such circumstances.

Deferred income tax assets and liabilities can be offset only when income tax related to them is levied by the same taxation authority and the Company plans to settle its current income tax assets and liabilities with net value.

(XXVI) The Related Party

A related party refers to when one party controls, jointly controls a third party or has significant influence on a third party, and two parties or more than two parties are under common control of one party or under joint control of the parties. The related party can be an individual or an enterprise. The enterprises that are only controlled by the State and have no other related relations do not constitute a related party of the Company.

The related parties of the Company includes, but not limited to:

(1) the parent company of the Company;

(2) the subsidiaries of the Company;

(3) other enterprises that are under control of the same parent company with the Company;

(4) investors that implement joint control on the Company;

(5) investors that exert significant influence on the Company;

(6) joint ventures of the Company, including subsidiaries of the joint ventures;

(7) associates of the Company, including subsidiaries of the associates;

(8) major investors of the Company and their close family members;

(9) key management of the Company and its parent company and their close family members;

(10) Other enterprises controlled or jointly controlled by major investors and key management of the Company or their close family members.

III. TAXATION

The Company's main tax categories and tax rates

Tax item	Statutory tax rate applied in the reporting period	Tax preferential policy
Value added tax	17.00%	Nil
Urban maintenance and construction tax	7.00%	
Educational surcharge	3.00%	
Local educational surcharge	2.00%	
Local water conservancy fund	1.00%	
Property tax	1.20%	
Land use tax	RMB7/m^2	
Stamp tax	Proportional rate and fixed tax rate	
Corporation individual income tax	Progressive rate	
Enterprise income tax	15.00%	New and high technology enterprise

The Company was recognized as a "new and high technology enterprise" on 5 December 2008 and the recognition would be valid for three years. On 31 October 2011, the Company passed the reexamination and obtained the recognition of "new and high technology enterprise" again. In accordance with the requirements of the Law of the People's Republic of China on Enterprise Income Tax, the Company could enjoy a preferential tax rate of 15% with regard to its enterprise profits tax within three years upon the recognition of "new and high technology enterprise" (the last date of issue of the certification was on 31 October 2011). The Company applies the income rate of 15.00%, while the actual income tax rate during the current period shall be subject to the payment settlement in the relevant taxation authority.

IV. NOTES TO PRINCIPAL ITEMS IN THE FINANCIAL STATEMENTS

(1) Funds in cash and cash equivalents

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Cash	656.30	28.37	252.54	220.14
Bank balance	25,830,399.57	43,243,498.96	30,474,961.87	32,520,460.19
Other funds in cash			7,000,000.00	2,300,000.00
Total	25,831,055.87	43,243,527.33	37,475,214.41	34,820,680.33

Note: 1. Since Jinan Branch of Shanghai Pudong Development Bank Co., Ltd. brought a suit against the financing cooperation agreement of the Company, Jinan Branch of Shanghai Pudong Development Bank Co., Ltd. applied to freeze RMB4.3 million of bank balance of the Company at the account 51010154500000225 in Jinan Branch of Shanghai Pudong Development Bank Co., Ltd. with the People's Court of Lixia District, Jinan City, Shandong Province on 17 February 2012. Such RMB4.3 million still remains frozen as at the issue date of the auditor's report.

2. On 31 December 2011 and 31 December 2010, other funds in cash of RMB7 million and RMB2.3 million were full cash deposits for handling notes payable.

(2) Notes receivable

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Bank acceptance	12,708,511.70	11,970,651.33	12,059,309.40	1,860,536.79
Commercial acceptance				
Total	12,708,511.70	11,970,651.33	12,059,309.40	1,860,536.79

(3) Accounts Receivable

1. Accounts receivable disclosed by categories

	30 April 2013			
	Carrying amount		Provision for bad debts	
Category	Amount	Percentage	Amount	Percentage
Individual significant receivables of which provision for bad debts is made on an individual basis	3,944,227.27	17.18%	3,944,227.27	95.13%
Receivables of which provision for bad debts is made on a group basis (aging analysis)	19,015,318.19	82.82%	201,912.95	4.87%
Individual insignificant receivables of which provision for bad debts is made on an individual basis				
Total	22,959,545.46	100.00%	4,146,140.22	100.00%

(Continued)

	31 December 2012			
	Carrying amount		Provision for bad debts	
Category	Amount	Percentage	Amount	Percentage
Individual significant receivables of which provision for bad debts is made on an individual basis	3,944,227.27	22.88%	3,944,227.27	95.78%
Receivables of which provision for bad debts is made on a group basis (aging analysis)	13,292,760.16	77.12%	173,761.84	4.22%
Individual insignificant receivables of which provision for bad debts is made on an individual basis				
Total	17,236,987.43	100.00%	4,117,989.11	100.00%

(Continued)

	31 December 2011			
	Carrying amount		Provision for bad debts	
Category	**Amount**	**Percentage**	**Amount**	**Percentage**
Individual significant receivables of which provision for bad debts is made on an individual basis	3,944,227.27	35.58%	3,155,381.82	96.91%
Receivables of which provision for bad debts is made on a group basis (aging analysis)	7,140,887.31	64.42%	100,769.50	3.09%
Individual insignificant receivables of which provision for bad debts is made on an individual basis				
Total	11,085,114.58	100.00%	3,256,151.32	100.00%

(Continued)

	31 December 2010			
	Carrying amount		Provision for bad debts	
Category	**Amount**	**Percentage**	**Amount**	**Percentage**
Individual significant receivables of which provision for bad debts is made on an individual basis				
Receivables of which provision for bad debts is made on a group basis (aging analysis)	6,028,007.87	100.00%	68,770.43	100.00%
Individual insignificant receivables of which provision for bad debts is made on an individual basis				
Total	6,028,007.87	100.00%	68,770.43	100.00%

2. ***Accounts receivables of which provision for bad debts is made according to aging analysis***

	30 April 2013			31 December 2012		
	Carrying amount		Provision for	Carrying amount		Provision for
Age	Amount	Percentage	bad debts	Amount	Percentage	bad debts
Less than 1 year	18,867,399.53	99.22%	94,337.00	13,136,857.50	98.83%	65,684.29
1-2 years	9,130.65	0.05%	913.06	18,598.65	0.14%	1,859.86
2-3 years	8,735.05	0.05%	2,620.52	7,251.05	0.05%	2,175.32
3-4 years						
4-5 years	130,052.96	0.68%	104,042.37	130,052.96	0.98%	104,042.37
More than 5 years						
Total	19,015,318.19	100.00%	201,912.95	13,292,760.16	100.00%	173,761.84

(Continued)

	31 December 2011			31 December 2010		
	Carrying amount		Provision for	Carrying amount		Provision for
Age	Amount	Percentage	bad debts	Amount	Percentage	bad debts
Less than 1 year	7,003,583.30	98.08%	35,017.92	5,897,057.41	97.83%	29,485.29
1-2 years	7,251.05	0.10%	725.10			
2-3 years				130,950.46	2.17%	39,285.14
3-4 years	130,052.96	1.82%	65,026.48			
4-5 years						
More than 5 years						
Total	7,140,887.31	100.00%	100,769.50	6,028,007.87	100.00%	68,770.43

3. Accounts receivable individually significant and individually provided for bad debts at the end of the period

Name of debtor	Carrying amount	Provision for bad debts	Percentage of provision for bad debt	Reasons of provision for bad debt
Shandong Xinkangqi Phamaceutical Co., Ltd.	3,944,227.27	3,944,227.27	100.00%	The Company is insolvent, and cannot pay the debts.
Total	3,944,227.27	3,944,227.27	100.00%	

4. Details of the five largest debtors of accounts receivable at the end of the period

Name of debtor	Amount	Nature or Content	Percentage of the Total Account Receivables
Shandong Xinkangqi Phamaceutical Co., Ltd.	3,944,227.27	Medicine Fees Receivables	17.18%
Jieyang Guangtong Phamaceutical Co., Ltd. (揭陽市廣通醫藥有限公司)	2,698,904.00	Medicine Fees Receivables	11.76%
Sichuan Hongyi Phamaceutical Co., Ltd. (四川弘益藥業有限公司)	2,118,534.00	Medicine Fees Receivables	9.23%
Sichuan Beirkang Phamaceutical Co., Ltd. (四川貝爾康醫藥有限公司)	1,914,304.00	Medicine Fees Receivables	8.34%
Anhui Huayuan Pharmaceutical Co., Ltd.	952,016.69	Medicine Fees Receivables	4.15%
Total	11,627,985.96		50.66%

5. *Details of the account receivables with an aging of more than three years at the end of the period*

Name of debtor	Amount	Nature or Content	Reasons of Being Outstanding
Shandong Haiwang Yinhe Pharmaceutical Co., Ltd.	130,052.96	Medicine Fees Receivables	Not yet due
Total	130,052.96		

(4) Advances to Suppliers

1. *Constitutions of advances to suppliers*

	30 April 2013		31 December 2012	
Aging	Carrying amount	Percentage of the Total Account	Carrying amount	Percentage of the Total Account
Less than 1 year	240,502.95	99.71%	7,981.30	91.86%
1-2 years	—	—	—	—
2-3 years	—	—	—	—
More than 3 years	707.70	0.29%	707.70	8.14%
Total	241,210.65	100.00%	8,689.00	100.00%

(Continued)

	31 December 2011		31 December 2010	
Aging	Carrying amount	Percentage of the Total Account	Carrying amount	Percentage of the Total Account
Less than 1 year	3,449,862.22	99.98%	1,119,239.46	91.37%
1-2 years	—	—	105,707.70	8.63%
2-3 years	707.70	0.02%	—	—
More than 3 years	—	—	—	—
Total	3,450,569.92	100.00%	1,224,947.16	100.00%

2. ***Details of the debtors with large advances to suppliers at the end of the period***

Name of debtor	Amount	Nature or Content	Percentage of the Total Advances to Suppliers
Shandong Xinhua Pharmaceutical Group Company Limited	200,000.00	Prepaid research and development fees	82.92%
Wulian County Shuangli Packaging Materials Factory (五蓮縣雙利包裝材料廠)	23,172.90	Prepayment for goods	9.61%
Zibo Huazhilin Packaging Manufacturing Co., Ltd. (淄博華致林包裝製品有限公司)	8,798.75	Prepayment for goods	3.65%
Zhejiang Zhebang Pharmaceutical Co., Ltd.	7,781.30	Prepayment for goods	3.23%
Total	239,752.95		99.41%

3. ***The large advance to suppliers with an aging of more than one year at the end of the period is as follow:***

Name of debtor	Amount	Reasons of Being Outstanding
Shangdong Lukang Pharmaceutical Co., Ltd.	707.70	Prepayment for materials
Total	707.70	

(5) Other Receivable

1. Other Receivable disclosed by categories

	30 April 2013			
	Carrying amount		Provision for bad debts	
Category	Amount	Percentage	Amount	Percentage
Other significant individual receivables of which provision for bad debts is made on an individual basis	24,976,434.26	90.66%		
Other receivables of which provision for bad debts is made on a group basis (aging analysis)	2,572,110.59	9.34%	158,613.62	100.00%
Other insignificant individual receivables of which provision for bad debts is made on an individual basis				
Total	27,548,544.85	100.00%	158,613.62	100.00%

(Continued)

	31 December 2012			
	Carrying amount		Provision for bad debts	
Category	Amount	Percentage	Amount	Percentage
Other significant individual receivables of which provision for bad debts is made on an individual basis	25,180,120.06	91.19%		
Other receivables of which provision for bad debts is made on a group basis (aging analysis)	2,432,047.11	8.81%	128,817.21	100.00%
Other insignificant individual receivables of which provision for bad debts is made on an individual basis				
Total	27,612,167.17	100.00%	128,817.21	100.00%

(Continued)

	31 December 2011			
	Carrying amount		Provision for bad debts	
Category	**Amount**	**Percentage**	**Amount**	**Percentage**
Other significant individual receivables of which provision for bad debts is made on an individual basis	871,003.66	16.54%		
Other receivables of which provision for bad debts is made on a group basis (aging analysis)	4,393,557.82	83.46%	97,840.35	100.00%
Other insignificant individual receivables of which provision for bad debts is made on an individual basis				
Total	5,264,561.48	100.00%	97,840.35	100.00%

(Continued)

	31 December 2010			
	Carrying amount		Provision for bad debts	
Category	**Amount**	**Percentage**	**Amount**	**Percentage**
Other significant individual receivables of which provision for bad debts is made on an individual basis	708,873.74	18.63%		
Other receivables of which provision for bad debts is made on a group basis (aging analysis)	3,097,137.85	81.37%	69,208.27	100.00%
Other insignificant individual receivables of which provision for bad debts is made on an individual basis				
Total	3,806,011.59	100.00%	69,208.27	100.00%

2. ***Other receivable of which provision for bad debts is made according to aging analysis***

	30 April 2013			31 December 2012		
Aging	Carrying amount	Percentage of the Total Amount	Provision for bad debts	Carrying amount	Percentage of the Total Amount	Provision for bad debts
Less than 1 year	2,061,362.49	80.14%	10,306.81	2,210,731.61	90.90%	11,053.66
1-2 years	335,168.10	13.03%	33,516.81	45,735.50	1.88%	4,573.55
2-3 years	30,000.00	1.17%	9,000.00	38,000.00	1.56%	11,400.00
3-4 years	35,580.00	1.38%	17,790.00	27,580.00	1.14%	13,790.00
4-5 years	110,000.00	4.28%	88,000.00	110,000.00	4.52%	88,000.00
More than 5 years						
Total	2,572,110.59	100.00%	158,613.62	2,432,047.11	100.00%	128,817.21

(Continued)

	31 December 2011			31 December 2010		
Aging	Carrying amount	Percentage of the Total Amount	Provision for bad debts	Carrying amount	Percentage of the Total Amount	Provision for bad debts
Less than 1 year	4,116,120.30	93.69%	20,580.60	2,763,215.95	89.22%	13,816.08
1-2 years	139,857.52	3.18%	13,985.75	223,921.90	7.23%	22,392.19
2-3 years	27,580.00	0.63%	8,274.00	110,000.00	3.55%	33,000.00
3-4 years	110,000.00	2.50%	55,000.00			
4-5 years						
More than 5 years						
Total	4,393,557.82	100.00%	97,840.35	3,097,137.85	100.00%	69,208.27

3. *Details of the five largest debtors of other receivable at the end of the period*

Name of debtor	Amount	Nature or Content	Percentage of the Total Account of Other Receivable
Shandong Xinhua Pharmaceutical Group Company Limited	24,139,965.99	Current accounts	87.63%
Shangdong Huantai Construction Engineering Co., Ltd. (山東桓台建設工程有限公司)	852,353.76	Current accounts	3.09%
Qidong Fengshun Building Cleaning Co., Ltd. (啟東風順建築潔淨工程有限公司)	400,000.80	Current accounts	1.45%
Beijing Shijizhongkang Pharmaceutical Technology Co., Ltd. (北京世紀中康醫藥科技有限公司)	240,000.00	Current accounts	0.87%
Zhangdian Hanrun Art Design and Production Department (張店翰潤藝術設計製作部)	165,510.01	Current accounts	0.60%
Total	25,797,830.56		93.64%

4. *Details of the other receivable with an aging of more than three years at the end of the period*

Name of debtor	Amount	Nature or Content	Reasons of Being Outstanding
Fujian Zhuangxun Medical Instrument & Information Services Co., Ltd. (福建莊訊藥械信息服務有限公司)	110,000.00	Deposit	Not yet due
The Food and Drug Administration of Ziyang District, Yiyang, Hunan (湖南省益陽市資陽區食品藥品監督管理局)	15,000.00	Current accounts	Not yet due
Purchasing Centre of Hainan (海南政府採購中心)	12,000.00	Deposit	Not yet due
Libo Medical Technology Co., Ltd. Zhengzhou, Henan (河南鄭州力博醫藥技術有限公司)	8,000.00	Current accounts	Not yet due
Qingdao HanGuang Packaging Machine Co., Ltd.	580.00	Current accounts	Not yet due
Total	145,580.00		

(6) Inventories

	30 April 2013		31 December 2012	
Item	**Carrying amount**	**Provision for decline in value**	**Carrying amount**	**Provision for decline in value**
Raw materials	15,195,358.51		20,878,278.63	
Material procurement	66,691.75		38,175.47	
Commodity stocks	9,036,150.99		3,701,530.19	
Work-in-progress	5,247,218.16		10,126,457.29	
Total	29,545,419.41		34,744,441.58	

(Continued)

	31 December 2011		31 December 2010	
Item	**Carrying amount**	**Provision for decline in value**	**Carrying amount**	**Provision for decline in value**
Raw materials	17,675,428.34		14,566,248.80	
Material procurement	456,795.53		1,839,166.96	
Commodity stocks	6,855,022.77		10,145,652.15	
Work-in-progress	7,295,830.50		4,924,029.09	
Total	32,283,077.14		31,475,097.00	

(7) Fixed Assets

Original value and accumulated depreciation of fixed assets

Item	31 December 2009	Additions	Reductions	31 December 2010
1. Subtotal of original value	58,850,421.83	7,408,978.72	472,636.00	65,786,764.55
Including: House and buildings	35,701,868.00			35,701,868.00
Machinery & equipment	18,122,138.64	6,301,435.88	391,520.00	24,032,054.52
Electronic equipment	3,845,073.15	1,094,382.84	73,616.00	4,865,839.99
Vehicles	987,785.04			987,785.04
Other equipment	193,557.00	13,160.00	7,500.00	199,217.00
2. Subtotal of accumulated depreciation	14,605,669.22	3,865,181.25	449,004.20	18,021,846.27
Including: House and buildings	2,495,378.61	1,713,689.64		4,209,068.25
Machinery & equipment	8,159,913.41	1,560,256.57	371,944.00	9,348,225.98
Electronic equipment	3,332,633.04	413,517.71	69,935.20	3,676,215.55
Vehicles	444,322.10	173,679.48		618,001.58
Other equipment	173,422.06	4,037.85	7,125.00	170,334.91
3. Subtotal of provision for impairment				
Including: House and buildings				
Machinery & equipment				
Electronic equipment				
Vehicles				
Other equipment				
4. Subtotal of carrying amount	44,244,752.61			47,764,918.28
Including: House and buildings	33,206,489.39			31,492,799.75
Machinery & equipment	9,962,225.23			14,683,828.54
Electronic equipment	512,440.11			1,189,624.44
Vehicles	543,462.94			369,783.46
Other equipment	20,134.94			28,882.09

(Continued)

Item	31 December 2010	Additions	Reductions	31 December 2011
1. Subtotal of original value	65,786,764.55	8,009,121.31	658,324.99	73,137,560.87
Including: House and buildings	35,701,868.00	4,263,460.27		39,965,328.27
Machinery & equipment	24,032,054.52	2,470,207.53	462,284.76	26,039,977.29
Electronic equipment	4,865,839.99	900,524.51	196,040.23	5,570,324.27
Vehicles	987,785.04	356,239.00		1,344,024.04
Other equipment	199,217.00	18,690.00		217,907.00
2. Subtotal of accumulated depreciation	18,021,846.27	4,360,281.68	434,580.61	21,947,547.34
Including: House and buildings	4,209,068.25	1,723,701.74		5,932,769.99
Machinery & equipment	9,348,225.98	1,868,969.06	289,067.33	10,928,127.71
Electronic equipment	3,676,215.55	521,007.38	145,513.28	4,051,709.65
Vehicles	618,001.58	240,278.42		858,280.00
Other equipment	170,334.91	6,325.08		176,659.99
3. Subtotal of provision for impairment				
Including: House and buildings				
Machinery & equipment				
Electronic equipment				
Vehicles				
Other equipment				
4. Subtotal of carrying amount	47,764,918.28			51,190,013.53
Including: Buildings	31,492,799.75			34,032,558.28
Machinery & equipment	14,683,828.54			15,111,849.58
Electronic equipment	1,189,624.44			1,518,614.62
Vehicles	369,783.46			485,744.04
Other equipment	28,882.09			41,247.01

(Continued)

Item	31 December 2011	Additions	Reductions	31 December 2012
1. Subtotal of original value	73,137,560.87	2,762,500.28	664,175.96	75,235,885.19
Including: House and buildings	39,965,328.27	80,784.33		40,046,112.60
Machinery & equipment	26,039,977.29	2,215,953.98	596,100.00	27,659,831.27
Electronic equipment	5,570,324.27	465,761.97	65,355.96	5,970,730.28
Vehicles	1,344,024.04			1,344,024.04
Other equipment	217,907.00		2,720.00	215,187.00
2. Subtotal of accumulated depreciation	21,947,547.34	4,834,791.82	630,967.16	26,151,372.00
Including: House and buildings	5,932,769.99	1,920,274.62		7,853,044.61
Machinery & equipment	10,928,127.71	2,030,875.85	566,295.00	12,392,708.56
Electronic equipment	4,051,709.65	672,720.86	62,088.16	4,662,342.35
Vehicles	858,280.00	202,248.24		1,060,528.24
Other equipment	176,659.99	8,672.25	2,584.00	182,748.24
3. Subtotal of provision for impairment				
Including: House and buildings				
Machinery & equipment				
Electronic equipment				
Vehicles				
Other equipment				
4. Subtotal of carrying amount	51,190,013.53			49,084,513.19
Including: House and buildings	34,032,558.28			32,193,067.99
Machinery & equipment	15,111,849.58			15,267,122.71
Electronic equipment	1,518,614.62			1,308,387.93
Vehicles	485,744.04			283,495.80
Other equipment	41,247.01			32,438.76

(Continued)

Item	31 December 2012	Additions	Reductions	30 April 2013
1. Subtotal of original value	75,235,885.19	58,198.17		75,294,083.36
Including: Buildings	40,046,112.60			40,046,112.60
Machinery & equipment	27,659,831.27	21,367.53		27,681,198.80
Electronic equipment	5,970,730.28	36,830.64		6,007,560.92
Vehicles	1,344,024.04			1,344,024.04
Other equipment	215,187.00			215,187.00
2. Subtotal of accumulated depreciation	26,151,372.00	1,634,154.12		27,785,526.12
Including: House and buildings	7,853,044.61	640,737.80		8,493,782.41
Machinery & equipment	12,392,708.56	687,045.83		13,079,754.39
Electronic equipment	4,662,342.35	246,776.44		4,909,118.79
Vehicles	1,060,528.24	57,417.37		1,117,945.61
Other equipment	182,748.24	2,176.68		184,924.92
3. Subtotal of provision for impairment				
Including: House and buildings				
Machinery & equipment				
Electronic equipment				
Vehicles				
Other equipment				
4. Subtotal of carrying amount	49,084,513.19			47,508,557.24
Including: House and buildings	32,193,067.99			31,552,330.19
Machinery & equipment	15,267,122.71			14,601,444.41
Electronic equipment	1,308,387.93			1,098,442.13
Vehicles	283,495.80			226,078.43
Other equipment	32,438.76			30,262.08

(8) Construction in progress

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Renovation project of preparations workshop				1,409,594.67
Anti-cancer bulk pharmaceutical chemicals project of pemetrexed disodium with an annual output of 100kg	390,539.00	390,539.00	259,584.00	
Total	390,539.00	390,539.00	259,584.00	1,409,594.67

(9) Intangible Assets

Intangible assets and accumulated amortization

Item	31 December 2009	Additions	Reductions	31 December 2010
1. Subtotal of original value	5,020,010.38			5,020,010.38
Land use rights	5,020,010.38			5,020,010.38
2. Subtotal of accumulated amortization	613,556.78	167,333.64		780,890.42
Land use rights	613,556.78	167,333.64		780,890.42
3. Subtotal of provision for impairment				
Land use rights				
4. Subtotal of carrying amount	4,406,453.60			4,239,119.96
Land use rights	4,406,453.60			4,239,119.96

(Continued)

Item	31 December 2010	Additions	Reductions	31 December 2011
1. Subtotal of original value	5,020,010.38			5,020,010.38
Land use rights	5,020,010.38			5,020,010.38
2. Subtotal of accumulated amortization	780,890.42	167,333.64		948,224.06
Land use rights	780,890.42	167,333.64		948,224.06
3. Subtotal of provision for impairment				
Land use rights				
4. Subtotal of carrying amount	4,239,119.96			4,071,786.32
Land use rights	4,239,119.96			4,071,786.32

(Continued)

Item	31 December 2011	Additions	Reductions	31 December 2012
1. Subtotal of original value	5,020,010.38			5,020,010.38
Land use rights	5,020,010.38			5,020,010.38
2. Subtotal of accumulated amortization	948,224.06	167,333.60		1,115,557.66
Land use rights	948,224.06	167,333.60		1,115,557.66
3. Subtotal of provision for impairment				
Land use rights				
4. Subtotal of carrying amount	4,071,786.32			3,904,452.72
Land use rights	4,071,786.32			3,904,452.72

(Continued)

Item	31 December 2012	Additions	Reductions	30 April 2013
1. Subtotal of original value	5,020,010.38			5,020,010.38
Land use rights	5,020,010.38			5,020,010.38
2. Subtotal of accumulated amortization	1,115,557.66	55,777.88		1,171,335.54
Land use rights	1,115,557.66	55,777.88		1,171,335.54
3. Subtotal of provision for impairment				
Land use rights				
4. Subtotal of carrying amount	3,904,452.72			3,848,674.84
Land use rights	3,904,452.72			3,848,674.84

(10) Deferred Tax Assets

1. *Recognized deferred tax assets*

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Deferred tax assets:				
Provision for impairment of assets	645,713.08	637,020.95	503,098.75	20,696.80
Pending litigation	1,416,000.00	1,416,000.00		
Total	2,061,713.08	2,053,020.95	503,098.75	20,696.80

2. *Details of items of deductable difference*

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Items of deductable difference:				
Provision for impairment of assets	4,304,753.84	4,246,806.32	3,353,991.67	137,978.70
Pending litigation	9,440,000.00	9,440,000.00		
Total	13,744,753.84	13,686,806.32	3,353,991.67	137,978.70

(11) Short-term Loans

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Credit loan				
Guarantee loan	20,000,000.00	35,000,000.00	30,000,000.00	30,000,000.00
Mortgage loan				
Pledge Loan				
Total	20,000,000.00	35,000,000.00	30,000,000.00	30,000,000.00

(12) Note Payable

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Bank acceptance			7,000,000.00	2,300,000.00
Commercial acceptance				
Total			7,000,000.00	2,300,000.00

(13) Account Payable

1. Aging of account payable

Aging	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Less than 1 year	16,921,581.29	19,157,198.26	12,899,363.43	16,365,003.87
1-2 years		2,963.63	214,622.45	367,794.21
2-3 years	3,253.63	108,450.00	317,794.21	
More than 3 years	150,348.57	42,188.57		
Total	17,075,183.49	19,310,800.46	13,431,780.09	16,732,798.08

2. Details of the five largest creditors of account payable at the end of the period

Name of creditor	Amount	Nature or Content	Percentage of the total account payable
Hubei Kangle Medical Company Limited (湖北康樂醫藥有限責任公司)	3,593,904.90	Accrued material fees	21.05%
Zhejiang Guobang Pharmaceutical Co., Ltd.	1,650,000.00	Accrued material fees	9.66%
Titan Pharmaceutical Co., Ltd. (Guangdong)	1,076,146.83	Accrued material fees	6.30%
Nanjing Yoko Bio-pharmaceutical Co., Ltd. (南京優科生物醫藥有限公司)	1,015,000.00	Accrued material fees	5.94%
Zhuhai United Laboratories Co. Ltd (珠海聯邦制藥股份有限公司)	934,353.62	Accrued material fees	5.47%
Total	8,269,405.35		48.42%

3. The large account payable with an aging of more than three years at the end of the period

Name of creditor	Amount	Nature or Content	Reasons of Being Outstanding
Zibo Yangpu Plastics Co., Ltd. (淄博陽普塑膠有限公司)	148,483.44	Accrued material fees	The counterparty has not demanded it.
Total	148,483.44		

(14) Advances from Customers

1. Aging of advances from customers

Aging	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Less than 1 year	1,173,744.42	2,491,113.41	6,692,763.26	3,669,399.08
1-2 years	55,787.40	58,151.40	11,310.00	12,769.36
2-3 years	2,010.00	9,970.00	5,059.36	
More than 3 years	5,059.36	5,059.36		
Total	1,236,601.18	2,564,294.17	6,709,132.62	3,682,168.44

2. Details of the five largest creditors of advances from customers at the end of the period

Name of creditor	Amount	Nature or Content	Percentage of the total advances from customers
Hubei Tianxiaming Pharmaceutics Co., Ltd. (湖北天下明藥業有限公司)	123,326.00	Advances from sales	9.97%
Zhejiang Dongyang Medicines Co., Ltd. (浙江省東陽市醫藥藥材有限公司)	75,198.80	Advances from sales	6.08%
Chengdu Yixiang Medical Trade Co., Ltd. (成都市怡祥醫藥貿易有限公司)	72,800.00	Advances from sales	5.89%
China Resources Hunan Shuangzhou Pharmaceutical Co., Ltd. Xinteyao Branch (湖南雙舟醫藥有限責任公司新特藥分公司)	61,140.00	Advances from sales	4.94%
Zhejiang Zhenyuen Corporation Ltd.# (浙江震元股份有限公司)	51,121.00	Advances from sales	4.13%
Total	383,585.80		31.01%

3. *The large advances from customers with an aging of more than three years at the end of the period*

Name of creditor	Amount	Nature or Content	Reasons of Being Outstanding
Fujian Baikang Medicines Co., Ltd. (福建百康醫藥有限公司)	2,640.00	Advances from sales	The counterparty has not urged us to pay it.
Xuzhou Huai Hai Pharmaceutical Co., Ltd. (徐州淮海藥業有限公司)	1,800.00	Advances from sales	The counterparty has not urged us to pay it.
Anhui Huawen Medical Logistics Co., Ltd. (安徽華文醫藥物流有限公司)	619.36	Advances from sales	The counterparty has not urged us to pay it.
Total	5,059.36		

(15) Employees' wage Payable

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
1. Salaries and bonuses				
2. Basic pension insurance				
3. Basic Medical insurance				
4. Unemployment insurance				
5. Work injury insurance				
6. Maternity insurance				
7. Supplementary medical insurance				
8. Corporate annuity				
9. Union running costs	175,532.71	178,157.19	142,958.96	100,552.97
10. Employee education costs	305,863.51	169,357.39		
11. Housing funds				
12. Staff welfare	59,255.44	52,301.00	49,113.00	65,796.61
13. Compensation to employee for termination of employment relationship				
Total	540,651.66	399,815.58	192,071.96	166,349.58

(16) Tax Payable

Categories of tax	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Unpaid value added tax	556,976.83	614,397.61	265,364.40	–498,089.82
Value added tax payable	381,246.44	1,353,158.51	–549,137.93	645,445.21
Property tax	27,161.25	68,991.93	68,991.93	68,991.93
Land use tax	22,621.67	67,865.00	67,865.25	67,865.09
Corporation individual income tax	7,668.37	7,379.89	13,331.93	11,326.95
Urban maintenance & construction tax	39,968.71	43,988.16	19,555.84	
Educational surcharge	17,129.45	18,852.07	8,381.07	
Local educational surcharge	11,419.63	12,568.05	5,587.38	
Local water conservancy construction fund	5,709.80	6,284.02	2,793.69	
Total	1,069,902.15	2,193,485.24	–97,266.44	295,539.36

(17) Other Payable

1. Aging of other payable

Aging	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Less than 1 year	4,891,483.50	8,606,067.62	4,597,518.89	9,580,464.83
1-2 years	273,746.80	99,136.80	469,457.29	359,563.30
2-3 years	66,450.13	87,260.13	128,125.44	
More than 3 years	62,720.60	79,520.60		
Total	5,294,401.03	8,871,985.15	5,195,101.62	9,940,028.13

2. *Details of the five largest creditors of account payable at the end of the period*

Name of creditor	Amount	Nature or Content	Percentage of the total amount of other account payable
Puning Kangrong Trade Co., Ltd. (普甯市康榮貿易有限公司)	1,011,960.91	Carriage payable	19.11%
Jinan Youjia Commercial Media Co., Ltd. (濟南優加廣告傳媒有限公司)	496,529.17	Advertising expense payable	9.38%
Zibo Hengye Chemical Equipment Co.,Ltd. (淄博恒業化工設備有限公司)	246,500.00	Payables on equipment	4.66%
Shandong Xinhua Pharmaceutical Company Limited	241,878.24	Power expenses payable	4.57%
Jinan Taige Medical Science and Technology Co., Ltd. (濟南泰格醫藥科技有限公司)	180,000.00	Research and development fees payable	3.40%
Total	2,176,868.32		41.12%

3. The large account payable with an aging of more than three years at the end of the period

Name of creditor	Amount	Nature or Content	Reasons of Being Outstanding
Zibo Zhongxicun Industrial Co., Ltd. Mechanized Construction Branch (淄博中西村實業有限公司機械化施工分公司)	37,215.77	Construction expenses payable	Quality guarantee deposit is not yet due.
Zibo Mingtian Decoration Engineering Co., Ltd. Zhangdian Branch (淄博明天裝飾工程有限公司張店分公司)	12,570.96	Plant maintenance costs payable	Quality guarantee deposit is not yet due.
Tianjin Yandang Packaging Machinery Co., Ltd. (天津市雁蕩包裝機械有限公司)	5,120.00	Accessories fees payable	Quality guarantee deposit is not yet due.
Shangdong Weifang Wemac Medical Appliances Co., Ltd.	4,350.00	Accessories fees payable	Quality guarantee deposit is not yet due.
Shandong Zibo Medical Equipment Co., Ltd. (山東淄博康華醫療器械有限責任)	1,375.00	Accessories fees payable	Quality guarantee deposit is not yet due.
Total	60,631.73		

(18) Provisions

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Pending litigation	9,440,000.00	9,440,000.00		
Total	9,440,000.00	9,440,000.00		

Note: Please see "6. Contingencies" for details of provisions.

(19) Paid-up Capital

Name of shareholder	Percentage of shareholding at the end of the period	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Shandong Xinhua Pharmaceutical Group Company Limited				67,944,000.00	21,543,000.00
Hualu Holdings Group Company Limited	80.00%	67,944,000.00	67,944,000.00		
Shandong Xinhua Pharmaceutical Company Limited	20.00%	16,986,000.00	16,986,000.00	16,986,000.00	5,385,750.00
Total	100.00%	84,930,000.00	84,930,000.00	84,930,000.00	26,928,750.00

Note: 1. Pursuant to the resolution of shareholder meeting of the Company on 4 November 2011, the Company transferred undistributed profit of RMB58,000,000 to share capital for all shareholders, thus the paid-up capital became RMB84,930,000. On 18 November 2011, the Company completed the change of business registration with the Administration of Industry and Commerce of Zibo. The added registered capital and the paid-up capital were verified by Lu Xin Hui Yan Zi (2011) No.81 Audit Report issued by Shandong Xin Cheng CPA Co., Ltd.

2. Pursuant to the Approval in Respect of the Transfer of State-owned Shares of Shandong Zibo Xincat Pharmaceutical Company Limited (山東淄博新達制藥有限公司) at Nil Consideration issued on 15 August 2011 by the State-owned Assets Supervision and Administration Commission of the Shangdong Provincial Government, the equity of the Company held by Shandong Xinhua Pharmaceutical Group Company Limited was transferred to Hualu Holdings Group Company Limited at nil consideration. Accordingly, the Company became a subsidiary of Hualu Holdings Group Company Limited. Tthe change of business registration was completed with the Administration of Industry and Commerce of Zibo on 12 March 2012.

(20) Capital Reserve

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Other capital reserve	290,905.61	290,905.61	290,905.61	290,905.61
Total	290,905.61	290,905.61	290,905.61	290,905.61

Note: Capital reserve-Other capital reserve was formed in 2005, 2006 and 2007, the main content of which was income from the repayment with fixed assets (pursuant to the stipulations of the Former PRC Accounting Standards for Business Enterprises (原企業會計準則), because of a debt is given in by the creditor, the whole or part of the debt exempted from the debtor transferred to capital reserve, which shall not be recognized as current profits and losses).

(21) Surplus Reserve

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Statutory surplus reserve	9,791,745.07	9,245,697.47	7,609,268.99	5,362,992.00
Total	9,791,745.07	9,245,697.47	7,609,268.99	5,362,992.00

(22) Undistributed Profits

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Ending balance of last period	13,755,199.70	–972,656.59	36,812,100.55	27,028,579.04
Add: Effects of the changes in accounting policies				
Effects of the correction of prior year accounting errors				
Beginning balance of the period	13,755,199.70	–972,656.59	36,812,100.55	27,028,579.04
Add: Net profit	5,460,475.97	16,364,284.77	22,462,769.85	27,537,246.12
Making good of loss with surplus reserves				
Other transfer				
Less: Appropriation of statutory surplus reserve	546,047.60	1,636,428.48	2,246,276.99	2,753,724.61
Appropriation of discretionary surplus reserve				
Distribution to shareholders				15,000,000.00
Undistributed profits to capital			58,001,250.00	
Ending balance of the period	18,669,628.07	13,755,199.70	–972,656.59	36,812,100.55

(23) Operating Income and Operation Cost

	January – April 2013		2012	
Item	Income	Cost	Income	Cost
Drug	92,833,102.56	55,670,374.36	278,316,726.27	153,207,693.83
Subtotal of main operation	92,833,102.56	55,670,374.36	278,316,726.27	153,207,693.83
Electricity bill	6,694.36	5,718.00		
Sales of material			101,181.88	105,239.90
Subtotal of other operation	6,694.36	5,718.00	101,181.88	105,239.90
Total	92,839,796.92	55,676,092.36	278,417,908.15	153,312,933.73

(Continued)

Item	2011 Income	2011 Cost	2010 Income	2010 Cost
Drug	253,001,615.44	147,076,957.94	210,203,161.09	135,643,425.29
Subtotal of main operation	253,001,615.44	147,076,957.94	210,203,161.09	135,643,425.29
Electricity bill			20,308.89	20,308.89
Sales of material	23,076.92	20,925.50		
Subtotal of other operation	23,076.92	20,925.50	20,308.89	20,308.89
Total	253,024,692.36	147,097,883.44	210,223,469.98	135,663,734.18

(24) Business Taxes and Surcharges

Item	January – April 2013	2012	2011	2010
Urban maintenance & construction tax	551,025.34	1,519,526.06	1,224,370.73	815,941.62
Educational surcharge	236,153.72	651,225.44	524,730.29	349,689.26
Local educational surcharge	157,435.82	434,150.31	349,820.20	116,563.08
Local water conservancy fund	78,717.90	217,075.15	66,276.27	
Total	1,023,332.78	2,821,976.96	2,165,197.49	1,282,193.96

(25) Selling Expenses

Item	January – April 2013	2012	2011	2010
Office Expense	27,000.00	20,134.00	26,749.30	
Travel Expense	1,456,849.35	5,371,024.81	7,577,845.33	4,377,307.58
Freight charge	2,115,419.66	6,826,388.36	4,148,117.32	2,111,745.30
Advertising Expense	2,643,064.08	9,275,716.70	7,338,342.18	5,192,680.05
Salary	3,079,345.95	7,406,826.82	6,513,872.94	4,833,310.27
Staff welfare	179,307.95	725,877.00	586,210.00	278,763.00
Pension	419,470.52	1,286,517.31	976,612.32	886,402.14
Medical insurance	145,334.42	426,124.52	322,480.29	275,100.93
Unemployment insurance	20,762.06	109,898.19	65,125.25	59,094.06
Maternity insurance	14,533.73	44,073.82	34,632.41	29,547.03
Work injury insurance	10,382.29	25,946.32	23,032.26	24,256.70
Housing funds	166,062.88	493,243.28	318,782.00	323,587.12
Conference promotion expenses	3,039,115.51	9,957,161.91	6,599,177.57	4,242,556.68
Business propagandize fee	435,054.03	1,762,843.10	1,689,551.22	996,447.73
Sale service expenses	10,186,211.74	30,090,776.69	12,378,181.85	830,038.43
Office costs	88,842.13	202,160.09	116,019.63	182,233.49
Others		60,000.00	145,192.00	38,415.38
Sample costs	81,544.06	334,319.73	1,317,912.75	1,163,210.64
Tender service expenses	83,241.90	481,692.93	865,253.67	108,847.00
Inspection expenses	32,720.00	504,479.00	199,155.50	460,957.50
Total	24,224,262.26	75,405,204.58	51,242,245.79	26,414,501.03

(26) Administrative Expenses

Item	January – April 2013	2012	2011	2010
Office Expense	370,790.05	1,286,365.52	1,384,855.62	1,019,871.75
Salary	771,264.02	2,329,239.74	1,876,429.11	1,573,316.03
Staff welfare	72,689.77	256,081.00	239,544.00	115,957.00
Pension	110,901.66	340,185.78	307,665.23	279,606.60
Medical insurance	38,431.26	112,442.91	101,845.33	86,743.15
Unemployment insurance	5,490.18	29,181.25	20,590.32	18,639.27
Maternity insurance	3,843.24	11,662.79	11,013.81	9,319.79
Work injury insurance	2,745.34	6,663.32	7,352.19	7,655.47
Housing funds	43,907.44	136,158.72	268,741.87	111,885.20
Travel Expense	67,968.36	219,321.95	532,306.50	296,523.30
Maintenance expenses	40,550.22	147,979.61	135,194.17	52,028.45
Security contributions	19,743.13	262,510.89	243,466.08	82,312.62
Union running costs	138,612.14	349,670.13	299,646.69	240,192.20
Entertainment expense	90,166.00	418,052.91	541,433.15	621,697.60
Tax	278,625.39	741,809.99	675,838.65	632,127.12
Trademark using fee	100,000.00	311,600.00	300,000.00	300,000.00
Research and develop expenses	2,812,707.11	9,830,820.73	14,561,059.78	7,278,510.41
Others	142,793.90	782,292.22	726,796.14	446,029.76
Employee education cost	152,343.62	394,435.67	275,848.40	190,356.94
River management fee			85,153.00	85,834.00
Total	5,263,572.83	17,966,475.13	22,594,780.04	13,448,606.66

(27) Financial Expense

Item	January – April 2013	2012	2011	2010
Interest expense	187,666.66	1,426,799.92	1,846,572.17	1,553,372.92
Less: interest income	35,528.51	489,861.63	551,585.33	128,060.54
Bank charges	5,326.52	14,655.91	18,596.48	43,823.03
Total	157,464.67	951,594.20	1,313,583.32	1,469,135.41

(28) Impairment Loss of Asset

Item	January – April 2013	2012	2011	2010
Provision for bad debts	57,947.52	892,814.65	3,216,012.97	–13,679.01
Provision for decline in value of inventories				
Total	57,947.52	892,814.65	3,216,012.97	–13,679.01

(29) Non-operating Income

1. *Categories of non-operating income*

Item	January – April 2013	2012	2011	2010
Proceeds from disposal of fixed asset		1,900.00	77,800.00	
Government Subsidies	22,500.00	1,113,100.00	250,000.00	60,000.00
Proceeds from penalty				
Other income		2,000.00	1,200.00	938.26
Total	22,500.00	1,117,000.00	329,000.00	60,938.26

2. Details of government subsidies

Item	January – April 2013	2012	2011	2010
Technological renovation rewards		170,000.00	50,000.00	10,000.00
Research & development and renovation rewards		900,000.00		50,000.00
Provincial famous-brand products reward			200,000.00	
Innovative development enterprises subsidies		43,100.00		
Patent subsidies	22,500.00			
Total	22,500.00	1,113,100.00	250,000.00	60,000.00

(30) Non-operating Expenses

Item	January – April 2013	2012	2011	2010
Losses on disposal of fixed asset		33,208.80	19,672.66	23,631.80
Donation			100,000.00	9,992.40
Expected losses on guarantee		9,440,000.00		
Overdue fines		853.95	2,188.90	6,254.18
Others			3,000.00	245.03
Total		9,474,062.75	124,861.56	40,123.41

(31) Income Tax Expenses

Item	January – April 2013	2012	2011	2010
Income tax expenses for current period	1,007,840.66	3,895,483.58	3,618,759.85	4,437,847.27
Deferred income tax expense	–8,692.13	–1,549,922.20	–482,401.95	4,699.21
Total	999,148.53	2,345,561.38	3,136,357.90	4,442,546.48

(32) Supplementary Information on the Cash Flow Statement

1. Supplementary information on the cash flow statement

Supplementary information	January – April 2013	2012	2011	2010
1. Reconciliation of net income to cash flows from operating activities:				
Net profit	5,460,475.97	16,364,284.77	22,462,769.85	27,537,246.12
Add: Provisions for impairment loss of assets	57,947.52	892,814.65	3,216,012.97	–13,679.01
Depreciation of fixed asset, oil, natural gas and biological asset	1,634,154.12	4,834,791.82	4,360,281.68	3,865,181.25
Amortization of intangible asset	55,777.88	167,333.60	167,333.64	167,333.64
Amortization of long-term prepayment				
Losses on disposal of fixed asset, intangible asset and other long-term asset (“–”: gains)		31,308.80	–58,127.34	23,631.80
Losses of scrapped fixed asset (“–”: gains)				
Losses on changes in fair value (“–”: gains)				
Financial expense (“–”: gains)	187,666.66	1,426,799.92	1,846,572.17	1,553,372.92
Investment loss (“–”: gains)				
Decrease in deferred tax liabilities (“–”: increase)	–8,692.13	–1,549,922.20	–482,401.95	4,699.21
Increase in deferred tax liabilities (“–”: decrease)				
Decrease in inventories (“–”: increase)	5,199,022.17	–2,461,364.44	–807,980.14	–9,976,977.85
Decrease in operating receivables (“–”: increase)	–6,338,848.56	–27,518,005.82	–13,498,416.24	14,404,895.01
Increase in operating payables (“–”: decrease)	–8,459,409.43	13,112,001.07	–16,968,141.35	–18,519,364.37
Others				
Net cash flows from operating activities	–2,211,905.80	5,300,042.17	237,903.29	19,046,338.72

Supplementary information	January – April 2013	2012	2011	2010
2. Significant investing and financing activities not involving cash receipt or payment:				
Conversion of debts to capital				
Convertible bonds due within one year				
Fixed assets acquired on finance lease				
3. Changes in cash and cash equivalents:				
Ending balance of cash	21,531,055.87	38,943,527.33	30,475,214.41	32,520,680.33
Less: beginning balance of cash	38,943,527.33	30,475,214.41	32,520,680.33	15,349,086.75
Add: ending balance of cash equivalents				
Less: beginning balance of cash equivalents				
Net increase in cash and cash equivalents	–17,412,471.46	8,468,312.92	–2,045,465.92	17,171,593.58

2. *Constitution of cash and cash equivalents*

Item	30 April 2013	31 December 2012	31 December 2011	31 December 2010
1. Cash	21,531,055.87	38,943,527.33	30,475,214.41	32,520,680.33
Including: Cash in hand	656.30	28.37	252.54	220.14
Bank deposit available for payments at any moment	21,530,399.57	38,943,498.96	30,474,961.87	32,520,460.19
Other funds available for payments at any moment				
Bank deposit in the central bank available for payments				
Deposits with banks and other financial institutions				
Placements with banks and other financial institutions				
2. Cash equivalents				
Including: bond investment within three months				
3. Ending balance of cash and equivalents	21,531,055.87	38,943,527.33	30,475,214.41	32,520,680.33

Note: (1) Since Jinan Branch of Shanghai Pudong Development Bank Co., Ltd. brought a suit against the financing cooperation agreement of the Company, Jinan Branch of Shanghai Pudong Development Bank Co., Ltd. applied to freeze RMB4.3 million of bank balance of the Company at the account 51010154500000225 in Jinan Branch of Shanghai Pudong Development Bank Co., Ltd. with the People's Court of Lixia District, Jinan City, Shandong Province on 17 February 2012. Such RMB4.3 million still remains frozen as at the issue date of the auditor's report.

(2) On 31 December 2011 and 31 December 2010, other funds in cash of RMB7 million and RMB2.3 million were full cash deposits for handling notes payable.

V. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Related Party Relationships

(1) Details of the Company's parent company as at 30 April 2013

Name of the parent company	Relationship	Nature	Registered address	Legal Representative	Nature of business	Parent company's holding portion in the Company (%)	Parent company's voting right in the Company (%)	Ultimate control party of the Company	Code of organization
Hualu Holdings Group Company Limited	Parent company of the Company	State- owned	No. 1, Bangpeng Street, Jinan, Shandong Province	Cheng Guanghui	Investment and management in fertilizer and petrochemicals, etc.	80.00	80.00	the State-owned Assets Supervision and Administration Commission of Shangdong Provincial Government	771039712

Note: Pursuant to the Approval in Respect of the Transfer of State-owned Shares of Shandong Zibo Xincat Pharmaceutical Company Limited (山東淄博新達制藥有限公司) at Nil Consideration issued on 15 August 2011 by the State-owned Assets Supervision and Administration Commission of the Shangdong Provincial Government, the equity of the Company held by Shandong Xinhua Pharmaceutical Group Company Limited was transferred to Hualu Holdings Group Company Limited at nil consideration. Accordingly, the Company became a subsidiary of Hualu Holdings Group Company Limited. Tthe change of business registration was completed with the Administration of Industry and Commerce of Zibo on 12 March 2012.

(2) Other related parties

Name of related party	Related Party Relationships	Related transactions with the company
Shandong Xinhua Pharmaceutical Group Company Limited	Under common control of parent company	Providing funds and trademark using fee
Shandong Xinhua Pharmaceutical Trade Company Limited	Under common control of ultimate control company	Sale of goods

2. Related Party Transactions

(1) Pricing Policy

The price of product the Company sells to related parties as well as the price of trademark using fee paid to related parties serve as the basis of pricing.

(2) Related Party Transactions

1 Sale of goods

Unit: RMB

	January – April 2013		2012	
Related party	Amount	Percentage of total amount of similar transactions *(%)*	Amount	Percentage of total amount of similar transactions *(%)*
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	439,581.20	0.47	1,059,986.84	0.38

(Continued)

	2011		2010	
Related party	Amount	Percentage of total amount of similar transactions	Amount	Percentage of total amount of similar transactions
		(%)		*(%)*
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	275,748.72	0.11		

2 *Payment of trademark using fee*

Unit: RMB

	January – April 2013		2012	
Name of related party	Amount	Percentage of total amount of similar transactions	Amount	Percentage of total amount of similar transactions
		(%)		*(%)*
Shandong Xinhua Pharmaceutical Group Company Limited	100,000.00	100.00	300,000.00	100.00

(Continued)

Name of related party	2011 Amount	2011 Percentage of total amount of similar transactions *(%)*	2010 Amount	2010 Percentage of total amount of similar transactions *(%)*
Shandong Xinhua Pharmaceutical Group Company Limited	300,000.00	100.00	300,000.00	100.00

3 *Guarantee as at 30 April 2013*

RMB0'000

Guarantor	Secured party	Amount of guarantees	Starting date of guarantees	Due date of guarantees	Fulfilled or not
Shandong Xinhua Pharmaceutical Group Company Limited	The Company	1,500.00	26 March 2013	19 March 2014	No
Shandong Xinhua Pharmaceutical Group Company Limited	The Company	500.00	27 November 2012	26 November 2013	No

4 *Fund provided as at 30 April 2013*

RMB0'000

Name of related party	Fund provided to related parties by the Company	Fund provided to the Company by related parties
Shandong Xinhua Pharmaceutical Group Company Limited	2,000.00	

Note: On 27 November 2012, the Company obtained a loan of RMB5,000,000 from Bank of Communications Co., Ltd. Zibo Branch, the term of which was from 27 November 2012 to 26 November 2013. The actual user of the loan was Shandong Xinhua Pharmaceutical Group Company Limited, and the interest was paid by Shandong Xinhua Pharmaceutical Group Company Limited; on 26 March 2013, the Company obtained a loan of RMB15,000,000 from Industrial and Commercial Bank of China Limited, Zhangdian, Zibo Branch, the term of which was from 26 March 2013 to 19 March 2014. The actual user of the loan was Shandong Xinhua Pharmaceutical Group Company Limited, and the interest was paid by Shandong Xinhua Pharmaceutical Group Company Limited.

3. Balances of account receivables and payable of related parties

Unit: RMB

Item	30 April 2013 Amount	30 April 2013 Percentage of balances *(%)*	31 December 2012 Amount	31 December 2012 Percentage of balances *(%)*
Account Receivables				
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	545,661.29	2.38	511,351.29	2.97
Total	545,661.29	2.38	511,351.29	2.97

	30 April 2013		31 December 2012	
Item	Amount	Percentage of balances (%)	Amount	Percentage of balances (%)
Prepayments				
Shandong Xinhua Pharmaceutical Group Company Limited	200,000.00	82.92		
Total	200,000.00	82.92		
Other receivables				
Shandong Xinhua Pharmaceutical Company Limited			6,502.24	0.02
Shandong Xinhua Pharmaceutical Group Company Limited	24,139,965.99	87.63	24,261,442.08	87.87
Total	24,139,965.99	87.63	24,267,944.32	87.89
Other payables				
Shandong Xinhua Pharmaceutical Group Company Limited			4,433,985.17	49.98
Shandong Xinhua Pharmaceutical Company Limited	241,878.24	4.57		
Total	241,878.24	4.57	4,433,985.17	49.98

(Continued)

Item	31 December 2011 Amount	31 December 2011 Percentage of balances (%)	31 December 2010 Amount	31 December 2010 Percentage of balances (%)
Account Receivables				
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	100,644.20	0.91	22,154.80	0.37
Total	100,644.20	0.91	22,154.80	0.37
Other receivables				
Shandong Xinhua Pharmaceutical Company Limited				
Shandong Xinhua Pharmaceutical Group Company Limited	49,824.96	0.95		
Total	49,824.96	0.95		
Other payables				
Shandong Xinhua Pharmaceutical Group Company Limited			5,648,800.00	56.83
Shandong Xinhua Pharmaceutical Company Limited	39,692.25	0.76	137,629.83	1.38
Total	39,692.25	0.76	5,786,429.83	58.21

6. Contingencies

Shanghai Pudong Development Bank Co., Ltd. Jinan Branch prosecuted the Company in respect of a Financing Cooperation Agreement. Shandong Xin Kang Qi Pharmaceutical Co., Ltd. a business cooperator of the Company, used bank acceptance to settle part of the loan paid to the Company. On 29 March 2011, Shanghai Pudong Development Bank Co., Ltd. Jinan Branch and Shandong Xin Kang Qi Pharmaceutical Co., Ltd. entered into a tripartite financing cooperation agreement with the Company, of which Article 6 stipulated that “Responsibilities of Party A” is that “if the bank acceptance expires, Party A undertakes the joint repayment responsibility (returning the balance of the bank acceptance amount), and returns the balance of note amount deducting paid-up security deposit without preconditions.” (Shandong Zibo Xincat Pharmaceutical Company Limited (山東淄博新達制藥有限公司) is Party A, Shandong Xin Kang Qi Pharmaceutical Co., Ltd. is Party B, and Shanghai Pudong Development Bank Co., Ltd. Jinan Branch is Party C.)

As Shandong Xin Kang Qi Pharmaceutical Co., Ltd. ran up huge losses, it cannot complement the security deposit for the issued bank acceptance to Shanghai Pudong Development Bank Co., Ltd. Jinan Branch in accordance with the agreement. Therefore, on 30 January 2012, Shanghai Pudong Development Bank Co., Ltd. Jinan Branch sued the Company in the People’s Court of District Lixia, Jinan, claiming the expired outstanding security deposit of RMB3,990,271.88 and the corresponding interest of RMB69,829.76 of the bank acceptance (No. 20636119-20636134), of which the amount was RMB8,000,000 and the expiring date was 29 December 2011, issued in June 2011 from the Company. As there was probably sharing of liability in this case, the Company may undertake a loss of RMB3,440,000. The People’s Court of District Lixia, Jinan has accepted and heard the case, and froze the Company’s bank account with fund of RMB4,300,000. In addition, on 29 September 2011, Shandong Xin Kang Qi Pharmaceutical Co., Ltd. issued a bank acceptance (No. 3100005120662458-3100005120663479), of which the amount was RMB 15,000,000 (Shandong Xin Kang Qi Pharmaceutical Co., Ltd. has paid the security deposit of RMB7,500,000), and the expiry date was 29 March 2012. Shanghai Pudong Development Bank Co., Ltd. Jinan Branch has not sued for it, but it was much similar to the aforementioned lawsuit, and the sharing of liability is probably to occur. Therefore, it is expected that the Company would undertake a loss of RMB6,000,000. In summary, according to the above two bank acceptance lawsuits, the provision for contingent liabilities of the Company summed up to RMB9,440,000 after adding RMB3,440,000 to RMB6,000,000.

The lawsuit is still in progress. As it involves Shandong Xin Kang Qi Pharmaceutical Co., Ltd. and is complicated, the settlement time cannot be determined.

Apart from the contingencies described above, the Company has no other important events to be disclosed as at the issue date of the audit report.

7. Commitment

The Company has no other capital commitment as at the issue date of the audit report.

8. Post Balance Sheet Date Events

The Company has no significant subsequent events to be disclosed as at the issue date of the audit report.

9. Other Events

The Company has no other events to be disclosed as at the issue date of the audit report.

Shandong Zibo Xincat Pharmaceutical Company Limited
(山東淄博新達製藥有限公司)
1 July 2013

BALANCE SHEET - ADDITIONAL ADJUSTMENT PROCESS TABLE

Prepared by:
Shandong Zibo Xincat
Pharmaceutical Company Limited As at 30 April 2013 *Unit: RMB*

Assets	**Original audited amount**	**Additional adjustment entries** debit	credit	**Audited amount after additional adjustment**
Current assets:				
Cash and cash equivalents	25,831,055.87			25,831,055.87
Held-for-trade financial asset	—			—
Note receivable	12,708,511.70			12,708,511.70
Accounts receivable	18,813,405.24			18,813,405.24
Advances to suppliers	241,210.65			241,210.65
Interest receivable	—			—
Dividend receivable	—			—
Other receivable	27,389,931.23			27,389,931.23
Inventories	29,545,419.41			29,545,419.41
Non-current assets due within one year	—			—
Other current asset	—			—
Sub-total of current assets	114,529,534.10			114,529,534.10
Non-current assets:				
Available-for-sale financial asset	—			—
Held-to-maturity investment	—			—
Long-term receivable	—			—
Long-term equity investment	—			—
Investment property	—			—
Fixed assets	47,508,557.24			47,508,557.24
Construction in progress	390,539.00			390,539.00
Construction material	—			—
Disposal of fixed asset	—			—
Biological asset	—			—
Oil and natural gas	—			—
Intangible asset	3,848,674.84			3,848,674.84
Research & development cost	—			—
Long-term prepayment	—			—
Deferred tax assets	2,061,713.08			2,061,713.08
Other non-current assets	—			—
Sub-total of non-current assets	53,809,484.16			53,809,484.16
Total Assets	168,339,018.26			168,339,018.26

BALANCE SHEET (CONTINUED) - ADDITIONAL ADJUSTMENT PROCESS TABLE

Prepared by:
Shandong Zibo Xincat
Pharmaceutical Company Limited As at 30 April 2013 *Unit: RMB*

Liabilities & Owners' equity	Original audited amount	Additional adjustment entries: debit	Additional adjustment entries: credit	Audited amount after additional adjustment
Current liabilities:				
Short-term loans	20,000,000.00		—	20,000,000.00
Held-for-trade financial liabilities	—		—	—
Note payable	—		—	—
Account payable	17,075,183.49		—	17,075,183.49
Advances from customers	1,236,601.18		—	1,236,601.18
Employees' wage payable	540,651.66	365,118.95		175,532.71
Tax payable	1,069,902.15		—	1,069,902.15
Interest payable	—		—	—
Dividends payable	—		—	—
Other payable	5,294,401.03		—	5,294,401.03
non-current liabilities within one year	—		—	—
other current liabilities	—		—	—
Sub-total of current liabilities	45,216,739.51	365,118.95		44,851,620.56
Non-current liabilities:			—	
Long-term borrowings	—		—	—
Bonds payable	—		—	—
Long-term payable	—		—	—
Specific payable	—		—	—
Provisions	9,440,000.00		—	9,440,000.00
Deferred tax liabilities	—		—	—
Other non-current liabilities	—		—	—
Sub-total of non-current liabilities	9,440,000.00		—	9,440,000.00
Total liabilities	54,656,739.51	365,118.95		54,291,620.56
Owners' equity:			—	
paid-in capital	84,930,000.00		—	84,930,000.00
Capital reserve	290,905.61		365,118.95	656,024.56
Less: Treasury stock	—		—	—
Special reserve	—		—	—
Surplus reserve	9,791,745.07		—	9,791,745.07
General risk provision	—		—	—
Undistributed profits	18,669,628.07		—	18,669,628.07
Exchange difference arising from transaction of financial statements denominated in foreign currencies	—		—	—
Sub-total of owners' equity	113,682,278.75		365,118.95	114,047,397.70
Total liabilities & owners' equity	168,339,018.26	365,118.95	365,118.95	168,339,018.26

INCOME STATEMENT - ADDITIONAL ADJUSTMENT PROCESS TABLE

Prepared by:
Shandong Zibo Xincat
Pharmaceutical Company Limited January-April 2013 *Unit: RMB*

Item	Original audited amount	Additional adjustment debit	Additional adjustment credit	Audited amount after additional adjustment
I. Operating Income	92,839,796.92			92,839,796.92
Less: Operating cost	55,676,092.36			55,676,092.36
Business taxes and surcharges	1,023,332.78			1,023,332.78
Selling expenses	24,224,262.26			24,224,262.26
Administrative expenses	5,263,572.83			5,263,572.83
Financial expense	157,464.67			157,464.67
Impairment loss of assets	57,947.52			57,947.52
Add: Gain or loss from changes in fair value (Losses is marked with "-")	—			—
Investment gain (Losses is marked with "-")	—			—
Including: Gain or loss from investment in associates and joint ventures	—			—
II. Operating profit	6,437,124.50			6,437,124.50
Add: Non-operating income	22,500.00			22,500.00
Less: Non-operating expenses	—			—
III. Total profit (Total losses is marked with "-")	—			—
Less: Income tax expenses	6,459,624.50			6,459,624.50
IV. Net profit (Net losses is marked with "-")	999,148.53			999,148.53
Net profit attributable to equity holders of parent company	5,460,475.97			5,460,475.97
Profit/loss attributable to minority shareholders	5,460,475.97			5,460,475.97
V. Earnings per share:	—			—
(I) Basic earning per share				
(II) Diluted earning per share				
VI. Other comprehensive income			365,118.95	365,118.95
VII. Total of comprehensive income	5,460,475.97	—	365,118.95	5,825,594.92

STATEMENT OF CHANGES IN OWNERS' EQUITY - ADDITIONAL ADJUSTMENT PROCESS TABLE

Prepared by:
Shandong Zibo Xincat
Pharmaceutical Company Limited

January-April 2013

Unit: RMB

	Original audited amount								Audited amount after additional adjustment							
Item	paid-in capital (or share capital)	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Total owners' equity	paid-in capital (or share capital)	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Total of owners' equity
I. Ending balance of last year	84,930,000.00	290,905.61			9,245,697.47		13,755,199.70	108,221,802.78	84,930,000.00	290,905.61			9,245,697.47		13,755,199.70	108,221,802.78
Add: Effects of the changes in accounting policies																
Correction of prior period accounting errors																
II. Beginning balance of the year	84,930,000.00	290,905.61			9,245,697.47		13,755,199.70	108,221,802.78	84,930,000.00	290,905.61			9,245,697.47		13,755,199.70	108,221,802.78
III. Increase/decrease in the year (Decrease is marked with "-")					546,047.60		4,914,428.37	5,460,475.97		365,118.95			546,047.60		4,914,428.37	5,825,594.92
(I) Net profit							5,460,475.97	5,460,475.97							5,460,475.97	5,460,475.97
(II) Other comprehensive income										365,118.95						365,118.95
1. Net increase in fair value of available-for-sale financial asset																
2. Other owners' equity in investee under equity method																
3. Income tax related to items recorded in owners' equity																
4. Others										365,118.95						365,118.95
Sub-total of (I) and (II)							5,460,475.97	5,460,475.97		365,118.95					5,460,475.97	5,825,594.92
(III) Owners' contribution capital and decrease in capital																
1. Owners' contribution capital																
2. Share-based payments recorded in owners' equity																
3. Others																
(IV) Profits distribution					546,047.60		-546,047.60						546,047.60		-546,047.60	
1. Transfer to surplus reserve					546,047.60		-546,047.60						546,047.60		-546,047.60	
2. Transfer to general risk provision																
3. Distribution to owners (or shareholders)																
4. Others																
(V) Internal transfer of owners' equity																
1. Capital reserve to capital (or share capital)																
2. Surplus reserve to capital (or share capital)																
3. Making good of loss with surplus reserve																
4. Others																
(VI) Special reserve																
1. Transfer for the period																
2. Utilization of the period																
IV. Ending balance of the period	84,930,000.00	290,905.61			9,791,745.07		18,669,628.07	113,682,278.75	84,930,000.00	656,024.56			9,791,745.07		18,669,628.07	114,047,397.70

Set out below is the reconciliation of Xincat Pharmaceutical's 2012 financial information illustrating the difference between the PRC accounting standards and accounting standards applied in Hong Kong ("HKGAAP").

	Profit before taxation	**Profit after taxation**	**Net assets value**
	RMB'000	*RMB'000*	*RMB'000*
Prepare under PRC accounting standards	18,710	16,364	108,222
HKGAAP adjustment:			
Deferred taxation	—	(351)	2,920
Prepare under HKGAAP	18,710	16,013	111,142

Save for the reconciliation item stated above, Xincat Pharmaceutical's 2012 financial information did not have other material difference between the PRC accounting standards and HKGAAP.

The following is the English translation of the Asset Valuation Report prepared in the Chinese language by Beijing Pan-China Assets Appraisal Co. Ltd. (北京天健興業資產評估有限公司), an independent valuer, in connection with the valuation of Xincat Pharmaceutical as at 30 April 2013. In the event of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

ASSET VALUATION REPORT RELATING TO THE 40% EQUITY INTEREST IN SHANDONG ZIBO XINCAT PHARMACEUTICAL COMPANY LIMITED PROPOSED TO BE TRANSFERRED BY HUALU HOLDINGS COMPANY LIMITED

Tian Xing Ping Bao Zi (2013) No.477

STATEMENT OF REGISTERED ASSET VALUERS

1. We carry out assets valuation based on the relevant laws and regulations and the standards of asset valuation on the principle of independence, objectiveness and impartiality. Based on the information collected in the course of our valuation exercise, statement in the valuation report is objective, and we assume corresponding legal responsibilities for the reasonableness on of the conclusion of the valuation.

2. Lists of appraised assets has been provided and declared by the entrusting party, the valued entity (or asset owner) with their signatures and seals. The entrusting party and related party shall be responsible for the authenticity, legality, and completeness of the data provided as well as the appropriate usage of the valuation report.

3. We do not have or are not expected to have any interests in the assets and we do not have or are not expected to have any interests with or prejudices against any related parties.

4. We have carried out on-site investigation on the valuation object and related assets thereof that are mentioned in the valuation report. We have verified the legal ownership of the valuation object and the assets thereof and faithfully disclosed any findings. We have also requested the appointor and related parties to fulfill their property ownership formalities so as to meet the requirements for issuing the report.

5. Analysis, judgment, and conclusions in the valuation report issued by us are qualified by the assumptions and confining conditions that are stated in the valuation report. Users of this report shall give due consideration to the assumptions, confining conditions, and explanations for specific issues stated in the valuation report as well as their impacts on the valuation's conclusions.

SUMMARY OF ASSET VALUATION REPORT RELATING TO THE 40% EQUITY INTEREST IN SHANDONG ZIBO XINCAT PHARMACEUTICAL COMPANY LIMITED PROPOSED TO BE TRANSFERRED BY HUALU HOLDINGS COMPANY LIMITED

Tian Xing Ping Bao Zi (2013) No.477

Beijing Pan-China Assets Appraisal Co. Ltd. was engaged by Hualu Holdings Company Limited to perform a valuation on the market value of the entire shareholding interest in Shandong Zibo Xincat Pharmaceutical Company Limited, as involved in the proposed transfer of equity interest by Hualu Holdings Company Limited., as at 30 April 2013 in accordance with the relevant laws and regulations as well as the standards and principles of asset valuation, and by adopting the asset-based approach and income approach and conducting all necessary valuation procedures. Our asset valuation is hereby reported as follows:

1. Objective of this valuation: According to the resolution of board meeting of Hualu Holdings Company Limited made on 17 May 2013, Hualu Holdings Company Limited proposed to transfer its 40% equity interest in Shandong Zibo Xincat Pharmaceutical Company Limited, and State-owned Assets Supervision and Administration Commission of Shandong Provincial Government has approved and issued "Approval for the Transfer of State-owned Equity Interest in Shandong Zibo Xincat Pharmaceutical Company Limited" (Lu Guo Zi Qi Gai Zi [2013] No. 13). For this purpose, Hualu Holdings Company Limited engaged Beijing Pan-China Assets Appraisal Co. Ltd. to perform a valuation on the entire shareholding interest in Shandong Zibo Xincat Pharmaceutical Company Limited as at the valuation base date and to provide the fair market value of the company for the reference of valuation on the proposed equity interest transfer.

2. Evaluation subject: the entire shareholding interest in Shandong Zibo Xincat Pharmaceutical Company Limited as at the valuation base date

3. Scope of valuation: all the audited assets, liabilities and off-book assets as listed in the balance sheet of Shandong Zibo Xincat Pharmaceutical Company Limited as at the valuation base date.

4. Valuation type: The value type used in this valuation is market value.

5. Valuation base date: 30 April 2013

6. Methods of valuation: This valuation adopts asset-based approach and income approach to make valuation separately and the income approach is adopted to be the final valuation conclusion.

7. Valuation conclusion

(1) THE VALUATION CONCLUSION BASED ON THE ASSET-BASED APPROACH

As valued by the asset-based approach, the carrying amount of the total assets of Shandong Zibo Xincat Pharmaceutical Company Limited is determined to be RMB168,339,000, with an appraised value of 215,152,000, representing an increase in value by RMB46,812,900 or a rate of increase in value of 27.81%. The carrying amount of the total liabilities is determined to be RMB54,291,600, with an appraised value of RMB54,291,600, representing no increase or decrease in value. The carrying amount of the net assets is determined to be RMB114,047,400. The appraised value of the net assets is RMB160,860,400, representing an increase in value by RMB46,812,900 or a rate of increase in value of 41.05%. The results of the valuation of various types of assets and liabilities are set out in the following table:

A table summarizing the results of valuation of assets

Name of the appraised unit: Shandong Zibo Xincat Pharmaceutical Company Limited

Unit: RMB0'000

Items		Carrying amount before audit	Carrying amount	Appraised value	Increase or decrease in value	Rate of increase in value
						(%)
			A	*C*	*D=C-A*	*E = D / A × 100%*
1	Current assets	12,137.15	11,452.95	12,053.29	600.33	5.24
2	Non-current assets	5,382.49	5,380.95	9,461.91	4,080.96	75.84
	Including: financial assets					
3	available for sale	—	—	—	—	
4	Held to maturity investments	—	—	—	—	
5	Long-term receivables	—	—	—	—	
6	Long-term equity investments	—	—	—	—	
7	Properties for investment purpose	—	—	—	—	
8	Fixed assets	4,750.86	4,750.86	7,334.50	2,583.65	54.38
9	Construction in progress	39.05	39.05	39.05	—	—
10	Construction materials	—	—	—	—	

Items		Carrying amount before audit	Carrying amount	Appraised value	Increase or decrease in value	Rate of increase in value (%)
			A	*C*	*D=C-A*	*E = D / A × 100%*
11	Disposal of fixed assets	3.32	—	—	—	
12	Productive biological assets	—	—	—	—	
13	Oil and gas assets	—	—	—	—	
14	Intangible assets	384.87	384.87	1,946.76	1,561.89	405.82
15	Development expenditure	—	—	—	—	
16	Goodwill	—	—	—	—	
17	Long-term deferred expenses	—	—	—	—	
18	Deferred income tax assets	204.39	206.17	141.60	–64.57	–31.32
19	Other non-current assets	—	—	—	—	
20	**Total Assets**	**17519.64**	**16,833.90**	**21,515.20**	**4,681.29**	**27.81**
21	Current liabilities	4692.84187	4,485.16	4,485.16	—	—
22	Non-current liabilities	944.00	944.00	944.00	—	—
23	**Total liabilities**	**5,636.84**	**5,429.16**	**5,429.16**	**—**	**—**
24	**Net assets (owners' equity interest)**	**11,882.80**	**11,404.74**	**16,086.04**	**4,681.29**	**41.05**

(2) THE VALUATION CONCLUSION BASED ON INCOME APPROACH

The audited carrying amount of shareholder interest in Shandong Zibo Xincat Pharmaceutical Company Limited is determined to be RMB114,047,400. The appraised value of entire shareholding equity is RMB222,200,300, representing an increase in value by RMB108,152,900 or a rate of increase in value of 94.83%.

(3) SELECTION OF VALUATION CONCLUSIONS

A comparison of the conclusions of asset-based approach and income approach shows the valuation result of income approach is higher than that of asset-based approach by RMB61.3399 million. The major reasons for the discrepancy between these two valuation methods were as follows: the valuation under the asset-based approach uses the replacement costs of assets as the valuation standards, reflecting the labour of the society required and spent on the investment in the assets (costs of purchase and construction), while the valuation under the income approach uses the expected income of assets as the valuation standards, reflecting the degree of the operating capability (profitability) of the assets. These two different types of valuation standards will lead to some discrepancy. The valuation results show that the valuation conclusion based on income approach is higher than that based on asset-based approach. The reason for the discrepancy is that the asset-based approach does not cover intangible assets such as trademarks, distribution networks, drug approval numbers, patents and goodwill, which are not recorded on the accounts and do not reflect future profitability.

After comparison and analysis, we considered that the valuation by the income approach could reflect the value of entire shareholding equity interest in Shandong Zibo Xincat Pharmaceutical Company Limited more fully and reasonably for the future operating period, and therefore we adopted the valuation result of income approach as the final valuation conclusion of the value of entire shareholding equity interest in Shandong Zibo Xincat Pharmaceutical Company Limited. That is, as at the valuation base date of 30 April 2013, the market value of entire shareholders' equity interest in Shandong Zibo Xincat Pharmaceutical Company Limited was RMB222,200,300.

(4) RELEVANT EXPLANATIONS

We emphasize that this valuation opinion is solely to provide a reference to the value of the proposed asset transaction by the parties, rather than a substitution for the pricing decision to be made by the parties in the asset transaction.

In accordance with the terms of the engagement agreement, this report together with its conclusion only serve for the intended purpose and shall not be used for other purposes.

According to relevant regulations of the PRC, the validity of this report is one year commencing from the valuation base date 30 April 2013 up to 29 April 2014.

The above-mentioned content has been extracted from the full text of the valuation report. To understand the details and reasonable explanations of the valuation conclusion of the appraised unit, the users of this report should read the full text of the valuation report carefully and pay attention to the explanations for specific issues after obtaining the approval from the owners of this valuation report.

ASSET VALUATION REPORT RELATING TO THE 40% EQUITY INTEREST IN SHANDONG ZIBO XINCAT PHARMACEUTICAL COMPANY LIMITED PROPOSED TO BE TRANSFERRED BY HUALU HOLDINGS COMPANY LIMITED

Tian Xing Ping Bao Zi (2013) No.477

Hualu Holdings Company Limited:

Beijing Pan-China Assets Appraisal Co. Ltd. was engaged by Hualu Holdings Company Limited to perform a valuation on the market value of the entire shareholding interest in Shandong Zibo Xincat Pharmaceutical Company Limited, as involved in the proposed transfer of equity interest by Hualu Holdings Company Limited., as at 30 April 2013 in accordance with the relevant laws and regulations as well as the standards and principles of asset valuation, and by adopting the asset-based approach and income approach and carrying out all necessary valuation procedures. Our asset valuation is hereby reported as follows.

I. OVERVIEW OF THE ENTRUSTING PARTIES, THE APPRAISED UNITS AND OTHER USERS OF THE VALUATION REPORT IN ADDITION TO THE ENTRUSTING PARTIES

(i) Overview of the entrusting parties

The entrusting party of this asset valuation is Hualu Holdings Company Limited.

Company name: Hualu Holdings Company Limited

Registered address: No.1 of Bangpeng Street, Lixia District, Jinan City

Registered capital: RMB800 million

Paid-in capital: RMB800 million

Company type: Solely state-owned Company

Legal representative: Cheng Guanghui

Date of incorporation: 1985

Operating period: long-term

Scope of business: investment in the fertilizers and petrochemical industry, and other industries which are not prohibited by national (or local) authorities, asset management etc.

(ii) Overview of the appraised units

The appraised unit of this asset valuation is Shandong Zibo Xincat Pharmaceutical Company Limited.

1. Profile of registration

Company name: Shandong Zibo Xincat Pharmaceutical Company Limited

Registered address: No. 1 Lutai Ave., Hi-tech Industry Development Zone

Registered capital: RMB84.93 million

Paid-in capital: RMB84.93 million

Company type: Other limited liability company

Legal representative: Li Tianzhong

Date of incorporation: 11 March 1993

Operating period: long-term

Scope of business: Pre-approved business items: appointed by Beijing Shiji ZhongKang Pharmaceutical Technology Co., Ltd. (北京世紀中康醫藥科技有限公司) to manufacture and sale healthcare products "ZhongKang Co-enzyme Q10 Granules (中康牌輔酶Q10顆粒)" (expiry date of the food hygiene licence: 27 December 2013); the manufacture and sale of tablets, hard capsules (inclusive of cephalosporins, penicillins and anti-tumor drugs), granules, dry suspensions (inclusive of cephalosporins and penicillins), active pharmaceutical ingredients (Mitiglinide Calcium), frozen dried powder injections (anti-tumor), (the expiry date of the pharmaceutical manufacturing permit is 31 December 2015) (in the above-mentioned scope of business, operations subject to approvals or licenses are conducted in accordance with relevant approvals and licenses). General business items: none.

2. *Company profile*

Shandong Zibo Xincat Pharmaceutical Company Limited is in the chemical medicine manufacturing industry, producing three major types of medication including antibiotics, pediatric medication and geriatric medication, mainly in tablets, granules and capsules. Its leading products Xindaluo (新達羅) and Kuxin (庫欣) enjoy high market shares in markets such as Shandong and Sichuan. Xindaluo (新達羅) has been awarded the title of the famous brand of Shandong province for 11 consecutive years since 2001. State category one new drug Dunling (頓靈) capsules are the "famous product of Shandong province" and have been conferred with the award of "Shandong Provincial Science & Technology Progress Award".

The company's plant area covers an area of 55,000 square meters and has 430 members of staff. Currently, its production capacity of capsules reaches 2 billion per year, and that of granules is up to 0.5 billion packets per year. Its tablet production capacity is 0.2 billion per year. The company is the key enterprise of the bioengineering and pharmaceutical industry base under the National Torch Plan. It was in the first batch of dual-certified enterprises with both GMP certification and ISO14001 international environmental management certification. It has the designation of Shandong Provincial Honest Enterprise and Shandong Provincial Hi-tech Enterprise.

3. *Company history and change in equity interest*

Shandong Zibo Xincat Pharmaceutical Company Limited was incorporated on 11 March 1993. When the company was incorporated, its registered address was Thermal Power Plant North, Zhangdian District, Zibo City and its initial registered capital was 2.875 million US dollars, of which Shandong Xinhua Pharmaceutical Group Company Limited contributed 1.725 million US dollars, representing 60% of the registered capital, and U.S. LHA Chemical Pharmaceutical Co., Ltd. (美國LHA化學製藥有限公司) contributed 1.15 million US dollars, representing 40% of the registered capital.

In July 2001, U.S. LHA Chemical Pharmaceutical Co., Ltd. (美國LHA化學製藥有限公司) transferred all of the equity interest in the company it held to Germany-based HARVEST TRADING GMBH; in November 2002, Zibo Zhongxing Investment Company Limited contributed an additional 230,700 US dollars. After this capital increase, the registered capital was 3.1057 million US dollars.

In November 2004, pursuant to “Approval for the Transfer of Equity Interest in Shandong Zibo Xincat Pharmaceutical Company Limited” (Zi Gao Xin Jing Wai Zi Fa [2004] No. 100) issued by Economic Development Bureau of Zobo High-tech Industrial Development Zone, Zibo Zhongxing Investment Company Limited purchased all the equity interest held by foreign capital and Shandong Zibo Xincat Pharmaceutical Company Limited was changed to a domestic enterprise. Then, Shandong Zibo Xincat Pharmaceutical Company Limited had paid-in capital of RMB26,938,800, of which Shandong Xinhua Pharmaceutical Group Company Limited contributed RMB14,957,300, representing 55.54% of the registered capital and Zibo Zhongxing Investment Company Limited contributed RMB11,971,500, representing 44.46% of the registered capital.

In March 2007, the registered address of Shandong Zibo Xincat Pharmaceutical Company Limited was changed to No. 1 Lutai Avenue, Hi-tech Industry Development Zone, Zibo.

In May 2007, Zibo Zhongxing Investment Company Limited transferred 24.46% equity interest out of its 44.46% equity interest in the company to Shandong Xinhua Pharmaceutical Group Company Limited and the remaining 20% of the equity interest in the company to Shandong Xinhua Pharmaceutical Company Limited.

In November 2011, Shandong Zibo Xincat Pharmaceutical Company Limited used RMB58 million of undistributed profit to increase the capital and the paid-in capital was changed to RMB84.93 million.

In March 2012, pursuant to “The Approval for Gratuitous Transfer of State-owned Equity Interest in Shandong Zibo Xincat Pharmaceutical Company Limited” issued by State-owned Assets Supervision and Administration Commission of Shandong Provincial Government on 15 August 2011, the equity interest in Shandong Zibo Xincat Pharmaceutical Company Limited held by Shandong Xinhua Pharmaceutical Group Company Limited was transferred to Hualu Holdings Company Limited at nil consideration. As at this evaluation base date, the shareholding proportion of Shandong Zibo Xincat Pharmaceutical Company Limited was as follows: Hualu Holdings Company Limited has contributed RMB67.944 million, representing a 80% shareholding and Shandong Xinhua Pharmaceutical Company Limited has contributed RMB16.986 million, representing a 20% shareholding.

4. ***The financial position statements and operating results of Shandong Zibo Xincat Pharmaceutical Company Limited are as follows:***

Financial Position Statement of
Shandong Zibo Xincat Pharmaceutical Company Limited

Unit: RMB0'000

Items	30 April 2013	31 December 2012	31 December 2011	31 December 2010
Current assets	11,452.95	13,056.97	9,826.39	7,907.73
Non-current assets	5,380.95	5,543.25	5,602.44	5,343.43
Including: Available-for-sale financial assets				
Held-to-maturity investments				
Long-term equity investments				
Investment properties				
Fixed assets	4,750.86	4,908.45	5,119.00	4,776.49
Construction in progress	39.05	39.05	25.96	140.96
Intangible assets	384.87	390.45	407.18	423.91
Development expenses				
Long-term deferred expenditures				
Deferred income tax assets	206.17	205.30	50.31	2.07
Total Assets	**16,833.90**	**18,600.22**	**15,428.83**	**13,251.16**
Current liabilities	4,485.16	6,834.04	6,243.08	6,311.69
Non-current liabilities	944.00	944.00		
Total liabilities	**5,429.16**	**7,778.04**	**6,243.08**	**6,311.69**
Net assets	**11,404.74**	**10,822.18**	**9,185.75**	**6,939.47**

Operating Results of Shandong Zibo Xincat Pharmaceutical Company Limited

Unit: RMB0'000

Items			January-April 2013	2012	2011	2010
1.	Operating revenue		9,283.98	27,841.79	25,302.47	21,022.35
	Less:	Operating costs	5,567.61	15,331.29	14,709.79	13,566.37
		Business tax and auxiliary charges	102.33	282.20	216.52	128.22
		Selling expenses	2,422.43	7,540.52	5,124.22	2,641.45
		Administrative expenses	526.36	1,796.65	2,259.48	1,344.86
		Finance costs	15.75	95.16	131.36	146.91
		Impairment losses on assets	5.79	89.28	321.60	–1.37
	Add:	Gains on fair value changes				
		Investment income				
2.	Operating profit		643.71	2,706.69	2,539.50	3,195.90
	Add:	Non-operating income	2.25	111.70	32.90	6.09
	Less:	Non-operating expenses		947.41	12.49	4.01
		Including: Loss on disposal of non-current assets				
3.	Total profit		645.96	1,870.98	2,559.91	3,197.98
	Less:	Income tax expenses	99.91	234.56	313.64	444.25
4.	Net profit		546.05	1,636.43	2,246.28	2,753.72

The above data is audited by Beijing Xinghua Accounting Firm Co., Ltd, which has issued a clean opinion report titled [2013] Jing Hui Xing Shen Zi No. 12120107.

5. Major accounting policies applied by the Company

(1) Accounting system: (ASBEs) Accounting Standards for Business and supplemental provisions thereto issued by Ministry of Finance of the People's Republic of China.

(2) Accounting year: from January 1 to December 31 of each calendar year.

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

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

(5) Initial measurement of acquisition cost of inventory is by actual cost, and sale of inventory is measured by method of weighted mean.

(6) Fixed assets and depreciation: fixed assets are measured by actual cost and provision for depreciation of fixed assets is made on straight line basis.

(7) Intangible assets are initially measured by cost. Intangible assets with limited service life are amortized on straight line basis, while intangible assets with indeterminate service life are not to be amortized.

(8) Taxes and tax rates: Categories of taxes and tax rates thereof applicable to the Company are as follows:

Enterprise income tax: the Company, as approved on 31 October 2011 by Department of Science & Technology of Shandong Province, Department of Finance of Shandong Province, Shandong Provincial Office, SAT and Shandong Local Taxation Bureau, securing High-Tech Enterprise Certificate (No.: GF201137000045), with validity period of three years, as a high-tech enterprise satisfying relevant national requirements, is levied at a reduced enterprise income tax rate of 15% in accordance with relevant provisions of the Law of the People's Republic of China on Enterprise Income Tax.

Value-added tax: The Company's sales income tax rate is 17%, in accordance with PROVISIONAL REGULATIONS OF THE PEOPLE'S REPUBLIC OF CHINA ON VALUEADDED TAX. The balance of current VAT on sales deducted by current deductible input vat is to be taxed.

Business tax: taxable items are taxed by applicable tax rates in accordance with PROVISIONAL REGULATIONS OF THE PEOPLE'S REPUBLIC OF CHINA ON BUSINESS TAX.

Urban construction tax and extra charges of education funds: applicable tax rates of enterprise urban construction tax, extra charges of education funds, local extra charges of education funds, foundation for water works are 7%, 3%, 2% and 1%, respectively.

Other taxes: to be calculated and paid in accordance with relevant national and local provisions.

(iii) Relationship between the entrusting party and the appraised unit

Hualu Holdings Company Limited, the entrusting party, holds 80% of equity interest in Shandong Zibo Xincat Pharmaceutical Company Limited, the appraised unit.

(iv) Other users of the valuation report

Other than the entrusting party and the appraised unit, users of the valuation report include state-owned assets supervision and administration departments, government examination & approval departments, etc as related to the project.

II. PURPOSE OF VALUATION

According to the board resolution dated 17 May 2013 of Hualu Holdings Company Limited, Hualu Holdings Company Limited proposes to transfer its 40% equity interest in Shandong Zibo Xincat Pharmaceutical Company Limited, to which Stated-owned Assets Supervision and Administration Commission of Shandong Provincial Government has given an official reply and issued "Approval for the Transfer of State-owned Equity Interest in Shandong Zibo Xincat Pharmaceutical Company Limited" (Lu Guo Zi Qi Gai Zi [2013] No.13), and for which Hualu Holdings Company Limited engaged Beijing Pan-China Assets Appraisal Co. Ltd. to appraise the value of the entire shareholding equity in Shandong Zibo Xincat Pharmaceutical Company Limited as at the valuation base date and provide the market value of the equity thereof, to offer value reference for the proposed share transfer.

III. SUBJECT AND SCOPE OF VALUATION

The subject of the valuation is the entire shareholding equity in Shandong Zibo Xincat Pharmaceutical Company Limited, and the scope of the valuation is the total assets and liabilities as well as off-the-book assets, the carrying amount of the total assets being RMB168.339 million, the carrying amount of the total liabilities being RMB54.2916 million and the carrying amount of the net assets being RMB114.0474 million, as stated in the audited balance sheet as reported by Shandong Zibo Xincat Pharmaceutical Company Limited as at the valuation base date. Specific scope of valuation is subject to the assets and liabilities as listed in the detailed table for the assets checking & valuation as reported and confirmed by Shandong Zibo Xincat Pharmaceutical Company Limited, and the carrying amount of the assets and liabilities to be entrusted for valuation has been audited and verified by Beijing Xinghua Accounting Firm Co., Ltd. The details are as follows:

As audited, as at 30 April 2013, total assets were RMB168.339 million, total liabilities were RMB54.2916 million and net assets were RMB114.0474 million, of which, current assets were RMB114.5295 million, fixed assets were RMB47.5086 million, construction in progress were RMB390,500, intangible assets were RMB3.8487 million and deferred income tax assets were RMB2.0617 million; current liabilities were RMB44.8516 million and non-current liabilities were RMB9.44 million.

Other than the above-mentioned book assets, the scope of the valuation also extends to revolving materials in use as included in charges and off-the-book intangible assets as included in period charges, including trademarks, patents and drug approval numbers. Information on current major intangible assets used by the Company is as follows:

(1) Key trademarks

Trademark name	Trademark Registration number	Commodity/service	Service life of license
PUFEITE	1256249	Human drug, western medicine preparation	2019-3-20
BANGNA	1557690	human drug, western medicine preparation	2021-4-20
DUNLING	1557691	human drug, western medicine preparation	2021-4-20
KUXIN	1557692	human drug, western medicine preparation	2021-4-20
XINDALUO	1648422	human drug, western medicine preparation	2021-10-13
ICON (the Company's Principal Trademark)	696371	human drug, western medicine preparation	2014-7-6
XINCAT	4179619	human drug, western medicine preparation	2017-5-20
XINCAT	4802193	human drug, western medicine preparation	2019-1-20

All the trademark registrants of the above trademarks are Shandong Zibo Xincat Pharmaceutical Company Limited.

(2) Key patents

Technology name	Certificate of patent number or patent application number	patent type	Date of obtaining a patent or patent application date
Package box (KUXIN)	ZL 2008 3 0128574.2	appearance design	2009.9.9
Package box (DULING)	ZL 2008 3 0007177.X	appearance design	2009.9.9
Production method of roxithromycin capsules	200810135563.6	invention	2008.9.3
Production line of a type of aluminum plastic packaging	ZL 2008 2 0133114.3	utility model	2009.8.12
A direct compression work flow of Cefuroxime axetil tablet	200910230001.4	invention	2009.11.4
Pioglitazone Hydrochloride Capsules and its preparation method	201010606962.3	invention	2010.12.27
Cefaclor Sustained Release Tablets and its preparation method	201010607002.9	invention	2010.12.27

Technology name	Certificate of patent number or patent application number	patent type	Date of obtaining a patent or patent application date
Package box (PUFEITE) (Nimesulide granules 12 bag/pack, 6 bag/pack)	ZL 201030209300.3	appearance design	2010.12.15
Package box (Bonner/Acyclovir Tablets)	ZL 2011 3 0389140.X	appearance design	2012.2.22
Package box (XINCAT/Alkyl amine compound ammonia duty tablet)	ZL 201130389138.2	appearance design	2012.03.07

All the patentees of the above patents are Shandong Zibo Xincat Pharmaceutical Company Limited.

(3) Drug approval numbers

Drug name	Specification	Registered number of approval	Date of approval
Acyclovir Tablets	0.8g	Guo Yao Zhun ZiH20020113	2010-5-5
Acyclovir Tablets	0.4g	Guo Yao Zhun ZiH20020112	2010-5-5
Amoxicillin and clavulanate potassium chewable tablets	125mg:62.5mg	Guo Yao Zhun ZiH19990395	2010-5-5
Amoxicillin Capsules	0.25g	Guo Yao Zhun ZiH37020470	2010-5-5
Cefradine dry suspension	0.125 g	Guo Yao Zhun ZiH37020478	2010-5-5
Cefradine dry suspension	0.25 g	Guo Yao Zhun ZiH37020477	2010-5-5
Cefaclor CapsulesCefaclor Capsules	0.25 g	Guo Yao Zhun ZiH10930008	2010-5-5
Cefaclor particles	0.125 g	Guo Yao Zhun ZiH10960005	2010-5-5
Cefaclor particles	0.25 g	Guo Yao Zhun ZiH10960006	2010-5-5
Cephradine capsules	0.25 g	Guo Yao Zhun ZiH37020471	2010-5-5
Cefadroxil Capsules	0.125 g	Guo Yao Zhun ZiH37020472	2010-5-5
Cefadroxil Capsules	0.25 g	Guo Yao Zhun ZiH37020473	2010-5-5
Cephalexin Capsules	0.25 g	Guo Yao Zhun ZiH37020475	2010-5-5

Drug name	Specification	Registered number of approval	Date of approval
Cephalexin Capsules	0.125 g	Guo Yao Zhun ZiH37020476	2010-5-5
Cephalexin particles	0.125 g	Guo Yao Zhun ZiH37020474	2010-5-5
Cephalexin particles	0.25 g	Guo Yao Zhun ZiH37020760	2010-5-5
Cefadroxil particles	0.125 g	Guo Yao Zhun ZiH20023277	2010-5-5
Cisapride capsules	5mg	Guo Yao Zhun ZiH20020343	2010-5-5
Nisoldipine tablets	5mg	Guo Yao Zhun ZiH20020674	2010-5-5
Glipizide Capsules	5mg	Guo Yao Zhun ZiH20023565	2010-5-5
Nimesulide granules	100 mg/50 mg	Guo Yao Zhun ZiH20020515	2010-5-5
Granisetron hydrochloride capsules	1mg (granisetron)	Guo Yao Zhun ZiH20020253	2010-5-5
Amoxicillin particles	0.125 g	Guo Yao Zhun ZiH37023720	2010-8-23
Ampicillin particles	0.25 g	Guo Yao Zhun ZiH37023723	2010-8-23
Ampicillin particles	0.125 g	Guo Yao Zhun ZiH37023724	2010-5-5
Ampicillin Capsules	0.125 g	Guo Yao Zhun ZiH37023722	2010-8-23
Ampicillin Capsules	0.25 g	Guo Yao Zhun ZiH37023721	2010-5-5
Trimethoprim cephalexin capsules	0.125 g: 25mg	Guo Yao Zhun ZiH37023751	2010-5-5
Erythromycin enteric-coated capsules	0.25g	Guo Yao Zhun ZiH20030577	2010-8-23
Donepezil hydrochloride capsules	5mg	Guo Yao Zhun ZiH20030779	2010-8-23
Cefuroxime axetil tablet	0.125 g	Guo Yao Zhun ZiH20030890	2010-8-23
Rifaximin tablets	0.1 g	Guo Yao Zhun ZiH20040047	2010-8-23
Cefaclor Sustained Release Tablets	375mg	Guo Yao Zhun ZiH20040402	2010-8-23
Loratadine hydrochloride capsules	10 mg	Guo Yao Zhun ZiH20040565	2010-8-23
Lactate sparfloxacin	0.1g	Guo Yao Zhun ZiH20051254	2010-8-23
Tishaozuopian	0.5g	Guo Yao Zhun ZiH20056029	2010-8-23
Compound Paracetamol and Amantadine Hydrochloride tablet	Compound 377mg	Guo Yao Zhun ZiH20050830	2010-8-23
Pioglitazone Hydrochloride Capsules	15 mg	Guo Yao Zhun ZiH20060621	2011-5-4
Finasteride Capsules	5mg	Guo Yao Zhun ZiH20060969	2011-5-13
Roxithromycin Capsules	0.15 g	Guo Yao Zhun ZiH20063474	2011-2-21
Ciprofloxacin hydrochloride tablets	0.25g	Guo Yao Zhun ZiH20064122	2011-2-21
Cefixime Capsules	0.1g	Guo Yao Zhun ZiH20070310	2012-12-21
Azithromycin Tablets	0.25g	Guo Yao Zhun ZiH20083479	2008-5-22
Azithromycin Suspension	0.1g	Guo Yao Zhun ZiH20094126	2009-11-25

The approval numbers of the above drugs are all within validity period of registered number of approval.

The above-mentioned intangible assets are all formed with time and related costs have been included in the period charges when intangible assets formed, without carrying amount. The key trademark among the abovementioned intangible assets, is the "Xincat" trademark, a famous trademark in Shandong Province and used together with the "Xinhua" trademark of Xinhua Pharmaceutical, resulting in the indivisible income derived therefrom. In addition, as income approach is adopted, the valuation result include the value of trademarks, patents, goodwill, etc, thus the assets-based method valuation no longer conducts separate valuation for off-the-book intangible assets.

The subject and scope of the entrusted valuation is consistent with the subject and scope of valuation as involved in economic behavior.

IV. TYPE AND DEFINITION OF VALUE

The type of value in the valuation is "market value", which is defined as the estimated amount for which the subject of valuation should be traded on the valuation base date between a willing buyer and a willing seller in an arm's length transaction in which each of the parties had acted knowledgeably, prudently and without compulsion.

The purpose of certified public valuers in conducting assets valuation is only to estimate the value of valuation subject and give professional opinion thereon. The valuation result, provided no substantial changes occur to the economic environment and market condition as at the valuation base date and other valuation premises and presumptions replied upon by valuers, refers to value estimate result presented for purposes of valuation, and cannot be construed as guarantee for or commitment to the realization of the value of valuation subject.

V. VALUATION BASE DATE

The valuation base date of the project is 30 April 2013.

The valuation base date, as co-determined by the entrusting party and the appraised unit, is set to be 30 April 2013, on which relatively complete financial information and easily collectible valuation materials are conducive to the operation of such economic behavior. Meanwhile, the valuation base date is close to the realization date of the valuation purpose and the appraisers' on-site working time.

All pricing bases used for this valuation are effective price standards as at the valuation base date.

VI. BASES OF VALUATION

The specific behavior bases, laws and regulations, title ownership bases and pricing bases complied with during this valuation, are as follows:

(i) Behavior bases

1. Board Resolution of Hualu Holdings Company Limited;

2. "Approval for the Transfer of State-owned Equity Interest in Shandong Zibo Xincat Pharmaceutical Company Limited" (Lu Guo Zi Qi Gai Zi [2013] No.13) issued by Stated-owned Assets Supervision and Administration Commission of Shandong Provincial Government.

(ii) Laws and regulations bases

1. Administrative Measures for State-Owned Assets Assessment, 1991 No.91 Decree of the State Council;

2. Implementation Rules for the Administrative Measures for Valuation of State-owned Assets, Circular [1992] No. 36 issued by the former Office of the National State-Owned Assets Administration Bureau;

3. Company Law of the People's Republic of China;

4. Notice of the General Office of the State Council on Forwarding the Opinions of the Ministry of Finance on Reforming State-owned Assets Valuation Administration Method and Strengthening Asset Valuation Administration Work (Guo Ban Fa [2001] No. 102) issued by the General Office of the State Council;

5. [2001] No.802 of the General Office of the State Council on Forwarding the Notice of Administrative Measures for the Filing of State-owned Assets Valuation Project printed and distributed by Ministry of Finance;

6. Provisional Measures for Transfer of State-owned Assets in Enterprises, Order [2003] No. 3 jointly issued by the State-owned Assets Supervision and Administration Commission and the Ministry of Finance;

7. Provisional Measures for Administration of State-owned Assets Valuation, Order [2005] No. 12 of the State-owned Assets Supervision and Administration Commission;

8. Notice on Certain Issues regarding Strengthening State-owned Enterprise Asset Valuation Administration Work (Guo Zi Chan Quan [2006] No. 274);

9. Law of the People's Republic of China on the Administration of Drugs;

10. Administrative Practice for Drug Production Quality;

11. Administrative Measures for Drug Production Certificate;

12. Other applicable laws and regulations.

(iii) Valuation standards and bases

1. Assets Valuation Standards — Basic Standards;

2. Code of Ethics for Assets Valuation — Basic Standards;

3. Assets Valuation Standards-Valuation report;

4. Assets Valuation Standards-Valuation Procedure;

5. Assets Valuation Standards-Engagement Letter;

6. Assets Valuation Standards-Machinery Equipment;

7. Assets Valuation Standards-Immovable Property;

8. Valuation Standards-Intangible Assets;

9. Working Paper Standards-Working Paper;

10. Guiding Opinions on Determination of Title ownership of the Subject of Valuation by Certified Public Appraisers;

11. Guiding Opinions on Assets Valuated Value Type;

12. Guide to State-owned Enterprise Assets valuation report.

(iv) Title ownership bases

1. Property ownership certificate;

2. Vehicle driving licenses;

3. Major equipment procurement contracts, invoices, as well as relevant financial materials such as agreements, contracts, building construction budget statements and final reports, etc;

4. Title ownership of intangible assets, such as trademark licenses, patent certificates, etc.

(v) Pricing bases and other references

1. Original accounting statements, financial, accounting and operation materials, as well as financial materials such as relevant agreements, contracts, invoices as provided by the appraised unit;

2. Quotation Manual for Mechanical & Electrical Products published in 2013 by China Machine Press;

3. Budget Estimate Compiling Methods & Budget Estimate Index for Construction Projects in Engineering Industry, issued by Ministry of Machine-Building;

4. Provisions on the Standards for Compulsory Retirement of Motor Vehicles, Order [2012] No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection;

5. Provisional Regulations of the People's Republic of China on Vehicle Purchase Taxes, Order [2000] No. 294 of the State Council;

6. Equipment purchase contracts recently entered into between the company and suppliers;

7. Relevant quotation materials provided by some equipment manufacturers;

8. Price information of some products published on the internet;

9. Relevant information on equipment quotation and final project cost provided by the company;

10. Consumption Quota of Constructional Engineering of Shandong Province, Consumption Quota of Installation Engineering of Shandong Province, Composition and Calculation Rules of the Expense Items of Municipal Constructional and Installation Engineering of Shandong Province;

11. Information Prices at the Market of Construction Engineering Materials of Zibo City;

12. Construction contracts, as-built drawings, report on final project cost and relevant information of construction materials and assets;

13. National or provincial and municipal documents of charging rules and standards on other expenses of construction engineering;

14. Standard on Evaluation of Damage Condition of Houses issued by the original Ministry of Urban and Rural Construction and Environmental Protection;

15. Information on the current transaction prices at the real estate markets in Chaoyang District of Beijing City, Putuo District of Shanghai City, Jian'an District of Wuhan City, Haizhu District of Guangzhou City and Jinjiang District of Chengdu City and of same or similar real estates appraised;

16. Other land laws and regulations and documents promulgated by the state, local governments and relevant departments;

17. Notice on Adjustments of Benchmark Land Prices in Cities and Towns (Zi Zheng Fa [2011] No. 30) issued by the People's Government of Zibo City on 26 April 2011;

18. Audit Report issued by Beijing Xinhua Certified Public Accountants Company Limited;

19. Assets Valuation Operations Manual;

20. Manual of Data and Parameters Frequently Used in Assets Valuation (2nd Edition);

21. Various charging standards and other price information mastered by the valuer.

VII. METHODS OF VALUATION

The methods for the valuation of the total assets of the company include assets-based method (cost method), market method and income method. Assets-based method is an valuation approach based on reasonable valuation of all the asset value and liabilities of a company to determine the value of the valuation subject. The market method is an valuation approach based on comparing the valuation subject with comparable enterprises, enterprises with comparable market transactions and equity assets such as shareholding interests and securities to determine the value of the subject of valuation. Income method is an valuation approach based on capitalizing or discounting the valuation subject's prospective income to determine the value of the valuation subject.

Since the valuers failed to obtain corporate transaction cases which are comparable to the production size and business types of Shandong Zibo Xincat Pharmaceutical Company Limited, they were unable to determine the value of its total assets with the market method. In this valuation, we adopted the assets-based method and income method to evaluate the total interests of the shareholders of Shandong Zibo Xincat Pharmaceutical Company Limited, and ultimately adopted the results of the income method as the conclusions of the valuation.

(I) The methods for valuation of various items under the asset-based method are as follows:

1. Current Assets

The valuated value of assets was determined mainly by adopting the replacement cost method in accordance with the characteristics of different classes of assets and on the basis of verifying its authenticity and accuracy. The particulars are shown below:

(1) In relation to monetary capital, the valuers conducted a cash reckoning on the checking date based on the detailed statement of various items provided by the company and performed trial balancing for the bank deposit balance reconciliation statement through backward calculation of the cash amount as at the valuation base date based on the cash flow in the period from the valuation base date to the date of reckoning, and the verified book value was recognized as the valuated value.

(2) In relation to notes receivable, the valuers inspected the accounting books and original records, and the inspected and verified book value was recognized as the valuated value.

(3) In relation to receivables, the valuers mainly verified its authenticity and accuracy, and recognized the valuated value based on the future recoverable amount.

(4) Inventories

i. Raw materials and materials in transit

In relation to raw materials and materials in transit, the valuers mainly conducted a spot check of the purchase invoices and purchase contracts before and after the valuation base date, and verified the actual amount of inventories in the warehouse, and the valuated value was obtained through multiplying the verified book value as the unit price of valuated value with the verified quantity; in relation to the raw materials with largely varying market price purchased before the valuation base date, the valuated value was obtained through multiplying the valuation unit price determined based on the market unit price of the raw materials of the same specifications and model at the same or near market as at the valuation base date, after giving consideration to relevant expenses, e.g. transportation and miscellaneous costs, etc., required for reaching the current storage condition, with the verified quantity.

ii. *Finished goods*

According to the ratio of sales to cost, various expense ratios and tax rates of the Company for the period from January to April in 2013, the valuated value was determined based on each product's valuation unit value obtained based on the factory sales price (exclusive of tax) less various expenses, all taxes and an appropriate amount of net profit after tax multiplied by the actual quantity as at the valuation base date. The valuation formula is as follows:

Valuation unit price	=	Unit selling price (exclusive of tax) × (1-business tax and surcharge rate-Operating expenses ratio)- Appropriate net selling profit - Income tax
Income tax	=	[Unit selling price (exclusive of tax) × (1-business tax and surcharge rate-Operating expenses ratio-Overhead expenses ratio- Financial expenses ratio)-Unit book cost] × 15%
Valuated value	=	Valuation unit price × Quantity

iii. *Work-in-process*

The book values verified mainly included the value of direct materials and other auxiliary materials and the part of the value of fuel and power expenses, labor costs, manufacturing expenses, etc. incurred in the current month that should be borne by the work-in-progress, and the verified book value was recognized as the valuated value.

iv. Revolving materials in use

In relation to revolving materials in use, the valuers determined the valuated value of revolving materials in use item by item on the basis of verifying the quantity item by item and inspecting the actual objects, with reference to their current market value and appropriate newness rate.

2. Fixed assets in the equipment class

In accordance with the specific purpose of this valuation and the characteristics of the equipment appraised, the replacement cost was determined as the valuation standard for the assets valuation, and the market value of the entrusted-appraised equipment was mainly determined by the cost method.

The cost method for valuation of machineries and equipment refers to a method used to determine the valuated value of machineries and equipment through estimating the replacement value of brand new machineries and equipment, with the deduction of the actual depreciation, functional depreciation, and economic depreciation, or on the basis of its determined comprehensive newness rate. The basic calculation formula adopted in the valuation is as follows:

Valuated value = Replacement value × Newness rate

The valuers checked the major equipments pursuant to the detailed list of machineries and equipment provided by the company to ensure the consistency with the account book, and examined and verified the relevant contracts, evidence of legal right and accounting record. On this basis, professional engineering technicians were organized to perform on-the-spot investigation and verification.

(1) Determination of replacement value

i. Domestic machineries and equipment

In relation to the equipment still in market circulation, the valuation was based on the current market price; in relation to the equipment that had been eliminated and out of production and circulation, and had no market price, its purchase price was analysized and determined through comparing the entrusted-appraised equipment to similar equipment and giving comprehensive consideration to the difference in terms of performance, scope of work, technical parameters, use function, etc. After determining the purchase price of the equipment, the replacement value of the equipment was determined in accordance with the specific condition of the equipment with reference to the relevant transportation cost, installation and test cost, capital cost within a reasonable time limit, etc. The calculation formula is as follows:

Replacement value = Purchase price of equipment/(1 + Applicable VAT rate) + Transportation cost + Installation and test cost + Basic fee + Other expenses + Capital cost

Pursuant to the Provisional Regulations on VAT (《增值稅暫行條例》) and its detailed rules of implementation, the input VAT used for purchase of goods for collective welfare or personal consumption or taxable service was not be deductible from the VAT on sales. Accordingly, input VAT was not be deducted for kitchen equipment including refrigerator. The calculation formula is as follows:

Replacement value = Purchase price of equipment

For transportation cost: in accordance with the price conditions selected during the equipment price inquiry, if the purchase price of the equipment contains transportation cost, the transportation cost will not be charged again; otherwise, the transportation cost will be determined pursuant to the table below:

Transport mileage	Charge basis	Rate (%)	Transport mileage	Charge basis	Rate (%)
Within 100km	Purchase price of equipment	1.0	Within 1,250km	Purchase price of equipment	3.3
Within 200km	Purchase price of equipment	1.2	Within 1,500km	Purchase price of equipment	3.8
Within 300km	Purchase price of equipment	1.4	Within 1,750km	Purchase price of equipment	4.3
Within 400km	Purchase price of equipment	1.6	Within 2,000km	Purchase price of equipment	4.8
Within 500km	Purchase price of equipment	1.8	Each increase of 250km over 2,000km	Purchase price of equipment	0.5
Within 750km	Purchase price of equipment	2.3			
Within 1,000km	Purchase price of equipment	2.8			

The installation and test cost and basic fee were analyzed and determined mainly according to the reference rates of installation and test cost and foundation fee prescribed in the Manual of Data and Parameters Frequently Used in Assets Valuation and the difficulty of equipment installation and the previous expenditure for equipment installation fee of the appraised unit. Pursuant to the price conditions selected during the equipment price inquiry, if the purchase price of equipment is exclusive of installation and test cost, the actual installation fee is calculated based on the accounts data and its proportion in the purchase price of equipment will be determined after removing the unreasonable expenses caused by abnormal factors and with reference to relevant provisions; if the purchase price of equipment contains the aforementioned fees, no repeated calculation is required.

Other expenses refer to the general expenses (exclusive of construction and installation costs and equipment installation fee) incurred during the entire construction period from the engineering preparations to the final acceptance and delivery of project for the purpose of guaranteeing the smooth completion of engineering construction and normal operations after delivery, including survey and design expenses, tendering and bidding expenses, engineering supervision expenses, environmental evaluation expenses, management expenses of construction unit, etc. Other expenses related to engineering construction were determined in accordance with the relevant national regulations on various charges, the actual situation of the construction work site on the valuation base date and the size of investment in fixed assets by the company. The rates of other expenses adopted in this valuation are shown in the table below:

Items	**Charge basis**	**Charge**	**Charge document**	**Items**
Survey and design expenses	Purchase price of equipment	1.20%	Ji Jia Ge [2002] No. 10	Survey and design expenses
Bidding agency service charge	Purchase price of equipment	0.20%	Ji Jia Ge [2002] No. 1980	Bidding agency service charge
Management expenses of construction unit	Purchase price of equipment	1.50%	Cai Jian [2002] No. 394	Management expenses of construction unit
Engineering cost consultation service charge	Equipment installation fee and basic fee	0.30%	Lu Jia Fei Fa [2004] No. 239	Engineering cost consultation service charge
Construction supervision expenses	Equipment installation fee and basic fee	1.00%	Fa Gai Jia Ge [2007] No. 670	Construction supervision expenses
Environmental impact consulting fee	Purchase price of equipment	0.20%	Ji Jia Ge [2002] No. 125	Environmental impact consulting fee
Safety evaluation expenses	Purchase price of equipment	0.20%	Lu An Guan Xie Zi [2006] No. 4	Safety evaluation expenses

For capital cost, the loan interest rate was subject to the rate determined according to the length of the reasonable time limit for construction. The calculation formula is as follows:

Capital cost	=	(Purchase price of equipment +Transportation cost + Installation and test cost+ Basic fee + Other expenses) × Loan interest rate × (Construction period/2)

As the normal construction period of the project was short (less than 3 months for a single project), the capital cost was not considered.

For small equipment sporadically purchased, the transportation cost, installation fee, other expenses and capital cost were based on the actual condition. The transportation cost and installation fee were generally included in the equipment costs. Other expenses and capital cost were negligible.

ii. Imported equipment

There were domestic agents for he entrusted-appraised imported equipment. Accordingly, the replacement price of the relevant equipment was determined based on the quotations of domestic agents.

The freight rate, installation and test cost rate, capital interest rate, reasonable construction period, etc. were determined properly by category pursuant to the terms of the contracts, with reference to domestic equipment.

iii. Transport vehicles

The replacement value of transport vehicle was determined based on the market price of the same type of or similar vehicles plus the vehicle purchase tax and other relevant expenses. The calculation formula is shown below:

Replacement value	=	Market purchase price + Vehicle purchase tax + Other relevant expenses

Among them: vehicle purchase tax is 10% of the market price of vehicle (exclusive of VAT); other relevant expenses include vehicle inspection fee, license fee, etc.

iv. Electronic equipment

The replacement value of the equipment still in market circulation was determined based on the current market price; in relation to the equipment that was out of production and circulation and had no market price, its replacement price was determined through comparing the entrusted-appraised equipment to similar equipment and giving comprehensive consideration to the difference in terms of performance, technical parameters, use function, etc. It was required to consider various expenses and capital cost for such equipment. The calculation formula is shown below:

Replacement value	=	Purchase price/(1+ Appropriate VAT rate)

For some obsolete electronic equipment, the market approach was applied to determine its valuated value based on the "net realizable value".

(2) Determination of newness rate

i. In relation to machineries and equipment, their working environment and existing technical conditions were understood through on-the-spot investigation, and their recent technical information, relevant repair records and operation records are reviewed. The comprehensive newness rate was determined in accordance with the industry experience and statistical data after adjustment based on the newness rate under the service life method and on-the-spot investigation. The calculation formula of newness rate under the service life method is shown below:

Newness rate under the service life method	=	(Economic and durable life — Serviced life)/Economic and durable life × 100%

In relation to the large equipment, the newness rate was determined based on the on-the-spot investigation method above. Newness rate under the on-the-spot investigation method is the newness rate determined by the valuation staff in a comprehensive way through setting the weight for the components of major value and scoring the condition of the components after conducting an on-the-spot investigation for the entrusted-appraised equipment to understand its working environment, appearance and integrity, technical situation, use ratio and load rate, maintenance and technical transformation.

Comprehensive newness rate	=	Newness rate under the service life method × 40%+ Newness rate under the on-the-spot investigation method × 60%

ii. The newness rate of transport vehicle was determined with the method of comprehensive newness rate. The calculation formula is shown below:

Comprehensive newness rate	=	Theoretical newness rate × 40%+ Investigated newness rate × 60%
Newness rate under the service life method	=	(Economic and durable life — Serviced life)/Economic service life × 100%
Mileage newness rate	=	(Economic travel mileage — Traveled mileage)/Economic travel mileage × 100%

The theoretical newness rate adopted the newness rate under the service life method or mileage newness rate, whichever was lower.

The investigated newness rate was scored based on on-the-spot investigation.

For the vehicles that exceeded their service life and were still in use, the newness rate was determined based on their serviceable life. The calculation formula is shown below:

Newness rate under the service life method	=	Serviceable life/(Serviced life + Serviceable life) × 100%

iii. Electronic equipment

The newness rate of electronic equipment was determined on the basis of the calculation of the newness rate under the service life method after adjustment based on on-the-spot investigation.

For the electronic equipment that exceeded its service life and was still in use, the minimum newness rate under the relevant provisions was 15%.

(3) Determination of valuated value

valuated value	=	Replacement value × Newness rate

3. ***Fixed assets of building class***

In relation to the fixed assets in building class for industrial purpose, the valuation was conducted with the replacement cost method; in relation to residences, the valuation was conducted with the market comparison method. The particulars are as follows:

(1) Evaluation and estimation process of replacement cost method for buildings and determination of valuation parameters

i. Determination of replacement value

Replacement value = Construction and installation costs + Upfront fee and other expenses + Capital cost

a. Construction and installation costs: The valuation staff determined the construction and installation costs with the following two methods in accordance with the specific characteristics of the appraised buildings and the relevant information obtained.

Accounting restatement method: the construction and installation costs of the appraised buildings were calculated by way of restating the final accounts on the basis of the as-built drawings, final accounts report and on-the-spot investigation information of a selected representative of the typical buildings in accordance with the calculation procedures for construction project costs as promulgated by the local building administrative department as well as the labor cost, material prices and charge standards on the valuation base date. The major calculation formula is shown below:

Construction and installation costs = Civil engineering costs + Decoration engineering costs + Installation engineering costs

Analogy method: The construction and installation costs of the appraised buildings were calculated through an analogy analysis of the recent buildings similar to the appraised buildings selected after investigating and understanding the information on construction project costs and the relevant materials published by the relevant local departments, and adjustment of difference based on such recent buildings' construction and installation costs.

b. Upfront fee and other expenses: mainly included survey and design expenses, engineering supervision expenses, management expenses of construction unit, and other expenses. The details are shown in the table below:

Schedule of Upfront Fee and Other Expenses

No.	**Name**	**Charge rate based on engineering costs** *(%)*	**Charge based on floor area** *(m2)*	**Remarks**	**Basis**
1	Survey and design expenses	1.20%			Ji Jia Ge (2002) No. 10
2	Bidding agency service charge	0.20%			Ji Jia Ge [2002] No. 1980
3	Management expenses of construction unit	1.50%			Cai Jian [2002] No. 394
4	Engineering cost consultation service charge	0.30%			Lu Jia Fei Fa [2004] No. 239
5	Special funds for new-type wall material		10		Lu Cai Zong Zi [2008] No. 53
6	Supporting urban infrastructure costs		Industry 60, others and residences 252		Zi Zheng Ban Fa [2008] No. 114
7	Construction supervision expenses	1.00%			Fa Gai Jia Ge [2007] No. 670
8	Civil defense expenses		35	Charge over office buildings in the plant area and not charge over workshops	Zi Zheng Fa [2007] No. 59
9	Special funds for bulk cement		2		Lu Cai Zong [2003] No. 24
10	Environmental evaluation expenses	0.20%			Ji Jia Ge [2002] No. 125
11	Safety evaluation expenses	0.20%			Lu An Guan Xie Zi [2006] No. 4

Explanations:

i. Since the "pension funds of building enterprises" was included in the construction and installation costs buildings (structures), repeated calculation was not required.

ii. The "special funds for new-type wall material" was taken full account for the buildings with composite structure; the "special funds for new-type wall material" was reduced by half according to the as-built drawings of the buildings and site condition for the buildings with concrete structure.

iii. As the entrusted-appraised buildings were for industrial purpose, the "construction costs of air defense basement" was not considered in the valuation. If the buildings were used as office buildings in the plant area, the "construction costs of air defense basement" should be calculated.

c. Capital cost

Capital cost is the financial cost for the funds occupied by the entrusted-appraised buildings during the normal construction period. The principal and interest bearing period was calculated based on the amount of the funds that required to be occupied and the corresponding time under the normal construction conditions. The interest rate was the basic construction loan rate over the same period of normal duration which was still in execution on the valuation base date. The normal and reasonable construction period of this appraised project was 1 year, while being 0.5 to 1 year, the annual loan rate shall be 6.00%. When conducting the valuation, it was assumed that the funds had already been invested evenly and the interest bearing period was half of the normal construction period.

No.	Construction period	Loan rate published on 6 July 2012
1	Within 0.5 year	5.60%
2	0.5 to 1 year	6.00%
3	1 to 3 years	6.15%

Capital cost = (Construction and installation cost + Upfront fee + Other expenses) × Annual interest rate × Construction period/2

ii. Determination of newness rate

The newness rate was determined by the service life method and observation method, calculating with different weights through weighting, among them, the weight for the service life method was 40% and the weight for observation method was 60%:

Newness rate = Newness rate under the service life method × 40%+Newness rate under the observation method × 60%

a. Newness rate under the observation method

Valuation staff conducted on-site surveys on the service condition of the entrusted-appraised buildings, inspect and know their maintenance and renewal conditions, conduct site inspection on their primary structure, decoration and facility, so as to determine the newness rate with combination to the damage condition of the building as well as the corresponding weight coefficient of different parts.

Newness rate under the observation method = Total score of structure part × weight+ Total score of decoration part × weight + Score of equipment × weight

b. Newness rate under the service life method

The newness rate of building was determined with reference to the economic and durable life, serviced life and serviceable life of the appraised building, the calculating formula is:

Newness rate under the service life method	=	(Economic and durable life - Serviced life)/Economic and durable life × 100%

or:

Newness rate under the service life method	=	Serviceable life/(Serviced life + Serviceable life) × 100%

iii. Determination of the valuated value

valuated value	=	Replacement value × Newness rate

(2) The assessing process of residential market comparison method

The basic calculating formula of the market comparison method is:

Valuation of real estate	=	Benchmark price of real estate × Floor area
Benchmark price of real estate	=	Σ (adjusted unit price of real estate)/ Amount of comparable samples
Adjusted unit price of real estate	=	transaction unit price of comparable samples × Adjustment for the condition of the transaction × Adjusted transaction date × Adjusted condition of real estate.

The assessing process of residential market comparison method is as follows:

i. Collect sample transactions, specifically including: parties of the transaction, and the transaction purpose, real estate conditions of sample transaction, the price, date and payment methods of the transaction.

ii. Select three comparable samples (i.e. the comparable samples used for comparing and referring) from the above collected ones, based on the principles such as the sample transactions are similar to the appraised object(real estate), the transaction dates are close to the valuation base date, the transaction prices are normal price or can be adjusted to a normal price.

iii. Establish the comparable basis for price, i.e. convert the transaction prices of these samples, in order to establish the comparable basis for price, and unify the expression and connotation.

iv. Adjust the transaction condition

The transaction price of the comparable sample may be normal or subnormal. As the valuation staff was required to evaluate the market value of the valuation object, if the transaction price of the comparable sample was not the normal price, it shall be adjusted to be normal, so as to adjust the benchmark price of the valuation objects.

v. Adjust the transaction date

The transaction price of the comparable sample is the price on transaction date, as the price of the valuation object was the price on the valuation base date, if the transaction date differs from the valuation base date, the market condition of real estate may change, thus the price may be different. Adjustment of the transaction date is to adjust the price of the comparable sample on its transaction date to be the price on the valuation base date.

vi. Adjust the real estate condition: including adjust regional condition, adjust interest condition and adjust actual object condition.

a. Adjust regional condition: increase(or decrease) the price mainly based on the differences of regional condition, such as the convenience of transportation, natural, cultural and environmental quality, community maturity, facility, infrastructure and etc..

b. Adjust interest condition: increase(or decrease) the price mainly based on the differences in respect of interest condition between the valuation object and the comparable sample, such as other rights, nature (use) of the housing property right, nature (use) of the land property right, years of expected income and etc..

c. Adjust actual object condition: increase(or decrease) the price mainly based on the differences in respect of the actual object condition between the valuation object and the comparable sample, such as the community scale, plot ratio, landscape and greening, community closeness, property management, property fee standard, check-in personnel situation(above are community part), structure, architectural style, construction quality, completion time, overground, underground, exterior decoration, corridor decoration, average number of tenements on each floor, communication, water supply, safety and fire monitoring (above are common part), total floors/the floor, heating system, orientation, current use, house type, story height, landscape, decoration, maintenance and residue status(above are interior part).

vii. Prices of various comparable samples selected will go through all the adjustments above and generate a comprehensive figure according to specific conditions as the benchmark price.

viii. The market value of the appraised real estate is calculated by multiplying the benchmark price by the floor area of the valuation object.

4. Construction in progress

The valuation staff knew the visual progress of the construction in progress through the on-site survey, and knew the payment status. Having verified, we believe the expenditure in the account of the construction in progress is reasonable with sufficient proofs, as a result, the valuated value was calculated based on the actual payment after verification.

5. Intangible assets

According to the "Regulations for the Valuation of Urban Land"(《城鎮土地估價規程》), the characteristics of various valuation methods and the relevant information collected by the valuation staff, combining with the specific conditions of the valuation object, nature of the land and the valuation purpose, and pursuant to the "Notice on Adjusting the Datum Value of Urban Land"(《關於調整城鎮基準地價的通知》) (Zi Zheng Fa [2011] No.30 on 26 April 2011) issued by Zi Bo government, the appraised lands were all in the scope of land datum value, thus can use the land datum value method.

Land datum value coefficient method is a method that generates the price of the valuation object on the valuation base date by comparing the regional condition of the valuation object with the average condition of its region pursuant to the substitution principle, and processing the regional factor adjustment and other relevant adjustments according to the adjustment system of land datum value.

Pursuant to the "Regulations for the Valuation of Urban Land"(《城鎮土地估價規程》) and the "Notice on Adjusting the Datum Value of Urban Land"(《關於調整城鎮基準地價的通知》) (Zi Zheng Fa [2011] No.30 on 26 April 2011) issued by Zi Bo government, the calculating formula for land datum value coefficient method is:

Land price	=	[Land datum value × (1+Adjust factor coefficient) × Adjusted plot ratio coefficient+Adjustment in relation to the progress of land development] × Adjusted service life coefficient × Adjusedt date coefficient

6. Deferred tax assets

The assets were borrowings on open account basis when the enterprise checked its income tax expense based on the deferred tax law under the accounting standards. The valuated value was determined based on that the income tax which still existed after valuations of various assets and liabilities can offset the amounts effected by the deductible temporary difference factor.

7. Liabilities

After detecting and verifying the authenticity and compliance, different liability categories were determined, whether they were the actual liabilities of the enterprise as of the valuation base date was confirmed, and the valuated value based on the verified carrying amount or the actual liabilities it should bear was determined.

(II) Basic idea and method of income valuation method

The income valuation method of the enterprise's overall value is based on the economic expected utility theory, which estimates the expected future income of the appraised assets through making comprehensive analysis of the assets used by the valuation object, and with the overall operation income of the assets as the starting point to estimate the current market value of the enterprise's assets according to specific discount coefficient. Income method provides a way to analyze and measure the enterprise's profitability as a whole, so as to determine the market value of the appraised enterprise. This method considers not only the income from the enterprise's basic tangible assets, but also the income from intangible assets, especially those intangible assets that cannot be determined.

The external environmental factor, industrial competition and enterprise's competitive position faced by the appraised enterprise can be reasonably analyzed, the future income can also be reasonably expected, the risks can also be predicted and quantified, and accordingly the appraised enterprise fulfilled the conditions of the income valuation method.

The basic idea of this valuation is to estimate the assets value based on the statements audited by the accountant of the valuation object, i.e. firstly estimate the operating assets value of the valuation object by way of the Discounted Cash Flow Model(DCF) with reference to the income method, and then generate the overall value of the valuation object by adding the non-operating and overage assets value, and the long-term investment value as at the valuation base date. The value of the entire shareholder equity of the valuation object was calculated by deducting the interest-bearing liability value from the overall value of the enterprise.

Entire shareholder equity	=	overall value of the enterprise - interest-bearing liability

In particular:

Overall value of the enterprise	=	Operating assets value + Overage assets value + Non-operating assets value + Long-term investment value
Operating assets value	=	Present value of free cash flow during the estimate period + Present (final) value of free cash flow after the estimate period

1. The formula for the operating assets value of the enterprise is as follows:

$$P = \sum_{i=1}^{n} \frac{Ri}{(1+r)^i} + \frac{Ri+1}{r(1+r)^i}$$

Wherein:	P	is operating assets value
	r	is discount rate
	i	is the forecast year
	n	is the final year of the forecast year
	Rt	is the free cash flow of the year i

2. Overage assets value and non-operating assets value

Overage assets and non-operating assets are mainly the assets that do not generate actual cash flow, or temporarily cannot make distribution to main business, and are not necessary during the routine operation, which mainly include dormant assets and various assets that exceed the operating requirements. The valuated value was determined by way of the replacement cost method or market comparison method.

3. Interest-bearing liabilities

Interest-bearing liabilities refers to the liabilities in the account as at the valuation base date that need to pay interest, including short-term borrowings, interest-bearing notes payable, long-term borrowings due in one year and long-term borrowings.

4. Discount rate

According to the principle that the income shall be in line with the discount rate, we applied free cash flow of the enterprise in the valuation of the revenue. Accordingly, we applied WACC as the discounted rate.

$$WACC = [D\%*Rd*(1-T)]+(E\%*Re)$$

Wherein:
- Re: Equity capital cost
- Rd: Liability capital cost
- D: Capital value of the interest-bearing liability of the appraised enterprise
- E: Equity capital value of the appraised enterprise
- T: Income tax rate

Including:
- $Re = Rf + \beta \times RPm + Rs$
- Rf = Risk-free return rate
- β = Enterprise's risk factor
- RPm = Risk premium of market
- Rs = Specific risk-adjusted factor of the enterprise

VIII. IMPLEMENTATION AND PROCEDURE OF VALUATION

Under the regulations on asset valuation and the general accounting principles of the relevant departments of the PRC and, the relevant laws and regulations and the standardization requirements of the relevant departments of the PRC, the scope of engagement set out in the letter of engagement by the principal in relation to the asset valuation, Beijing Pan-China Assets Appraisal Co. Ltd. (北京天健興業資產評估有限公司) has undergone inspection and verification on the legal documents, accounting records and the relevant information provided by the principal, conducted the necessary ownership verification, on-site inspection and verification on the related assets according to the asset checklist provided by the appraised unit, and conducted the necessary market researches and the transaction price comparisons, and other necessary asset valuation procedures such as financial analysis and prediction. The asset valuation process is detailed as follows:

1. Acceptance of engagement and preparation

(1) Beijing Pan-China Assets Appraisal Co. Ltd. was engaged by the principal in June 2013, to perform the asset valuation project. After the acceptance of the engagement, Beijing Pan-China Assets Appraisal Co. Ltd. and the principal have held serious discussion in relation to the issues affecting the asset valuation project, including the valuation purpose, valuation object and scope, the valuation base date and the characteristics of the entrusted assets for valuation.

(2) In relation to the characteristics of the entrusted assets for valuation, an asset valuation declaration checklist was prepared specifically, and a major assets questionnaire and an questionnaire for profits from major business were designed. Business training in relation to the completion of the asset valuation declaration checklist and various questionnaires was given to the staff of the principal involved in the asset valuation.

(3) Design of the valuation plan

Based on the characteristics of the assets, efforts will be made to formulate the valuation implementation plan, determine the valuation staff, and form an on-site working group for the asset valuation. The valuation staff in this project was divided into three teams to conduct onsite valuation, including the integrated financial team, equipment team and the real estate team.

(4) Preparation of valuation materials

All transaction price information regarding the valuation object market, the price information for the main raw material markets, and the property ownership documents for the valuation object were collected and analyzed.

The task in this stage covered the period from 20 June 2013 to 28 June 2013.

2. On-site verification stage

(1) Verification on the authenticity and legality of the valuation object

Pursuant to the details of the assets and liabilities provided by the principal and the appraised entity, the valuation staff adopted different investigation methods to verify physical assets and monetary claims and debts, so as to confirm the authenticity and accuracy of the assets and liabilities.

We verified the monetary assets by checking the daily accounts, taking stock of the cash and reviewing bank statements and the reconciliation statements of the balance of bank deposits.

In relation to the claims and debts, the valuation staff confirmed the authenticity of the assets and liabilities by checking the general account and the itemized account and conducting random inspection of the contractual proofs.

Fixed assets were investigated based on the combination of focused and general investigations, with a focus on the assets such as the building structures and the substantial assets. The valuation staff checked the relevant designation, construction documents, construction contracts, data regarding the settlement of the project funds and equipment purchase contracts and invoices in order to confirm the authenticity of the assets.

In relation to the construction in progress, we reviewed the contents in the relevant contracts, conducted investigation and analysis on the occurrence time of the construction in progress, the construction contents, the current progress and the actual payments, so as to confirm the authenticity.

(2) Survey of the actual condition of the assets

Under the coordination of the engineering technicians and relevant fixed-assets managers of the appraised entity, we conducted on-site investigation on the location, structural style, floor area, interior and external decoration, service condition, maintenance and modification of the building in good condition, and filled in the on-site investigation list.

The operation condition of the equipment was investigated based on the combination of focused and general investigations, with the focus on the investigation on the machinery equipment for production. The survey was mainly conducted by way of inspecting the operating record of the equipment, and by conducting an on-site inspection of the operating condition of the equipment under the cooperation of the equipment management staff of the appraised entity. The important equipment survey list was optimized on the basis of the survey.

(3) Survey of value composition of physical assets and the condition of business development

In view of the characteristics of the assets of the appraised entity, we investigated the reasonableness and compliance of the value composition of assets. The survey focuses on the authenticity, accuracy, completeness and compliance of the carrying amounts of the fixed assets. Information including the relevant accounting documents, accounting books, construction contracts, equipment installment contracts and equipment procurement contracts were inspected and reviewed.

(4) Survey of the production and operation condition of the entity including income and costs

Profit and loss accounting information of the relevant entities for the previous years were collected for calculation and analysis. We also investigated the actual operation condition of various entities and businesses and the composition of their revenue, costs, expenses, and future development trend through interviews, so as to prepare for the compilation of future cash flow forecast.

Through the collection of the relevant information, we can preform analysis and forecast in relation to the market environment, future competition and development trend of the various businesses of Shandong Zibo Xincat Pharmaceutical Company Limited.

The task in this stage covered the period from 28 June 2013 to 30 June 2013.

3. Selection of valuation methods, collection of market information and estimation procedures

Based on the working plans which were formulated according to the characteristics of the project and taking into consideration the pricing principles and valuation models which were determined with respect to the actual condition, the valuation staff commenced their on-site valuation and estimation tasks by referring to the historical data and future operational forecasts provided by the enterprise upon confirmation of the valuation parameters and price criteria.

4. Stage of valuation summary

(1) Determination of valuation results

The valuation results of the entrusted-appraised assets based on the asset-based method and the income value method were confirmed based on the on-site survey by the valuation staff of Beijing Pan-China Assets Appraisal Co. Ltd and the implementation of all necessary market researches and estimates.

(2) Analysis of valuation results and preparation of valuation report

This valuation report of the relevant assets was prepared in accordance with the standardized requirements of Beijing Pan-China Assets Appraisal Co. Ltd. A three-tier review has been conducted on the valuation results and the related asset valuation report pursuant to the prescribed procedures of Beijing Pan-China Assets Appraisal Co. Ltd. Upon final approval by the signing certified asset valuers, the report was completed and submitted by the project team.

(3) Filing of the working papers

The working stage covered the period from 1 July 2013 to 30 July 2013.

IX. VALUATION ASSUMPTIONS

(I) General assumptions

1. Transaction assumption: It is assumed that all assets to be appraised are in the process of transaction. The appraisers conduct the valuation according to simulated market conditions such as transaction conditions of the assets to be appraised.

2. Open market assumption: open market assumption is a hypothesis made on the conditions of the market where the assets are intended to enter as well as on the kinds of impact on the assets in such market conditions. Open market is a market where there are fully-developed and flawless market conditions, and it also refers to a competitive market where there are voluntary buyers and voluntary sellers and where buyers and sellers are of equal status in terms of the opportunity and time to have access to sufficient market information in this market, and in which the transactions between both the buyers and the sellers are conducted voluntarily and rationally without compulsion or without restricted conditions.

3. Continuous use assumption: Continuous use assumption is a hypothesis made on the conditions of the market where the assets are intended to enter as well as the status of the assets in such market conditions. It is first assumed that the assets to be appraised are in use, and it is further assumed that the assets that are in use will be used continuously. Under continuous use assumption, no consideration is given to the change of the use of the assets or the use of the assets under the best condition. Thus, the application scope of the valuation results restricted.

4. Going concern assumption: It is an assumption made by taking the whole assets of an enterprise as the valuation object, i.e. the enterprise, as the principal operating entity, operates continually in accordance with its operation objectives under its external environment. It is assumed that the operator of the enterprise shall take and is capable of taking responsibility. It is also assumed that the enterprise operates legally and makes sufficient profits to maintain the capability of operating as a going concern.

(II) Valuation assumptions for the income approach

1. General assumptions for the income approach

(1) It is assumed that there are no material changes in the relevant existing laws, regulations and policies and macroeconomic conditions in the PRC; there are no material changes in the political, economic and social environment of the regions in which the parties of this transaction are situated; and there is also no material adverse effect caused by other non-predictable and force majeure factors.

(2) In view of the actual condition of assets as at valuation base date, it is assumed that the appraised entity operates as a going concern.

(3) It is assumed that the operators of the appraised entity are responsible and the management of the appraised entity is capable of performing their own roles

(4) Unless otherwise stated, it is assumed that the appraised entity fully complies with all applicable laws and regulations.

(5) It is assumed that the accounting policies to be adopted by the appraised entity in the future and those adopted by the appraised entity at the time when this valuation report was prepared are consistent in material respects.

(6) It is assumed that the business scope and pattern will remain in the same direction, on the basis of the existing management practice and level.

(7) There will be no material fluctuations in the interest rate, exchange rate, tax base and tax rate and policy levies. When considering the enterprise income tax in this valuation, it is taken into account that the Company obtained Certificate for Hi-tech Enterprise (《高新技術企業証書》) (No. GF201137000045) as approved by Department of Science and Technology of Shandong Province (山東省科學技術廳), Department of Finance of Shandong Province (山東省財政廳), Shandong Provincial Office of the State Administration of Taxation (山東省國家稅務局) and Shandong Local Taxation Bureau (山東省地方稅務局) on 31 October 2011 valid until 2013. According to the relevant requirements of Income Tax Law, the Company is entitled to a reduced income tax rate of 15%. Upon the termination of the preferential tax policies, the relevant preferential policies will no longer be taken into account and the Company will pay enterprise income tax at the rate of 25%.

(8) There will be no other force majeure and unforeseeable circumstances that will affect the appraised entity materially and adversely.

(9) It is assumed that the marketing plan as estimated by the Company will be fulfilled as scheduled.

2. Special assumptions for the income approach

(1) It is assumed that any licence relevant to the operation of the enterprise issued by the relevant government departments can be renewed after its expiration.

(2) It is assumed that there will be no material change in key management personnel and technicians of the appraised entity during the future income period that will affect its operation and the management team will develop stably.

(3) It is assumed that the profitability of the enterprise after the estimated income period remains at the same level as that of the final year of the income period, and the Company operate as a will going concern on the basis of this profitability.

(4) The calculation of income is made on a basis of an accounting year, assuming all incomes and expenses occur at the end of the year.

(5) It is assumed that the amount of tax payable in the future income period is generally consistent with the total profit of the enterprise, and there will be no adjustment in respect of significant permanent or temporary difference.

(6) This valuation results are based on the assumptions mentioned above. Failure of the aforementioned assumptions will result in significant impact on the valuation result, and the valuation result will generally be void and null.

X. VALUATION RESULTS

(I) Valuation results based on asset-based approach

On the basis of asset-based approach, the aggregate carrying amount of the assets of Shandong Zibo Xincat Pharmaceutical Company Limited amounted to RMB168,339,000 and the appraised value amounted to RMB215,152,000, representing an increase of RMB46,812,900 or an increment rate of 27.81%; the aggregate carrying amount of liabilities amounted to RMB54,291,600 and the appraised value of liabilities amounted to RMB54,291,600 (no difference in the valuation); the carrying amount of net assets amounted to RMB114,047,400 and the appraised value of the same amounted to RMB160,860,400, representing an increment of RMB46,812,900 or an increment rate of 41.05%. The valuation results of the assets and liabilities are set out in the table below:

Summary Table of Assets Valuation Results

Name of the appraised entity:
Shandong Zibo Xincat
Pharmaceutical Company Limited *Currency unit: RMB ten-thousand*

Item		Carrying amount before audit	Carrying amount	Appraised value	Amount increased/ decreased	Rate of increment%
			A	*C*	*D=C-A*	*E=D/A × 100%*
1	Current assets	12,137.15	11,452.95	12,053.29	600.33	5.24
2	Non-current assets	5,382.49	5,380.95	9,461.91	4,080.96	75.84
3	Including: Available-for-sale financial assets	—	—	—	—	

4	Held-to-maturity investment	—	—	—	—	
5	Long-term receivable	—	—	—	—	
6	Long-term equity investment	—	—	—	—	
7	Investment property	—	—	—	—	
8	Fixed assets	4,750.86	4,750.86	7,334.50	2,583.65	54.38
9	Construction in progress	39.05	39.05	39.05	—	—
10	Construction material	—	—	—	—	
11	Disposal of fixed asset	3.32	—	—	—	
12	Biological assets	—	—	—	—	
13	Oil and natural gas	—	—	—	—	
14	Intangible assets	384.87	384.87	1,946.76	1,561.89	405.82
15	Research & development cost	—	—	—	—	
16	Goodwill	—	—	—	—	
17	Long-term prepayment	—	—	—	—	
18	Deferred tax assets	204.39	206.17	141.60	–64.57	–31.32
19	Other non-current assets	—	—	—	—	
20	**Total Assets**	**17519.64**	**16,833.90**	**21,515.20**	**4,681.29**	**27.81**
21	Current liabilities	4692.84187	4,485.16	4,485.16	—	—
22	Non-current liabilities	944.00	944.00	944.00	—	—
23	**Total Liabilities**	**5,636.84**	**5,429.16**	**5,429.16**	**—**	**—**
24	**Net Assets (Owners' Equity)**	**11,882.80**	**11,404.74**	**16,086.04**	**4,681.29**	41.05

(II) Valuation results based on income approach

Audited carrying amount of shareholders' equity in Shandong Zibo Xincat Pharmaceutical Company Limited amounted to RMB114,047,400, and appraised shareholders' total equity amounted to RMB222,200,300, representing an increment of RMB108,152,900 or an increment rate of 94.83%.

(III) Confirmation of the valuation results

According to the valuation results based on asset-based approach and the income approach, the result under the income approach is RMB61,339,900 higher than the result under the asset-based approach. The major reasons for the discrepancy between these two valuation methods are: asset-based approach takes the replacement cost of assets as the value standard, reflecting the social labor cost incurred by the asset input (purchase cost); while the valuation under the income approach uses the expected income of assets as the value standard, reflecting the degree of the output capability (profitability) of the assets. The differences between the two value standards result in the discrepency. According to the valuation results, the reason for the fact that valuation results under the income approach is higher than that under the asset-based approach is that, the asset-based approach does not take into account intangible assets, including trademarks, sales network, drug approval number, patent, goodwill which can not reflect future profitability and are not recorded in the accounts of the enterprise.

Based on comparison and analyses, we are of the view that the value under the income approach which takes into account the value of future operating period can reflect the value of owners' equity in Shandong Zibo Xincat Pharmaceutical Company Limited more comprehensively and reasonably and therefore have selected the valuation results based on income approach as final valuation results of the value of owners' equity in Shandong Zibo Xincat Pharmaceutical Company Limited. That is, as at 30 April 2013 (being the valuation base date), the market value of the shareholders' total equity in Shandong Zibo Xincat Pharmaceutical Company Limited amounted to RMB222,200,300.

XI. EXPLANATION OF SPECIAL ISSUES

(i) The report has been issued in an independent, fair, objective and scientific manner. Neither the company nor any of the officers participating in the valuation have any special interests in the principals or the appraised entity.

(ii) Valuation results of this report are formed on the basis of provision of necessary information by the principal and the appraised entity. We have conducted necessary inspections in respect of the legal ownership information and the sources of such information relating to the valuation object provided by the principal and the appraised entity and are obliged to disclose the results of the inspection. The principal and the appraised entity shall be responsible for the truthfulness, accuracy and completeness of the ownership information that lays the foundation of this report and shall assume corresponding responsibilities.

(iii) This valuation result is an objective and fair reflection of the enterprise asset value as at 30 April 2013 (being the valuation base date). The Company takes no responsibility for material changes in the enterprise asset value after the valuation base date. The valuation results shall not be directly adopted in the event of occurrence of significant event(s) after the valuation base date.

(iv) In the event of any change in asset quantity and price standards which brings obvious influence to the asset valuation results after the valuation base date while within the valid period of the valuation results, the principal shall appoint valuation agency to reconfirm the valuation amount in a timely manner; if the assets price adjustment method is simple and easily operated easy to operate, the principal can make corresponding adjustments when determining the actual price of the assets.

(v) The valuation results reflect the market value of shareholders' total equity in the appraised unit determined under the open market approach for the purpose of this valuation, without considering any potential impact of any security guarantee, contingent liabilities, pending litigation or any other litigation that may exist. No consideration is made to any possible additional price bid made by a special party to the transaction that may affect the value so assessed. Meanwhile, this report has taken no account of any charge in the State's macroeconomic policies and any occurrence of natural force incidents and other force majeure incident that may affect asset prices.

(vi) The result of this valuation is based on the relevant assumptions set out in this report and its elucidation. Such data will be subject to changes as a result of various market factors. We disclaim the responsibility for expressing opinions on market fluctuations, and we have no obligation for any variation to the valuation to reflect events after the date of this report. In case of changes in aforesaid conditions and various principles adopted in the valuation, the valuation results will generally be null and void.

(vii) The purpose of asset valuation conducted by the Certified Appraisers is to estimate the value of the valuation target and offer professional opinions and the Certified Appraisers do not assume the responsibilities for the decisions of the relevant parties. The valuation conclusions shall not be deemed as the guarantee for the realizable value of the valuation target.

(viii) This valuation was conducted on audit base. Audit report of the valuation base date is the major basis for this valuation.

(ix) Other special issues

1. Deposit of RMB4,300,000 of the Company with Zibo Branch of Shanghai Pudong Development Bank (上海浦東發展銀行淄博分行) was seized and frozen due to the co-financing dispute between Jinan Branch of Shanghai Pudong Development Bank Co. Ltd. (上海浦東發展銀行股份有限公司濟南分行) and Shandong Zibo Xincat Pharmaceutical Company Limited. Since Shandong Xin Kang Qi Pharmaceutical Co., Ltd. (山東欣康祺醫藥有限公司), one of the co-partner of the financing cooperation recorded material losses, and failed to make up for the security deposit for the acceptance bills issued by the bank, the case is now at trial stage. Since Shandong Xin Kang Qi Pharmaceutical Co., Ltd. (山東欣康祺醫藥有限公司) is involved and the case is complex, the time for closing of the case and the specific amount of losses cannot be determined accurately, therefore, users of this report please take note that the valuation results are based on the carrying amount for the time being.

2. The suit of Shandong Zibo Xincat Pharmaceutical Company Limited's trade receivables amounted to RMB3,944,227.27 payable by Shandong Xin Kang Qi Pharmaceutical Co., Ltd. (山東欣康祺醫藥有限公司) has been filed with People's Court of Hi-tech Development District of Zibo City (淄博市高新技術開發區人民法院) and property preservation has been applied for, so the Pharmaceutical Operation Permit (No.Lu AA5310011) of Shandong Xin Kang Qi Pharmaceutical Co., Ltd. (山東欣康祺醫藥有限公司) is seized, in view of which the Company has make a provision of RMB3,155,381.82 for bad debts. As at the date of this report, valuation personnel have obtained no conclusive evidence that such amount cannot be recovered. Therefore, users of this report please take note that the relevant payment receivables is in its carrying amount in this valuation and the valuation of provision for bad debts is nil.

3. Dong Jinling (董金陵), is stated as the registered owner in the property ownership certificate (No. Jing Fang Quan Zheng Chao Si 04 Zi: 15939) of apartment 503A, Building No.3, Jilijiayuan, Shaoyaoju No.20, Chaoyang District, Beijing (北京朝陽區芍藥居20號吉利家園3號樓503A). It is however confirmed by Shangdong Zibo Notary Office (山東省淄博市公證處) that Shandong Zibo Xincat Pharmaceutical Company Limited is the actual owner. Users of this report please take note that this valuation has not taken into account the influence of the circumstance mentioned above on the asset valuation.

4. Users of this report please take note that Shandong Xinhua Pharmaceutical Group Company Limited is the actual user of the loans of RMB 5,000,000 borrowed from Zibo Branch of Bank of Communication Co. Ltd. (交通銀行股份有限公司淄博分行) by Shandong Zibo Xincat Pharmaceutical Company Limited on 27 November 2012 for a term from 27 November 2012 to 26 November 2013 and of the loans of RMB15,000,000 borrowed from Zibo Zhangdian Branch of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司淄博市張店支行) on 26 March 2013 for a term from 26 March 2013 to 19 March 2014 by Shandong Zibo Xincat Pharmaceutical Company Limited and thus Shandong Xinhua Pharmaceutical Group Company Limited bears the relevant interests.

5. Contingencies: In the co-financing dispute where Jinan Branch of Shanghai Pudong Development Bank Co. Ltd. filed claim against Shandong Zibo Xincat Pharmaceutical Company Limited, since Shandong Xin Kang Qi Pharmaceutical Co., Ltd. (山東欣康祺醫藥有限公司), one of the co-partner of the financing cooperation recorded material losses, and failed to make up to Jinan Branch of Shanghai Pudong Development Bank (上海浦東發展銀行股份有限公司濟南分行) for the security deposit for the acceptance bills issued by the bank pursuant to the agreements, Jinan Branch of Shanghai Pudong Development Bank thus brought a suit against Shandong Zibo Xincat Pharmaceutical Company Limited at People's Court of Jinan Lixia District (濟南歷下區人民法院) on 30 January 2012, pursuant to which Shandong Zibo Xincat Pharmaceutical Company Limited is required to repay overdue outstanding security deposit of RMB3,990,271.88 and relevant interests of RMB69,829.76 for bank acceptance bills (No.20636119-20636134, with 29 December 2011 being the maturity date) amounted RMB8,000,000 issued by Shandong Xin Kang Qi Pharmaceutical Co., Ltd. (山東欣康祺醫藥有限公司) in June 2011. It is very likely that there will be apportionment of liability and Shandong Zibo Xincat Pharmaceutical Company Limited. estimates a possible sharing of losses of RMB3,440,000. In addition, as for the bank acceptance bills of RMB15,000,000 (among which RMB7,500,000 security deposit has been paid by Shandong Xin Kang Qi Pharmaceutical Co., Ltd. (山東欣康祺醫藥有限公司) and with 29 March 2012 being the maturity date) issued by Shandong Xin Kang Qi Pharmaceutical Co., Ltd. (山東欣康祺醫藥有限公司) dated 29 September 2011, Jinan Branch of Shanghai Pudong Development Bank (上海浦東發展銀行股份有限公司濟南分行) has not yet brought a suit to the court. However, as the circumstances are highly similar with the aforementioned case, it is estimated there might be apportionment of liability, in which Shandong Zibo Xincat Pharmaceutical Company Limited estimates a possible sharing of losses of RMB6,000,000. In respect of the two cases, Shandong Zibo Xincat Pharmaceutical Company Limited has made a provision of RMB9,440,000. As the case is at trial stage and is complex, closing time for the case and the amount of losses have not been determined, valuation results based on the cost approach are temporarily in carrying amounts.

6. As at the valuation base date, Shandong Zibo Xincat Pharmaceutical Company Limited was subject to an enterprise income tax rate of 15%. The Company obtained Certificate for Hi-tech Enterprise (《高新技術企業証書》) (No. GF201137000045) as approved by Department of Science and Technology of Shandong Province (山東省科學技術廳), Department of Finance of Shandong Province (山東省財政廳), Shandong Provincial Office of the State Administration of Taxation (山東省國家稅務局) and Shandong Local Taxation Bureau (山東省地方稅務局) on 31 October 2011 with a valid term to 2013. It is assumed that the Company will not be identified as hi-tech enterprise and will pay income tax at a rate of 25% as normal enterprises upon the termination of the preferential tax period.

7. This report consists of attached lists, appendixes and certain documents available for inspection, which constitute an important part of this report and have the same legal effects as the main text of this report.

To sum up, this valuation takes no account of the influences of the special issues mentioned above on the asset valuation, users of the valuation report please take note of the impacts of the above special issues on the valuation results.

XII. LIMITATIONS ON THE USE OF THE VALUATION REPORT

(i) This report shall only be used for the principal's economic behaviour corresponding to the purpose of valuation and delivery to the competent administrative department for examination; the principal shall reserve the right to use this report.

(ii) This report shall only be used by the users as specified herein.

(iii) The principal shall not publish all or part of this report to any public media without the consent of the company; the company shall not assume any legal liability for any result due to improper use of the conclusions for any other economic behaviour.

(iv) Pursuant to relevant requirements of the PRC, this valuation conclusion shall be valid for a term of one year, i.e., from 30 April 2013 (being the valuation base date) to 29 April 2014.

XIII. PRESENTATION DATE OF THE VALUATION REPORT

The valuation report was presented on 20 July 2013.

Asset Valuation Institution:
Beijing Pan-China Assets Appraisal Co. Ltd.
Legal representative: **Sun Jianmin** (孫建民)
Registered Appraiser: **Zhang Yingli** (張迎黎)
Registered Appraiser: **Sun Shengnan** (孫勝男)
20 July 2013

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the total number of issued shares of the Company was 457,312,830 comprising, 307,312,830 A shares listed on the Shenzhen Stock Exchange and 150,000,000 H shares listed on the Stock Exchange.

3. DISCLOSURE OF INTEREST

As at the Latest Practicable Date, the following senior officer hold shares in the Company:-

Name	Number of A Shares	Percentage of the total issued share capital of the Company *(%)*
Senior Officer:		
Mr. Cao Changqiu	961	0.00021

Save as disclosed above, as at the Latest Practicable Date:-

(a) none of the Directors, Supervisors and chief executive of the Company was interested in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange;

(b) none of the Directors or Supervisors of the Company was materially interested in any contract or arrangement subsisting at the date of this circular, and which was significant in relation to the business of the Group;

(c) none of the Directors, Supervisors of the Company or the expert referred to in paragraph 6 below had any direct or indirect interest in any assets which had since 31 December 2012, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and

(d) none of the Directors or their respective associates had any interest in any company or business which competes or may compete with the businesses of the Group.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the persons, other than a Director or chief executive of the Company, who had an interest or a short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

No.	Name of Shareholder	Class of shares	Number of shares held	Percentage of the total issued share capital *(%)*
1.	SXPGC	State-owned A Shares	166,115,720	36.32
2.	HKSCC (Nominees) Limited	Listed H Shares	148,451,998	32.46

SXPGC is a wholly-state owned company. Mr. Zhang Daiming is the chairman of the Company is also the chairman of SXPGC. Mr. Ren Fulong being a director of the Company is also a director and a general manager of SXPGC. Mr. Xu Lie being a director of the Company is also a director SXPGC.

Save as disclosed above, the Directors and chief executive of the Company are not aware that there is any party who, as at the Latest Practicable Date, had an interest or a short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, the date to which the latest audited financial statements of the Group were made up.

6. CONSENTS OF EXPERT

The following expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears:

Names	Qualifications
Cinda International	a licensed corporation to carry out type 1 and type 6 regulated activities under the SFO

To the best knowledge of the Directors, as at the Latest Practicable Date, the expert referred to above did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

To the best knowledge of the Directors, as at the Latest Practicable Date, the expert referred to above did not have any direct or indirect interest in any asset which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2012, being the date to which the latest published audited financial statements of the Company were made up.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors and Supervisors has entered into, or proposed to enter into, a service contract with the Company or any member of the Group which does not expire or is not terminable within one year without payment of compensation, other than statutory compensation.

8. MATERIAL INTEREST

As at the Latest Practicable Date, none of the Directors was materially interested in the discloseable and connected transaction under the Xincat Pharmaceutical Acquisition.

As at the Latest Practicable Date, none of the Company, its holding company and the fellow subsidiaries of the controlling company of its controlling shareholder have entered into any contracts in relation to the Group's business in which any Directors or Supervisors had a material interest, whether directly or indirectly.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or was proposed to be acquired or disposed of by, or leased to, any member of the Group.

9. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder).

10. VOTE BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of Shareholders of the Company at the EGM shall be taken by poll.

11. MISCELLANEOUS

(a) The share registrar of the Company in Hong Kong is Hong Kong Registrar Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(b) In the case of any discrepancy, the Chinese text of this circular shall prevail over the English text.

12. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Charltons being the Hong Kong legal advisers to the Company, at 12th Floor, Dominion Centre, 43-59 Queen's Road East, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the EGM:

(a) the tender notice put up at Shandong Property Right Exchange Center in relation to the Relevant Equity Interest;

(b) the proposed Acquisition Agreement;

(c) the Audited reports of Xincat Pharmaceutical Acquisition;

(d) the valuation report in relation to Xincat Pharmaceutical;

(e) the letter of recommendation from the Independent Board Committee of the Company to the Independent Shareholders as set out in this circular;

(f) the letter of advice from Cinda International as set out in this circular; and

(g) the written consent from Cinda International referred to in paragraph 6 of this appendix.