



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

( H Share Stock Code : 0719 ) ( A Share Stock Code : 000756 )



**2013** Interim Report

Chapter	Content	Page
I.	Company Information .....	2
II.	Summary of Financial and Operating Results .....	3
III.	Changes in Share Capital and Information on Shareholders .....	7
IV.	Directors, Supervisors, Senior Officers and Staff .....	11
V.	Chairman's Statement .....	13
VI.	Management Discussion and Analysis .....	16
VII.	Review of Major Events .....	21
VIII.	Corporate Governance .....	23
IX.	Financial Report (Prepared under PRC Accounting Standards) .....	24
X.	Financial Report (Prepared under Hong Kong Generally Accepted Accounting Principles) . . . .	109
XI.	Documents for Inspection and Place for Inspection .....	128

**Important:**

The board of directors ("Board") and the directors ("Directors") of Shandong Xinhua Pharmaceutical Company Limited hereby confirm that there are no false representations, misleading statements or material omissions contained in this interim report ("Report") and they, jointly and severally, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this Report. The financial report of the Company and its subsidiaries (collectively referred to as "Group") for the six months ended 30 June 2013 (the "Reporting Period") has not been audited.

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

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

## Company Information

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

## Summary of Financial and Operating Results

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

Item	As at 30 June 2013 (Unaudited)	As at 31 December 2012 (The "End of Last Year") (Audited)	Change as compared to the End of Last Year (%)
Total assets	3,625,856,788.80	3,628,270,364.03	(0.07)
Total equity attributable to equity holders of Company	1,703,391,898.29	1,737,287,914.32	(1.95)
Capital	457,312,830.00	457,312,830.00	—
Net assets per share attributable to equity holders of Company	3.72	3.80	(2.11)
Asset-Liability ratio (%)	51.90	51.02	Increase 0.88 points
Item	Six months ended 30 June 2013 (Unaudited)	Six months ended 30 June 2012 (the "Same Period Last Year") (Unaudited)	Change as compared to the Same Period Last Year (%)
Total operating income	1,617,134,270.43	1,537,930,023.23	5.15
Operating profit	(13,046,260.32)	25,524,759.04	(151.11)
Profit before taxation	9,280,671.77	40,002,473.65	(76.80)
Profit attributable to the equity holders of Company	4,987,774.39	31,195,182.82	(84.01)
Profit attributable to the equity holders of Company after extraordinary items (Note)	(16,444,797.62)	18,012,640.74	(191.30)
Basic earnings per share	0.01	0.07	(85.71)
Diluted earnings per share	0.01	0.07	(85.71)
Basic earnings per share after extraordinary loss	(0.04)	0.04	(200.00)
Return on equity of weighted average (%)	0.29	1.81	Decrease 1.52 points
Fully diluted return on equity (%)	0.29	1.79	Decrease 1.50 points
Return on equity of weighted average after extraordinary loss (%)	(0.95)	1.04	Decrease 1.99 points
Fully diluted return on equity after extraordinary loss (%)	(0.95)	1.03	Decrease 2.00 points
Net cash flow from operating activities	5,378,264.18	(42,186,834.32)	112.75
Net cash flow from operating activities per share	0.01	(0.09)	111.11

## Summary of Financial and Operating Results

Note:

Extraordinary items include:

<b>Item</b>	<b>Amount (RMB)</b>	<b>Notes (if applicable)</b>
Profit or loss from disposal of non-current assets	(119,826.73)	Loss of disposal of fixed assets
Government subsidies recognised in current profit and loss, (excluding those closely related to the Company's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume)	23,798,900.08	Received government subsidies reckoned into current term
Gains (losses) from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's normal operations	174,625.00	Dividends from available-for-sale financial assets
Other non-operating income or cost except the above items	(1,352,141.26)	—
Non-controlling interests	12,900.22	—
Income tax expense	(1,081,885.30)	—
<b>Total</b>	<b>21,432,572.01</b>	—

Unit: RMB

### Items by fair value

<b>Items</b>	<b>Amount as at 1 January 2013</b>	<b>Change of fair value</b>	<b>Total change of fair value</b>	<b>Provision impairment</b>	<b>Amount as at 30 June 2013</b>
Financial assets:					
Include: 1. Financial assets by fair value and its change is included into profit and loss	—	—	—	—	—
Include: Derivative financial assets	—	—	—	—	—
2. Available-for-sale financial assets	156,302,848.00	—	91,876,826.00	—	116,302,144.00
Total of financial assets	156,302,848.00	—	91,876,826.00	—	116,302,144.00
Financial liabilities	—	—	—	—	—
Investment property	—	—	—	—	—
Biological assets	—	—	—	—	—
Others	—	—	—	—	—
<b>Total</b>	<b>156,302,848.00</b>	<b>—</b>	<b>91,876,826.00</b>	<b>—</b>	<b>116,302,144.00</b>

## Summary of Financial and Operating Results

Unit: RMB

### Other Comprehensive income Items

Items	Six months ended 30 June 2013	Six months ended 30 June 2012
1. The amount of profits (losses) on financial assets available for sale	(40,000,704.00)	16,208,100.71
Less: tax by financial assets available for sale	(6,000,105.60)	2,431,215.11
Net profit or loss transferred from previously recognized in other comprehensive income	—	—
Subtotal	(34,000,598.40)	13,776,885.60
2. Exchange difference arising from transaction of financial statements denominated in foreign currencies	(421,401.36)	(458,217.78)
Less: net profit or loss transferred from foreign operation is disposed current	—	—
Subtotal	(421,401.36)	(458,217.78)
Total	(34,421,999.76)	13,318,667.82

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

### Condensed Consolidated Income Statement

Item	Six months ended 30 June 2013 (Unaudited)	Six months ended 30 June 2012 (Unaudited)
Revenue	1,600,002	1,525,008
Profit before taxation	8,719	39,087
Income tax expense	(3,086)	(6,831)
Profit for the period	5,633	32,256
Includes:		
Profit attributable to owners of the Company	4,510	30,416
Non-controlling interests	1,123	1,840

### Condensed Consolidated Statement of Financial Position

Item	As at 30 June 2013 (Unaudited)	As at 31 December 2012 (Audited)
Total assets	3,636,675	3,639,490
Total liabilities	(1,886,246)	(1,855,699)
Non-controlling interests	(40,713)	(39,701)
Equity attributable to owners of the Company	1,709,716	1,744,090

## Summary of Financial and Operating Results

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

Item	Profit attributable to the equity holders of Company		Total equity attributable to equity holders of Company	
	the Reporting Period	Same Period Last Year	As at 30 June 2013	As at 1 January 2013
Prepared under PRC accounting standards	<b>4,987,774.39</b>	31,195,182.82	<b>1,703,391,898.29</b>	1,737,287,914.32
HKGAAP adjustments:				
Provision for education fund	<b>(562,000.00)</b>	(916,000.00)	<b>7,439,000.00</b>	8,002,000.00
Deferred taxation	<b>84,225.61</b>	136,817.18	<b>(1,114,898.29)</b>	(1,199,914.32)
Total of the difference between the PRC accounting standards and HKGAAP	<b>(477,774.39)</b>	(779,182.82)	<b>6,324,101.71</b>	6,802,085.68
Prepared under HKGAAP	<b>4,510,000.00</b>	30,416,000.00	<b>1,709,716,000.00</b>	1,744,090,000.00

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

1. Education fees are set out as per the actual expenses, without the need of provision under HKGAAP. As at 30 June 2013 provision made for the balance of education fees under the PRC accounting standards was RMB7,439,000 with an amount in education fees of RMB562,000 for this period.
2. Education fees also led to the difference in the Company's deferred income tax, with the difference in accumulated deferred income tax of RMB1,114,898.29 and that in deferred income tax of the current period of RMB84,225.61.

## Changes in Share Capital and Information on Shareholders

1. Share Capital structure

Class of shares	30 Jun 2013		1 Jan 2013	
	Number of shares (Share)	% of the total share capital	Number of shares (Share)	% of the total share capital
1. Total number of conditional tradable shares	961	0	961	0
Stated-owned shares	0	0	0	0
Domestic legal person shares	0	0	0	0
Conditional tradable senior management A Shares	961	0	961	0
Others	0	0	0	0
2. Total number of unconditional tradable shares	457,311,869	100.00%	457,311,869	100.00%
Renminbi ordinary shares (A Shares)	307,311,869	67.20%	307,311,869	67.20%
Overseas listed foreign shares (H shares)	150,000,000	32.80%	150,000,000	32.80%
3. Total number of shares	457,312,830	100.00%	457,312,830	100.00%

2. As at 30 June 2013, the Company had on record a total of 38,266 shareholders, including 58 holders of H Shares and 38,208 holders of A Shares.

## Changes in Share Capital and Information on Shareholders

3. As at 30 June 2013, the ten largest shareholders of the Company were as follows:

Name of Shareholder	Types of shareholders	Number of shares held (Share)	Proportion of the total share capital (%)	Number of conditional tradable shares held (Share)	Number of shares being charged or frozen (Share)
Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC")	State-owned shareholder, A shares	166,115,720	36.32	0	0
HKSCC (Nominees) Limited	Listed H shares	148,027,998	32.37	0	0
Qingdao Haowei Investment Development Company Limited	Domestic general legal person shares	9,386,851	2.05	0	9,380,000
Zhou Jichang	Domestic person	1,364,451	0.30	0	0
Chen Yugui	Domestic person	1,184,300	0.26	0	0
Wang Guohua	Domestic person	641,298	0.14	0	0
Liu Shida	Domestic person	616,000	0.13	0	0
Zhang Linlin	Domestic person	600,000	0.13	0	0
Zheng Huidan	Domestic person	499,990	0.11	0	0
WANG ZHIHAI	Listed H shares	456,000	0.10	0	0

## Changes in Share Capital and Information on Shareholders

4. As at 30 June 2013, the ten largest shareholders of the unconditional tradable shares of the Company were as follows:

Name of Shareholder	Number of unconditional listed shares (Share)	Class of shares
SXPGC	166,115,720	A Shares
HKSCC (Nominees) Limited	148,027,998	H Shares
Qingdao Haowei Investment Development Company Limited	9,386,851	A Shares
Zhou Jichang	1,364,451	A Shares
Chen Yugui	1,184,300	A Shares
Wang Guohua	641,298	A Shares
Liu Shida	616,000	A Shares
Zhang Linlin	600,000	A Shares
Zheng Huidan	499,990	A Shares
WANG ZHIHAI	456,000	H Shares

Note:

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

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

2. *The only domestic shareholder with more than 5% of the total issued shares of the Company is SXPGC.*
3. *Shareholders participating in securities margin trading: Zhou Jichang held an aggregate of 1,364,451 shares of the Company, of which 1,286,351 shares was held through credit margin securities account and 78,100 shares was held through ordinary securities trading account.*
4. *There was no change of controlling shareholder of the Company during this Reporting Period.*
5. *Save as disclosed above and so far as the Directors are aware, as at 30 June 2013, no other person (other than the Directors, supervisors of the Company (the "Supervisors"), chief executives or members of senior management of the Company (the "Senior Officers")) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules")) of the Company.*

## Changes in Share Capital and Information on Shareholders

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

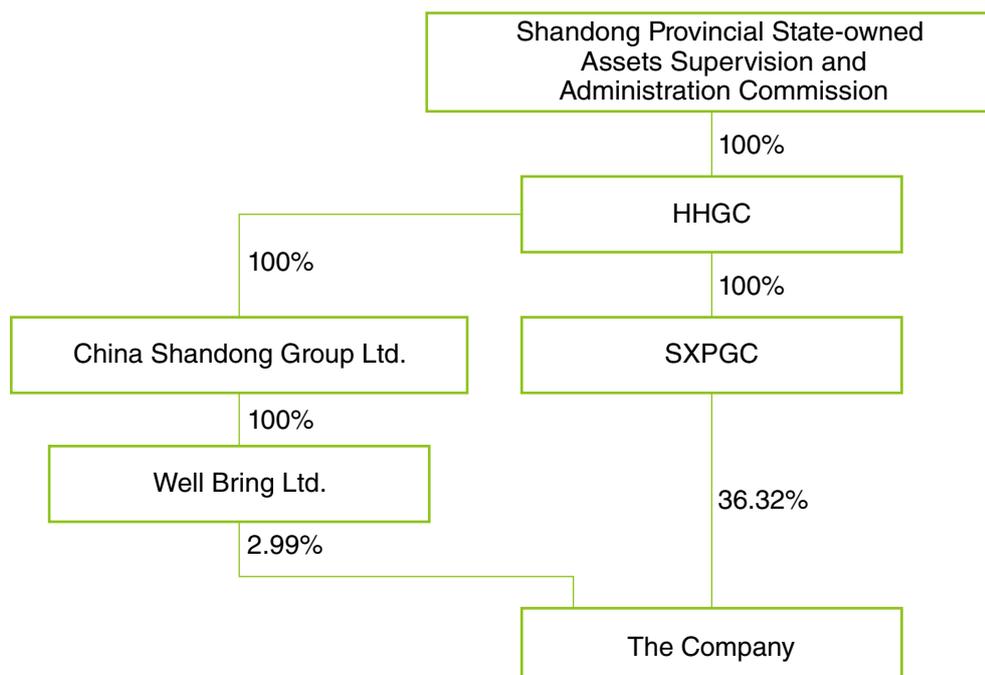
(1) During this Reporting Period, there were no change of controlling shareholder and ultimate controller.

(2) Information about the controlling shareholder and ultimate controller

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

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

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



## Directors, Supervisors, Senior Officers and Staff

As at 30 June 2013, the number of shares held by the Directors, Supervisors and the Senior Officers were as follows:

Name	Position	As at 1 January 2013 Number of Shares	As at Change Number of Shares	<b>30 June 2013 Number of Shares</b>
Directors:				
Mr. Zhang Daiming	Chairman	Nil	Nil	<b>Nil</b>
Mr. Ren Fulong	Non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Du Deping	Executive Director, General Manager	Nil	Nil	<b>Nil</b>
Mr. Zhao Songguo	Executive Director, Deputy General Manager & Financial Controller	Nil	Nil	<b>Nil</b>
Mr. Xu Lie	Non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Zhao Bin	Non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Zhu Baoquan	Independent non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Bai Huiling	Independent non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Kwong Chi Kit, Victor	Independent non-executive Director	Nil	Nil	<b>Nil</b>
Supervisors:				
Mr. Li Tianzhong	Chairman of Supervisory Committee	Nil	Nil	<b>Nil</b>
Mr. Zhang Yueshun	Independent Supervisor	Nil	Nil	<b>Nil</b>
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil	<b>Nil</b>
Ms. Hu Yanhua	Employee Supervisor	Nil	Nil	<b>Nil</b>
Senior Officers:				
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil	<b>Nil</b>
Mr. Du Deqing	Deputy General Manager	Nil	Nil	<b>Nil</b>
Mr. He Tongqing	Deputy General Manager	Nil	Nil	<b>Nil</b>
Mr. Cao Changqiu	Company Secretary	1,281	Nil	<b>1,281</b>
Ms. Guo Lei	Company Secretary	Nil	Nil	<b>Nil</b>
Total		1,281	Nil	<b>1,281</b>

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

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

So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2013, no Director, Senior Officer or Supervisor had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Officer or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

## Directors, Supervisors, Senior Officers and Staff

### CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

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

#### Position in shareholder company

Name	Name of shareholder	Office	Start date	Termination date	Remuneration from shareholder company
Mr. Zhang Daiming	SXPGC	Chairman	6 July 2010	—	No
Mr. Ren Fulong	SXPGC	Director, general manager	6 July 2010	—	No
Mr. Xu Lie	SXPGC	Director	13 January 2011	—	No
Mr. Li Tianzhong	SXPGC	Deputy general manager	16 October 2009	—	No

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

Decision-making process for remuneration of Directors, Supervisors and Senior Officers	The remuneration of Directors and Supervisors was submitted to the general meeting of the Company for consideration and approval by the Board, the remuneration of Senior Officers was considered and approved by the Board.
Basis for determining the remuneration of Directors, Supervisors and Senior Officers	The remuneration of Directors, Supervisors and Senior Officers was determined with reference to State policies, the Company's profit realised in the corresponding period, individual achievement and the average income of local residents.
Payment of Directors, Supervisors and Senior Officers' remuneration	A payment of RMB1,118,633 was made during this Reporting Period.

#### Staff information (as at 30 June 2013)

Number of staff	5,904
Number of retired staff whose costs were borne by the Company	0

#### Professional constitution

Classes of professional constitution	Number of Professionals
Production staff	3,771
Sales staff	991
Technology staff	582
Finance staff	96
Administration staff	464

#### Academic qualification attained

Classes of academic qualification attained	Number
Senior high schools or below	3,380
Tertiary institutions	1,676
Undergraduate	728
Master	112
Doctor	8

Dear shareholders,

I am pleased to report the operating results of the Company for the six months ended 30 June 2013.

For the six months ended 30 June 2013, pursuant to the PRC accounting standards, the operating income of the Group was RMB1,617,134,000 and net profit attributable to equity holders of the Company was RMB4,988,000, representing an increase of 5.15% and a decrease of 84.01% respectively, as compared to that of the Same Period Last Year.

The Group had a turnover of RMB1,600,002,000 and profit attributable to owners of the Company of RMB4,510,000 for the six months ended 30 June 2013 under HKGAAP, representing an increase of 4.92% and a decrease of 85.17% respectively, as compared with that of the Same Period Last Year.

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2013.

### BUSINESS REVIEW

In the first half of 2013, when faced with various difficulties such as 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, as well as the 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, the Group actively took measures to expand sales, reduce non-production expenses, strengthen research and development and accelerate the construction of relocation projects. In the first half of 2013, the Group realized a minor increase in indicators such as sales revenue and exports earnings on a year-on-year basis; however, the Group's profit witnessed a significant decline. The major business review is set out below.

#### 1. Actively explored markets and expanded sales scale

During the first half of 2013, the Group actively explored the domestic and international markets and made efforts to expand the scale of operations, achieving a 5.15% year-on-year increase in operating income. The Group took a differentiated marketing approach to focus on preparation products, endeavored to develop untapped terminals and enhanced market cultivation, recording a 47.2% year-on-year increase in the sales income of new key preparation products, 0.26% year-on-year increase in export earnings, which amounted to US\$94,614,000, and 90% year-on-year increase in preparation products exports, which amounted to RMB53,000,000.

#### 2. Applied scientific and technological innovation and consolidated development potential

During the first half of 2013, the Group adhered to technological innovation, improving efficiency in the use of materials and saving RMB1,720,000 in respect of raw materials.

The Group carried out in-depth energy saving and emission reduction activities, and implemented 18 energy saving projects, which led to a year-on-year 0.75% decrease in the energy consumption per RMB10,000 production value in the first half of 2013.

The Group attached great importance to product quality management. During the first half of 2013, the Group accomplished 9 breakthrough projects in respect of quality and technology, and successfully passed the examinations of three international official bodies including EDQM and 60 quality audits by manufacturers both from home and abroad.

During the first half of the year, the Group accelerated the strategic reserve of new products. 6 bulk pharmaceuticals have completed pilot scale testing (or qualified for full production), and 7 bulk pharmaceuticals have completed pre-pilot scale testing. Production testing of 6 preparation products has been completed or nearly completed, and pre-pilot testing of 6 preparation products has been completed.

During the first half of the year, the Company was granted 5 invention patents and 3 new utility model patent.

### **3. Accelerating construction of the relocation project and improving the product mix**

By leveraging the opportunity of product relocation at the old factory, we endeavored to fulfill product mix adjustment and industrial upgrade through intense technological renovation and application of the "four new energy-saving technologies", facilitated the industrialization of several new products developed in recent years and fostered new profit drivers.

The commissioning of salicylic acid and aspirin as well as the multi-functional industrialization center all achieved success at the first attempt, and such products and projects also passed the GMP certification and relevant international certifications. The principal part of the relocation project for the analgin series product was completed, and the installation of relevant equipment is close to completion. New techniques and technologies have been utilized, which would help boost the market competitiveness of products.

## **MAJOR WORKS FOR THE SECOND HALF OF THE YEAR 2013**

Various unfavorable factors that affect corporate development still persist in the second half of 2013, and the Company also faces great pressure on capital as it is currently in the critical stage of relocation. As such, in the second half of 2013, the Group will continue to step up market development and sales of products, actively proceed with the relocation of products, accelerate research and development, improve the management of business fundamentals, and unswervingly strengthen team building.

### **1. Firmly focus on operation**

The Company will further enhance the strategic cooperation partnership with its clients, design new marketing models, fully step up the development and maintenance of the markets for economically viable products, practically press ahead with market expansion and distribution of strategic products, and put additional efforts in marketing and the promotion of featured products.

The Company will make full preparation for tenders for preparation products at all the related regions, proactively supplement the catalogues of basic drugs at provincial levels, and practically strengthen the building of marketing teams.

The Company will step up cooperation with strategic suppliers, actively implement the purchase model of "factory-to-factory direct supply", find new suppliers, continue to reduce exclusive supply of raw materials, and lower the purchase cost.

### 2. Place emphasis on the relocation of products and production

The second half of 2013 is a critical stage for the relocation of products, and the Company will safeguard the smooth relocation of the analgin series products, and strive for a successful production at the first attempt. The Company will proactively proceed with the change of the production license for Hutian Park, and make full preparation for the on-site inspection and certification of a number of products, including the relocation project.

The Company will push for fundraising, ensure the supply of raw materials and power for key products by closely studying and leveraging relevant policies, adjust its marketing tactics in accordance with changes in costs and in the market, and properly organize its production.

### 3. Accelerate research and development progress and highlight technological breakthroughs

The Company will speed up the research and development progress to complete the research and development as well as on-site inspection over the production of 6 new medicines and 2 health care products; strive to complete the pilot scale testing of 9 new medicines, lab research of 8 new medicines, and manufacturing and technical upgrade of the clinical samples of 3 products; and aggressively push forward the trial production of 4 new preparation products.

The Company will actively carry out technological breakthroughs by concentrating on the technological and quality breakthrough targets set at the beginning of the year, accelerate the application of technological achievements, improve quality, lower costs and enhance the market competitiveness of its products.

### 4. Focus on improving management of the business fundamentals to ensure healthy production and operation

We will strengthen efforts in energy saving and emission reduction through implementing a series of measures in respect of energy-saving and environmental protection with a focus on point source control. We will endeavor to make technological breakthroughs for our products, to enhance product quality and reduce energy consumptions, with a view to minimize the impact of adverse factors on the performance of the Company. With regard to expenses control and budget management, we will implement a centralized capital management system to enhance risk control.

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

30 July 2013  
Zibo, Shandong, PRC

## Management Discussion and Analysis

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

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

As at 30 June 2013, the liquidity ratio of the Group was 126.95%, the quick ratio was 83.07%, the turnover ratio of account receivables was 387.39% (turnover ratio of account receivables = turnover / average account receivables and net value of bills x 100%) and the turnover ratio of inventory was 297.53% (inventory turnover ratio = cost of sales / average net value of inventory x 100%).

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

The main sources of funds for the Group were loans from financial institutions and funds provided by the ultimate holding company of the Company. As at 30 June 2013, the total amount of bank loans was RMB450,731,000, which were floating rate loans based on Hong Kong inter-bank offered rates or rates issued by the People's Bank of China, and the total amount of loans from the ultimate holding company was RMB693,250,000. As at 30 June 2013, cash on hand and in bank amounted to RMB213,385,000 (including bank acceptance drafts deposits of RMB59,820,000).

As of 30 June 2013, the Group charged the land use rights in Hutianzhen, Zhangdian, to a bank for loans. The book value of the land use rights is RMB67,371,000. There was no charge on the Group's assets except the above charged assets.

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

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

As at 30 June 2013, the number of employees of the Group was 5,904. The total salaries for employees in the first half of 2013 amounted to RMB116,962,000.

The main investment projects in the second half of 2013 will be Hutian Park project and Shouguang Park project.

As at 30 June 2013, the capital debt ratio of the Group was 66.91% (capital debt ratio = total borrowings / equity attributable to owners of the Company x 100%).

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

The assets and debts of the Group were denominated in RMB. However, the Group achieved USD94,641,000 in its export for the first half of 2013. Therefore, there was a greater impact from foreign exchange. The Group adopted the following measures to minimise the foreign exchange fluctuation risk: (1) raising the export price in order to minimise foreign exchange fluctuation risk; and (2) when the Group enters into larger export contracts, the Group will seek the prior agreement of the purchaser that both parties shall jointly bear the foreign exchange fluctuation risk should the foreign exchange fluctuation exceed the contractual limit as agreed by both parties.

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

Key indicators as follows:

Item	Jan.-Jun. 2013	Jan.-Jun. 2012	Increase (%)
Operating income	<b>1,617,134,270.43</b>	1,537,930,023.23	5.15
Operating costs	<b>1,363,733,658.96</b>	1,264,175,647.52	7.88
Period expenses	<b>257,687,289.86</b>	244,177,880.50	5.53
R & D investment	<b>36,063,079.25</b>	47,327,000.00	(23.80)
Net cash flow from operating activities	<b>5,378,264.18</b>	(42,186,834.32)	112.75

The main reason for the increase in net cash flow from operating activities was the Company received government financial subsidies.

In the first half of 2013, the Group's operating income was RMB1,617,134,000, representing an increase of 5.15% as compared to the Same Period Last Year. The increase in operating income was mainly attributable to the increase in marketing, leading to a rise in the sales of certain products. The net decrease in cash and cash equivalents was RMB221,979,000, while there was a net increase of RMB101,099,000 in the Same Period Last Year. The main reason for the change was due to the decrease in net cash flow of RMB373,993,000 from fundraising activities as compared to the Same Period Last Year. Operating loss amounted to RMB13,046,000, whereas there was an operating profit of RMB25,525,000 in the Same Period Last Year. The main reasons for the decrease include the formation of fixed assets in the new park area which resulted in an increase in depreciation charges, an increase in costs caused by the fluctuating raw material and power consumption during the initial production stage of production lines, an increase in management costs as more resources have been allocated to environmental protection, a foreign exchange loss caused by the appreciation of the RMB, an increase in financial expenses due to increased borrowings and an increase in expenses caused by increased investment in the research and development of new products.

The total assets of the Group as at 30 June 2013 amounted to RMB3,625,857,000, representing a decrease of RMB2,413,000 or 0.07% as compared to that of RMB3,628,270,000 as at the beginning of this year. The decrease was mainly due to a decrease of cash and cash equivalents during the Reporting Period. The Group's loan amount as at 30 June 2013 was RMB1,143,982,000, representing a decrease of RMB67,035,000 from RMB1,211,017,000 at the beginning of this year. This decrease was mainly attributable to the repayment of some bank loans during the Reporting Period. The total equity attributable to equity holders of the Company as at 30 June 2013 was RMB1,703,392,000, representing a decrease of RMB33,896,000 or 1.95% from RMB1,737,288,000 at the beginning of this year. The decrease was mainly attributable to a decrease of Available-for-sale financial assets fair value during the Reporting Period, leading to a temporary drop in the capital reserve of the Company.

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

- (1) The total registered capital of Shandong Xinhua Medical Trade Company Limited, a wholly-owned subsidiary of the Company, is RMB48,499,000. This subsidiary is mainly engaged in the business of biological products, prepared herbal medicine for decoction, traditional Chinese medicine, pharmaceutical raw materials, preparations, antibiotic preparations biochemical medicine, health food, medical appliances, drugs and products for birth control and cosmetics etc.. As at 30 June 2013, the total assets of the subsidiary were approximately RMB297,484,000, equity attributable to shareholders of the subsidiary was approximately RMB-1,165,000. In the first half of 2013, the operating income of the subsidiary was approximately RMB555,626,000, representing a decrease of 3.23% as compared with that of the Same Period Last Year. The net profit of the subsidiary was approximately RMB7,117,000, representing an increase of approximately RMB16,398,000 as compared with that of the Same Period Last Year.
- (2) The registered capital of Shandong Xinhua Pharmaceutical (Europe) GmbH is EUR769,000 and the Company holds 65% of its equity interest. This subsidiary is mainly engaged in the business of bulk pharmaceutical and intermediates. As at 30 June 2013, the total assets of the subsidiary were approximately RMB43,452,000, and the equity attributable to shareholders of the subsidiary was approximately RMB14,581,000. In the first half of 2013, the operating income was approximately RMB41,008,000, representing an increase of 13.50% as compared with that of last year. The net profit of the subsidiary was approximately RMB1,812,000, representing an increase of approximately RMB728,000 as compared with that of the Same Period Last Year.
- (3) The total registered capital of Zibo Xinhua-Eastwest Pharmaceutical Company Limited is US\$1,500,000, and the Company holds 75% of its equity interest. This subsidiary is mainly engaged in producing and selling calcium polycarbophil bulk pharmaceutical products. As at 30 June 2013, the total assets of the subsidiary were approximately RMB14,640,000, equity attributable to shareholders of the subsidiary was approximately RMB13,843,000. In the first half of 2013, the operating income was approximately RMB6,006,000, representing an increase of 5.52% as compared with that of last year. The net profit of the subsidiary was approximately RMB964,000, representing an increase of approximately RMB1,060,000 as compared with that of the Same Period Last Year.
- (4) The registered capital of Shandong Xinhua Pharmaceutical Import and Export Company Limited is RMB5,000,000, and the Company holds 100% of its equity interest. This subsidiary is mainly engaged in the import and export of goods and technologies, marketing and re-exports. As at 30 June 2013, the total assets of the subsidiary were approximately RMB21,796,000, and the equity attributable to shareholders of the subsidiary was approximately RMB14,339,000. In the first half of 2013, the operating income was approximately RMB38,187,000, representing an increase of 4.75% as compared with that of last year. The net profit of the subsidiary was approximately RMB1,930,000, representing an increase of approximately RMB613,000 as compared with that of the Same Period Last Year.
- (5) The registered capital of Shandong Zibo XinCat Pharmaceutical Company Limited is RMB84,930,000, and the Company holds 20% of its equity interest. This company is mainly engaged in producing and selling preparation products. As at 30 June 2013, the total assets of the company were approximately RMB160,267,000, and the equity attributable to shareholders of the subsidiary was approximately RMB105,638,000. In the first half of 2013, the operating income was approximately RMB124,591,000, representing a decrease of 16.99% as compared with that of last year. The net profit of the subsidiary was approximately RMB7,476,000, representing a decrease of approximately RMB1,075,000 as compared with that of the Same Period Last Year.

## Management Discussion and Analysis

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

By geographical location of customers	First half of 2013		First half of 2012	
	Total turnover	Costs	Total turnover	Costs
PRC (incl. Hong Kong)	949,671	783,290	911,697	733,860
Europe	249,676	199,817	249,443	220,276
Americas	291,165	262,985	256,616	199,318
Others	109,490	97,973	98,985	86,118
Total	<b>1,600,002</b>	<b>1,344,065</b>	1,516,741	1,239,572

By industry and By product	Income from principal operations	Costs of sales of principal operations	Gross profit margin (%)
Bulk pharmaceutical Preparations	781,092	657,492	15.82
Medical commercial logistics	303,471	180,951	40.37
Chemical products and other products	411,502	392,093	4.72
Total	<b>1,600,002</b>	<b>1,344,065</b>	<b>16.00</b>

An analysis of profit as compared to 2012 is as follows:

Items	Amount (RMB'000)		% of total profit	
	Jan.–Jun. 2013	2012	Jan.–Jun. 2013	2012
Operating profit	(13,046)	(18,705)	(140.57)	(53.47)
Net profit/loss from non-operation activities	22,327	53,686	240.57	153.47
Profit before taxation	9,281	34,981	100.00	100.00

## Management Discussion and Analysis

### 3. USE OF PROCEEDS

On 3 September 2001, the Company raised an amount of RMB370,517,000 from the public offer and issue of 33,000,000 A Shares (including the sale of 3,000,000 State-owned shares). As at 30 June 2013, RMB363,830,000 were used in the following projects:

Name of project	Planned investment (RMB'000)	Actual investment Jan.–Jun. 2013 (RMB'000)	Accumulated amount of investment (RMB'000)	% of the investment	Remarks
State-level technical center renovation	74,500	3,570	53,897	72.34%	—
Injection GMP renovation	80,000	—	80,226	100.28%	completed
Caffeine technical renovation	160,000	—	188,201	117.63%	completed
L-350 technical renovation	29,980	—	23,442	78.19%	completed
Analgin GMP renovation	39,800	—	46,265	116.24%	completed
Total	<u>384,280</u>	<u>3,570</u>	<u>392,031</u>	—	—

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

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

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

In accordance with Article 147 of the Company's Articles of Association, "The aggregate amount of distribution of profits in cash of the Company in the most recent three years should not be less than 30 percent of the annual average net profit attributable to the holders of the Company in consolidated statements realized in the most recent three years. If the above ratio shall not be attained for any particular reason, the board of directors should make a special explanatory statement to the general meeting of the Company." The dividend for 2012 of the Company at RMB0.01 per share was distributed before the end of June 2013.

1. There is no material deviation between the actual corporate governance implemented by the Company and the rules and requirements of corporate governance required to be observed by listed companies in the PRC.
2. According to the resolution of 2012 annual general meeting of the Company, the Company distributed a final dividend at RMB0.1 per 10 shares (tax inclusive) on the basis of 457,312,830 total issued shares of the Company for the year ended 31 December 2012, amounting to an aggregate of RMB4,573,128.30. The distribution completed before the end of June 2013.
3. The Board did not recommend the payment of any interim dividend, nor any transfer from reserves to share capital, for the half year ended 30 June 2013.
4. Projected operating results for January to September of 2013  
  
Warnings and explanations for the predicted accumulative net profit for the period between the beginning of this year to the end of the next reporting period being a loss or a substantial change as compared with that of the same period last year: N/A
5. The Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.
6. There was no material purchase of assets or disposal of the Company's assets nor did any material mergers or acquisition involving the Company occur during this Reporting Period. Similarly, no transactions of such nature occurred during the last Reporting Period were carried over to this Reporting Period.
7. Material Related Party Transactions  
  
Related party transactions of the Company during the Reporting Period are set out in Note 7 to the accounts of the Company ("Accounts") prepared in conformity with PRC accounting standards and Note 14 to the Accounts prepared in conformity with HKGAAP.
8. During this Reporting Period, there was no material trust, subcontract and lease of the assets between the Company and other companies.
9. The independent non-executive directors' special explanation and independent opinions in respect of the use of funds by related parties and external security provided are as follows:  
  
During the Reporting Period, there was no non-operational use of the Company's funds by the controlling shareholder and other related parties.  
  
During this Reporting Period, there has been no material guarantee provided by the Company, nor has there been any obligations that have not been performed in full by the Company. There were no guarantees provided by any controlling shareholders, non-legal entity or individuals which were prejudicial to the interests of the Company and the shareholders, in particular the minority shareholders, of the Company. As at 30 June 2013, the Company had no overdue external guarantee debts and the Company had no liability arising from any guarantee due to the default of a guaranteed party.
10. The Company and its shareholders holding more than 5% of total number of issued shares of the Company have provided undertakings for information disclosure as follows: Nil

## Review of Major Events

### 11. Purchase, Sales and Redemption of the Company's listed securities

During this Reporting Period, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's Listed Securities.

### 12. Management of Funds

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

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

Stock Code	Abbreviated Name	Initial investment amount	Proportion of equity interest in investee	Book value of end of the Reporting Period	Profit/loss in the Reporting Period	Change of shareholder's equity in the Reporting Period	Accounting courses	Share source
601601	China Pacific Insurance	7,000,000.00	0.06%	79,650,000.00	—	(32,850,000.00)	Available-for-sale financial assets	Purchase
601328	BANKCOMM	14,225,318.00	0.02%	33,452,144.00	—	(7,150,704.00)	Available-for-sale financial assets	Purchase
Total		21,225,318.00	—	113,102,144.00	—	(40,000,704.00)	—	—

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

The announcement of the "2012 Annual Results Announcement" was published on the HKExnews, in the Securities Times C26 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 25 March 2013.

The announcement of the "The First Quarter Report of 2013" was published on the HKExnews, in the Securities Times B63 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 27 April 2013.

The announcement of the "The Notice of Annual General Meeting for the 2012" was published on the HKExnews, in the Securities Times B23 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 9 April 2013.

The announcement of the "Announcement of 2012 Annual General Meeting Resolutions" was published on the HKExnews, in the Securities Times B32 in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 25 May 2013.

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

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Directors confirmed that the Company was in compliance with the Corporate Governance Code (the “Code”) and has not deviated from the Code during the six months ended 30 June 2013. The Code includes the provisions continued in Appendix 14 to the Listing Rules.

### AUDIT COMMITTEE

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

The Audit Committee along with the management of the Company have reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2013.

The Audit Committee agreed to the accounting standards, principles and methods adopted by the Group for the unaudited interim accounts for the six months ended 30 June 2013, and it has been disclosed fully.

### INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors and at least one independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive directors including one with financial management expertise, details of their biographies were set out in the 2012 Annual Report of the Company.

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

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

Unit: RMB

Assets	Notes	2013.6.30		2012.12.31	
		Consolidated	The Company	Consolidated	The Company
<b>Current assets</b>					
Cash and Cash equivalents	6.1	213,384,752.16	118,285,719.04	422,144,079.73	284,845,932.14
Held-for-trade financial asset		—	—	—	—
Note receivable	6.2	106,157,106.08	56,397,476.59	88,663,397.99	62,840,710.26
Account receivable	6.3	383,616,725.36	379,539,503.26	255,710,229.48	290,030,541.66
Advances to suppliers	6.4	48,411,397.40	3,935,204.11	83,993,860.47	12,037,417.04
Interest receivable		—	—	—	—
Dividend receivable		—	—	—	—
Other receivable	6.5	51,458,932.87	464,173,837.34	56,407,742.60	382,824,790.49
Inventories	6.6	490,557,071.79	284,829,057.67	489,672,752.10	343,416,393.05
Non-current assets due within one year		—	—	—	—
Other current asset	6.7	4,066,547.42	—	3,274,881.92	408,904.10
<b>Sub-Total current assets</b>		<b>1,297,652,533.08</b>	<b>1,307,160,798.01</b>	<b>1,399,866,944.29</b>	<b>1,376,404,688.74</b>
<b>Non-current assets</b>					
Available-for-sale Financial Asset	6.8	116,302,144.00	116,302,144.00	156,302,848.00	156,302,848.00
Held-to-maturity investment		—	—	—	—
Long-term receivable		—	—	—	—
Long-term equity investment	6.9	27,857,266.72	419,240,531.40	26,469,105.56	408,437,703.55
Investment property	6.10	66,416,175.91	66,416,175.91	68,906,278.57	68,906,278.57
Fixed assets	6.11	1,379,236,159.99	918,430,453.80	1,422,986,240.48	925,888,204.23
Construction in progress	6.12	458,854,298.25	359,569,428.44	273,976,674.46	232,963,225.27
Construction material		—	—	—	—
Disposal of fixed asset		—	—	—	—
Biological asset		—	—	—	—
Oil and nature gas		—	—	—	—
Intangible asset	6.13	257,654,683.25	188,919,211.94	257,878,745.07	186,727,993.42
Research & Development cost		—	—	—	—
Goodwill	6.14	2,715,585.22	—	2,715,585.22	—
Long-term prepayment		—	—	—	—
Deferred tax asset	6.15	19,167,942.38	—	19,167,942.38	—
Other non-current asset		—	—	—	—
<b>Sub-Total non-current assets</b>		<b>2,328,204,255.72</b>	<b>2,068,877,945.49</b>	<b>2,228,403,419.74</b>	<b>1,979,226,253.04</b>
<b>Total Assets</b>		<b>3,625,856,788.80</b>	<b>3,376,038,743.50</b>	<b>3,628,270,364.03</b>	<b>3,355,630,941.78</b>

# Financial Report

(Prepared under PRC Accounting Standards)

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

Unit: RMB

Liabilities & Shareholders' equity	Notes	2013.6.30		2012.12.31	
		Consolidated	The Company	Consolidated	The Company
<b>Current liabilities</b>					
Short-term loans	6.17	162,354,318.00	162,354,318.00	419,855,000.00	302,855,000.00
Held-for-trade financial liabilities		—	—	—	—
Note payable	6.18	99,231,475.00	101,159,200.00	122,278,300.00	212,278,300.00
Account payable	6.19	330,828,978.65	164,870,358.71	274,151,006.42	128,598,997.99
Advances for customers	6.20	12,566,161.34	6,434,919.14	14,523,093.09	6,226,783.65
Employees' wage payable	6.21	13,558,631.21	13,345,991.75	16,424,353.34	16,174,353.34
Tax payable	6.22	11,564,938.39	13,760,283.08	(3,165,293.25)	4,322,170.75
Interest payable	6.23	20,984,184.88	20,984,184.88	515,850.22	515,850.22
Dividends payable	6.24	5,310,599.53	5,310,599.53	5,310,599.53	5,310,599.53
Other account payable	6.25	80,448,910.69	45,103,181.76	94,121,525.59	37,870,566.95
Non-current liabilities					
within one year	6.26	196,000,000.00	196,000,000.00	73,514,650.00	73,514,650.00
Other current liabilities	6.27	4,247,000.00	4,247,000.00	2,897,000.00	2,897,000.00
<b>Sub-Total current liabilities</b>		<b>937,095,197.69</b>	<b>733,570,036.85</b>	<b>1,020,426,084.94</b>	<b>790,564,272.43</b>
<b>Non-current liabilities</b>					
Long-term borrowings	6.28	785,627,425.00	785,627,425.00	717,647,450.00	717,647,450.00
Bonds payable		—	—	—	—
Long-term payable		—	—	—	—
Specific payable	6.29	15,000,000.00	15,000,000.00	13,500,000.00	13,500,000.00
Provisions		—	—	—	—
Deferred tax liabilities	6.30	4,672,347.87	1,747,111.73	11,130,228.57	7,747,217.33
Other non-current liabilities	6.31	139,357,084.42	139,357,084.42	88,577,485.50	88,577,485.50
<b>Sub-total of non-current liabilities</b>		<b>944,656,857.29</b>	<b>941,731,621.15</b>	<b>830,855,164.07</b>	<b>827,472,152.83</b>
<b>Total liabilities</b>		<b>1,881,752,054.98</b>	<b>1,675,301,658.00</b>	<b>1,851,281,249.01</b>	<b>1,618,036,425.26</b>
<b>Shareholders' equity</b>					
Capital	6.32	457,312,830.00	457,312,830.00	457,312,830.00	457,312,830.00
Capital reserve	6.33	642,695,110.02	642,214,379.25	676,695,708.42	676,214,977.65
Less: Treasury stock		—	—	—	—
Special reserve		—	—	—	—
Surplus reserve	6.34	196,759,210.38	196,096,669.07	196,759,210.38	196,096,669.07
General Risk Provision		—	—	—	—
Undistributed profits	6.35	407,542,521.96	405,113,207.18	407,127,875.87	407,970,039.80
Exchange difference arising from transaction of financial statements denominated in foreign currencies		(917,774.07)	—	(607,710.35)	—
<b>Sub-Total shareholders' equity attributable to the parent company</b>		<b>1,703,391,898.29</b>	<b>1,700,737,085.50</b>	<b>1,737,287,914.32</b>	<b>1,737,594,516.52</b>
<b>Minority Interest</b>	6.36	<b>40,712,835.53</b>	<b>—</b>	<b>39,701,200.70</b>	<b>—</b>
<b>Total shareholders' equity</b>		<b>1,744,104,733.82</b>	<b>1,700,737,085.50</b>	<b>1,776,989,115.02</b>	<b>1,737,594,516.52</b>
<b>Total liabilities &amp; shareholders' equity</b>		<b>3,625,856,788.80</b>	<b>3,376,038,743.50</b>	<b>3,628,270,364.03</b>	<b>3,355,630,941.78</b>

Unit: RMB

Item	Notes	First half of 2013		First half of 2012	
		Consolidated	The Company	Consolidated	The Company
<b>1. Total Operating Income</b>		<b>1,617,134,270.43</b>	<b>951,197,344.70</b>	1,537,930,023.23	908,225,960.78
Includes: Operating Income	6.37	<b>1,617,134,270.43</b>	<b>951,197,344.70</b>	1,537,930,023.23	908,225,960.78
<b>2. Total Operating Cost</b>		<b>1,631,787,333.60</b>	<b>956,068,458.63</b>	1,516,606,553.73	873,375,989.93
Including: Operating Cost	6.37	<b>1,363,733,658.96</b>	<b>812,783,451.22</b>	1,264,175,647.52	752,763,409.61
Business taxes and surcharges	6.38	<b>10,366,384.78</b>	<b>7,096,493.05</b>	8,253,025.71	5,078,863.76
Selling Expense	6.39	<b>109,963,731.83</b>	<b>14,769,801.49</b>	117,149,652.76	10,309,344.33
Management Expense	6.40	<b>101,448,392.30</b>	<b>79,735,424.77</b>	99,584,460.23	77,135,903.56
Financial Expense	6.41	<b>46,275,165.73</b>	<b>41,683,288.10</b>	27,443,767.51	28,088,468.67
Impairment loss of assets		—	—	—	—
Add: Gain or Loss from changes in fair value		—	—	—	—
Investment gain or loss	6.42	<b>1,606,802.85</b>	<b>1,606,802.85</b>	4,201,289.54	4,187,410.09
Including: Gain or loss from investment in associates and joint ventures		<b>1,432,177.85</b>	<b>1,432,177.85</b>	1,615,490.09	1,615,490.09
Exchange gain		—	—	—	—
<b>3. Operating profit</b>		<b>(13,046,260.32)</b>	<b>(3,264,311.08)</b>	25,524,759.04	39,037,380.94
Add: Non-operating income	6.43	<b>24,778,778.41</b>	<b>8,972,598.86</b>	24,632,607.10	10,172,180.36
Less: Non-operating expenses	6.44	<b>2,451,846.32</b>	<b>1,709,409.97</b>	10,154,892.49	8,777,307.26
Including: Gain or loss on disposal of non-current assets		<b>119,826.73</b>	<b>119,826.73</b>	6,559,471.22	6,559,471.22
<b>4. Total profit</b>		<b>9,280,671.77</b>	<b>3,998,877.81</b>	40,002,473.65	40,432,254.04
Less: Income tax expense	6.45	<b>3,169,924.91</b>	<b>2,282,582.13</b>	6,967,721.57	5,523,789.22
<b>5. Net profit</b>		<b>6,110,746.86</b>	<b>1,716,295.68</b>	33,034,752.08	34,908,464.82
Net profit attributable to equity holder of the company		<b>4,987,774.39</b>	—	31,195,182.82	—
Net profit attributable to minority shareholder		<b>1,122,972.47</b>	—	1,839,569.26	—
<b>6. Earnings per share</b>					
Basic earning per share	6.46	<b>0.01</b>	<b>0.004</b>	0.07	0.08
Diluted earning per share	6.46	<b>0.01</b>	<b>0.004</b>	0.07	0.08
<b>7. Other comprehensive income</b>	6.47	<b>(34,421,999.76)</b>	<b>(34,000,598.40)</b>	13,318,667.82	13,776,885.60
<b>8. Total of comprehensive incomes</b>		<b>(28,311,252.90)</b>	<b>(32,284,302.72)</b>	46,353,419.90	48,685,350.42
Total of comprehensive incomes attributable to the owners of the parent company		<b>(29,322,887.73)</b>	—	44,674,226.86	—
Total comprehensive income attributable to the minority shareholders		<b>1,011,634.83</b>	—	1,679,193.04	—

# Financial Report

(Prepared under PRC Accounting Standards)

## Consolidated and the Company's Cash Flow Statement

Unit: RMB

Item	Notes	First half of 2013		First half of 2012	
		Consolidated	The Company	Consolidated	The Company
<b>1. CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts from the sale of goods or rendering of services		1,009,772,592.35	628,277,803.76	1,040,158,128.84	604,274,401.18
Receipts of tax refunds		5,340,330.11	2,404,989.10	9,116,258.80	3,831,948.97
Other cash receipts relating to operating activities	6.48	97,238,277.33	68,946,276.08	55,891,108.65	44,005,354.44
<b>SUB-TOTAL OF CASH INFLOWS FROM OPERATING</b>		<b>1,112,351,199.79</b>	<b>699,629,068.94</b>	<b>1,105,165,496.29</b>	<b>652,111,704.59</b>
Cash payments for goods purchased and services received		738,275,113.62	507,916,034.28	761,074,859.04	458,497,114.74
Cash paid to and on behalf of employees		159,731,063.81	120,332,401.54	169,070,556.46	125,603,052.83
Payments of all types of taxes		76,634,641.02	35,964,236.54	53,138,156.72	25,662,116.03
Other cash payments relating to operating activities	6.48	132,332,117.16	75,871,803.43	164,068,758.39	79,196,351.87
<b>SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES</b>		<b>1,106,972,935.61</b>	<b>740,084,475.79</b>	<b>1,147,352,330.61</b>	<b>688,958,635.47</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>5,378,264.18</b>	<b>(40,455,406.85)</b>	<b>(42,186,834.32)</b>	<b>(36,846,930.88)</b>
<b>2. CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Cash receipts from disposals of investments		—	—	—	—
Cash receipts from returns on investments		174,625.00	174,625.00	2,585,799.45	4,074,920.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		29,206,217.00	29,206,217.00	108,557.69	108,557.69
Net cash receipts from disposals of subsidiaries and other business units		—	—	—	—
Other cash receipts relating to investing activities		—	—	—	—
<b>SUB-TOTAL OF CASH INFLOWS FROM INVESTMENT ACTIVITIES</b>		<b>29,380,842.00</b>	<b>29,380,842.00</b>	<b>2,694,357.14</b>	<b>4,183,477.69</b>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		182,557,844.12	158,362,386.55	141,995,362.33	95,249,493.85
Cash payments to acquire investments		—	9,370,650.00	22,000,000.00	35,000,000.00
Net cash payments for acquisition of subsidiaries and other business units		—	—	—	—
Other cash payments relating to investing activities		—	36,000,000.00	—	60,000,000.00
<b>SUB-TOTAL OF CASH OUTFLOWS FROM INVESTMENT ACTIVITIES</b>		<b>182,557,844.12</b>	<b>203,733,036.55</b>	<b>163,995,362.33</b>	<b>190,249,493.85</b>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(153,177,002.12)</b>	<b>(174,352,194.55)</b>	<b>(161,301,005.19)</b>	<b>(186,066,016.16)</b>

Unit: RMB

Item	Notes	First half of 2013		First half of 2012	
		Consolidated	The Company	Consolidated	The Company
<b>3. CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Cash receipts from investors		—	—	—	—
Including: Cash receipts from the shareholders of subsidiaries		—	—	—	—
Cash receipts from borrowings		405,003,918.00	385,354,318.00	683,682,010.00	683,682,010.00
Other cash receipts relating to financing activities		—	—	—	—
<b>SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES</b>		<b>405,003,918.00</b>	<b>385,354,318.00</b>	<b>683,682,010.00</b>	<b>683,682,010.00</b>
Cash repayments of amounts borrowed		451,666,725.00	331,666,725.00	355,215,823.14	355,215,823.14
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		18,296,826.81	18,296,826.81	24,232,566.08	22,889,723.17
Including: Cash payments to the minority shareholders for distribution of dividends or profits		—	—	1,497,000.00	—
Other cash payments relating to financing activities	6.48	4,800,000.00	4,800,000.00	—	—
<b>SUB-TOTAL OF CASH OUTFLOWS</b>		<b>474,763,551.81</b>	<b>354,763,551.81</b>	<b>379,448,389.22</b>	<b>378,105,546.31</b>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(69,759,633.81)</b>	<b>30,590,766.19</b>	<b>304,233,620.78</b>	<b>305,576,463.69</b>
<b>4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>(4,420,955.82)</b>	<b>(4,063,377.89)</b>	<b>353,575.67</b>	<b>282,001.37</b>
<b>5. NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(221,979,327.57)</b>	<b>(188,280,213.10)</b>	<b>101,099,356.94</b>	<b>82,945,518.02</b>
Add: Beginning balance of cash and cash equivalents		375,544,079.73	253,745,932.14	267,965,349.32	178,748,741.62
<b>6. ENDING BALANCE OF CASH AND CASH EQUIVALENTS</b>		<b>153,564,752.16</b>	<b>65,465,719.04</b>	<b>369,064,706.26</b>	<b>261,694,259.64</b>

# Financial Report

(Prepared under PRC Accounting Standards)

## Consolidated Statement of Changes in Shareholder's Equity in the First Half of 2013

Unit: RMB

Item	Equity attributable to the company									Total Shareholder's Equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Others	Minority Interests	
<b>1. Ending balance of last year</b>	457,312,830.00	676,695,708.42	—	—	196,759,210.38	—	407,127,875.87	(607,710.35)	39,701,200.70	1,776,989,115.02
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
<b>2. Beginning balance of the year</b>	457,312,830.00	676,695,708.42	—	—	196,759,210.38	—	407,127,875.87	(607,710.35)	39,701,200.70	1,776,989,115.02
<b>3. Increase/decreased in the year</b>	—	(34,000,598.40)	—	—	—	—	414,646.09	(310,063.72)	1,011,634.83	(32,884,381.20)
I Net profit	—	—	—	—	—	—	4,987,774.39	—	1,122,972.47	6,110,746.86
II Other comprehensive income	—	(34,000,598.40)	—	—	—	—	—	(310,063.72)	(111,337.64)	(34,421,999.76)
Subtotal of I and II	—	(34,000,598.40)	—	—	—	—	4,987,774.39	(310,063.72)	1,011,634.83	(28,311,252.90)
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	—	—	(4,573,128.30)	—	—	(4,573,128.30)
a. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(4,573,128.30)	—	—	(4,573,128.30)
d. Others	—	—	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—	—	—
VII Others	—	—	—	—	—	—	—	—	—	—
<b>4. Ending balance of the year</b>	457,312,830.00	642,695,110.02	—	—	196,759,210.38	—	407,542,521.96	(917,774.07)	40,712,835.53	1,744,104,733.82

# Consolidated Statement of Changes in Shareholder's Equity in 2012

## Financial Report

(Prepared under PRC Accounting Standards)

Unit: RMB

Item	Equity attributable to the company									Total Shareholder's Equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Others	Minority Interests	
<b>1. Ending balance of last year</b>	457,312,830.00	659,499,501.22	—	—	191,170,376.99	—	402,772,516.20	(822,894.34)	39,806,691.24	1,749,739,021.31
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—
<b>2. Beginning balance of the year</b>	457,312,830.00	659,499,501.22	—	—	191,170,376.99	—	402,772,516.20	(822,894.34)	39,806,691.24	1,749,739,021.31
<b>3. Increase/decreased in the year</b>	—	17,196,207.20	—	—	5,588,833.39	—	4,355,359.67	215,183.99	(105,490.54)	27,250,093.71
I Net profit	—	—	—	—	—	—	23,663,577.96	—	2,598,641.15	26,262,219.11
II Other comprehensive income	—	17,196,207.20	—	—	—	—	—	215,183.99	115,868.31	17,527,259.50
Subtotal of I and II	—	17,196,207.20	—	—	—	—	23,663,577.96	215,183.99	2,714,509.46	43,789,478.61
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	5,588,833.39	—	(19,308,218.29)	—	(2,820,000.00)	(16,539,384.90)
a. Transfer to surplus reserves	—	—	—	—	5,588,833.39	—	(5,588,833.39)	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(13,719,384.90)	—	(2,820,000.00)	(16,539,384.90)
d. Others	—	—	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—	—	—
VII Others	—	—	—	—	—	—	—	—	—	—
<b>4. Ending balance of the year</b>	457,312,830.00	676,695,708.42	—	—	196,759,210.38	—	407,127,875.87	(607,710.35)	39,701,200.70	1,776,989,115.02

# Financial Report

(Prepared under PRC Accounting Standards)

## The Company's Statement of Changes in Shareholder's Equity in the First Half of 2013

Unit: RMB

Item	Share capital	Capital reserves	Less: Treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Total shareholders' equity
<b>1. Ending balance of last year</b>	457,312,830.00	676,214,977.65	—	—	196,096,669.07	—	407,970,039.80	1,737,594,516.52
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
<b>2. Beginning balance of the year</b>	457,312,830.00	676,214,977.65	—	—	196,096,669.07	—	407,970,039.80	1,737,594,516.52
<b>3. Increase/decreased in the year</b>	—	(34,000,598.40)	—	—	—	—	(2,856,832.62)	(36,857,431.02)
I Net profit	—	—	—	—	—	—	1,716,295.68	1,716,295.68
II Other comprehensive income	—	(34,000,598.40)	—	—	—	—	—	(34,000,598.40)
Subtotal of I and II	—	(34,000,598.40)	—	—	—	—	1,716,295.68	(32,284,302.72)
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	—	—	(4,573,128.30)	(4,573,128.30)
a. Transfer to surplus reserves	—	—	—	—	—	—	—	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(4,573,128.30)	(4,573,128.30)
d. Others	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—
VII Others	—	—	—	—	—	—	—	—
<b>4. Ending balance of the year</b>	457,312,830.00	642,214,379.25	—	—	196,096,669.07	—	405,113,207.18	1,700,737,085.50

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

## Financial Report

(Prepared under PRC Accounting Standards)

Unit: RMB

Item	Share capital	Capital reserves	Less: Treasury stock	Special reserves	Surplus reserves	General risk provision	Undistributed profits	Total shareholders' equity
<b>1. Ending balance of last year</b>	457,312,830.00	659,018,770.45	—	—	190,507,835.68	—	371,389,924.17	1,678,229,360.30
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—
<b>2. Beginning balance of the year</b>	457,312,830.00	659,018,770.45	—	—	190,507,835.68	—	371,389,924.17	1,678,229,360.30
<b>3. Increase/decreased in the year</b>	—	17,196,207.20	—	—	5,588,833.39	—	36,580,115.63	59,365,156.22
I Net profit	—	—	—	—	—	—	55,888,333.92	55,888,333.92
II Other comprehensive income	—	17,196,207.20	—	—	—	—	—	17,196,207.20
Subtotal of I and II	—	17,196,207.20	—	—	—	—	55,888,333.92	73,084,541.12
III Shareholder's contribution capital and decrease in capital	—	—	—	—	—	—	—	—
a. Shareholder's contribution capital	—	—	—	—	—	—	—	—
b. share based payments record in reserve	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—
IV Profits distribution	—	—	—	—	5,588,833.39	—	(19,308,218.29)	(13,719,384.90)
a. Transfer to surplus reserves	—	—	—	—	5,588,833.39	—	(5,588,833.39)	—
b. Transfer to general risk provision	—	—	—	—	—	—	—	—
c. Distribution to shareholders	—	—	—	—	—	—	(13,719,384.90)	(13,719,384.90)
d. Others	—	—	—	—	—	—	—	—
V Transfer to internal shareholders' equity	—	—	—	—	—	—	—	—
a. Capital reserve to capital (Share capital)	—	—	—	—	—	—	—	—
b. Surplus reserves to capital (Share capital)	—	—	—	—	—	—	—	—
c. Making good of loss with surplus reserves	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—
VI Special reserves	—	—	—	—	—	—	—	—
a. Transfer for the year	—	—	—	—	—	—	—	—
b. Utilisation of the year	—	—	—	—	—	—	—	—
VII Others	—	—	—	—	—	—	—	—
<b>4. Ending balance of the year</b>	457,312,830.00	676,214,977.65	—	—	196,096,669.07	—	407,970,039.80	1,737,594,516.52

### 1. BACKGROUND OF THE COMPANY

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

The Company's registered capital at 30 June 2013 is RMB457.313 million, the capital structure is as follow:

Class of shares	Quantity of Shares	The proportion of the total share capital (%)
I. Subtotal of restricted tradable outstanding shares	1	0.0002
A share restricted tradable senior management-held shares	1	0.0002
II. Subtotal of no restricted tradable outstanding shares	457,312	99.9998
RMB ordinary shares (A share)	307,312	67.1995
Overseas foreign shares (H share)	150,000	32.8003
III. Total shares	457,313	100.000

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

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

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

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

#### 1. Basis of the Preparation for Financial Statements

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

**2. The Statement of Compliance with the ASBEs**

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

**3. Accounting Year**

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

**4. Functional currency**

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

**5. Basis of accounting and principle of measurement**

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

**6. Business Combination**

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

**6.1 Business combination involving enterprises under common control**

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

**6.2 Business combination not involving enterprises under common control**

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

**7. Basis of Preparation of Consolidated Financial Statements**

**7.1 Scope of Consolidation**

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

### 7.2 Preparation of consolidated financial statements

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

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

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

## 8. Cash and Cash Equivalents

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

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

### 9.1 Foreign Currency Transactions

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

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

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

## 10. Financial Assets and Financial Liabilities

### 10.1 Classification of financial assets

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

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

### 10.2 Recognition and measurement of financial assets

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

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

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

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

### 10.3 Impairment of financial assets

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

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

If available for sale financial assets at fair value have a significant or prolonged decline, originally recorded in the shareholders equity decline in fair value due to the cumulative loss included in impairment loss. If impairment of available for sale financial assets has been confirmed, that objectively relates to impairment losses when the fair value increases, the previously recognized impairment loss is accounted as profit or loss for the period. For the confirmed impairment loss of available for sale financial assets, the fair value increase is directly accounted into shareholders' equity.

### 10.4 Transfer of financial assets

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

- (1) The contractual rights to receive cash flows of the financial assets terminate;
- (2) The financial assets have been transferred and major risk and rewards of the Company's financial assets ownership transferred to the transferee;
- (3) The financial assets have been transferred, and the Company gives up the control of the financial assets, neither transfer nor retain the risk and rewards of financial assets ownership.

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

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

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

#### 10.5 Financial liabilities

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

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

Other financial liabilities are measured using actual rate method, subsequently measured by using amortized cost method.

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

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

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

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

### 11. Accounting for provision for bad debts loss

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

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

Determine basis or amounts standards for individual significant

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

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

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

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

#### **Determine the basis of combination**

Combination of aging

Dividing combination on the basis of aging for the credit risk characteristics

Combination with the relationship between trading partners

Dividing combination on the basis of related party transaction

Combination for special accounts

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

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

Combination of aging

Provision bad debts according to the aging analysis

Combination with the relationship between trading partners

Provision bad debts according to other method

Combination for special accounts

Provision bad debts according to other method

## Notes to the Financial Statements (Continued)

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

Aging	Withdrawal percentage of accounts receivable (%)	Withdrawal percentage of Other receivable (%)
Within one year	0.5	0.5
1-2 years	20	20
2-3 years	60	60
More than 3 years	100	100

- 2) Other method for provision bad debts of account receivables

Relationship with trading partner

No provision for bad debts for related parties

Combination for special accounts

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

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

The reason for individually provision for bad debts

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

Method for provision for bad debts

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

## 12. Inventories

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

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

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

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

### 13. Long-term equity Investments

#### 13.1 Classification of Long-term Investments

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

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

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

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

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

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

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

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

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

#### 13.4 Switching of cost method and equity method

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

#### 13.5 Disposal of Long-term Investments

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

### 14. Investment properties

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

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

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

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

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

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

### 15. Fixed Assets

#### 15.1 Recognition of Fixed assets

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

#### 15.2 Classification of Fixed assets

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

#### 15.3 Measurement of Fixed assets

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

#### 15.4 Depreciation of Fixed assets

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

<b>Items</b>	<b>Depreciation period</b> <i>(year)</i>	<b>Annual Depreciation rate</b> <i>(%)</i>
House & buildings	20	4.75
Machinery & equipment	10	9.50
Electronic instrument	5	19.00
Office equipment and vehicles	5	19.00

15.5 Subsequent expenditure of fixed assets

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

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

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

## 16. Construction-in-progress

16.1 Measurement of construction progress

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

16.2 Timing for transfer of construction-in-progress to fixed assets

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

## 17. The Accounting Treatment of Borrowing Cost

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

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

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

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

### 18. The Pricing and Amortization of Intangible Assets

#### 18.1 The pricing method of intangible assets

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

#### 18.2 Amortization of intangible assets

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

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

### 19. Research and Development

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

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

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

## 20. Impairment for Non-financial Assets

The Company assesses at each balance sheet date whether there is any indication that may be impaired, as long-term equity investment fixed assets, construction-in-progress, intangible assets of finite useful life if there is any indication that is an assets may be impaired, the recoverable amount is estimated for the asset. Goodwill and an intangible asset with an indefinite useful life shall be tested for impairment annually, irrespective of whether there is any indication that the asset may be impaired. If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the asset group or set of asset group to which the asset belongs.

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

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

## 21. Goodwill

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

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

## 22. Employee Benefits

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

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

### 23. Provision

#### 23.1 Recognition of provision

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

#### 23.2 Measurement of provision

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

### 24. Recognition of Revenue

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

#### 24.1 Revenue from sales of goods

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

#### 24.2 Revenue from rendering of services

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

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

**25. Government grants**

Only the governmental allowance meeting the following conditions attached and has been received will be recognized: If the government grant is the form of monetary assets, it will be measured at the actual amount received. For the grant awarded in accordance with the standards of fixed amounts, it will be measured at amounts receivable. If the government grant is in a form of a non-monetary asset, it is measured at the fair values; if the fair values are not reliably obtained, they will be calculated at the nominal amounts of RMB1.

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

**26. Deferred Tax Assets and Deferred Tax Liabilities**

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

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

**27. Accounting Processing Method of Income Tax**

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

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

**28. Description of Critical Accounting Estimates**

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

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

### (1) Impairment of receivables

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

### (2) Provision for inventory impairment

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

### (3) Accounting estimates in relation to goodwill impairment provision

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

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

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

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

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

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

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

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

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

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

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

#### **(6) Useful life of fixed assets and intangible assets**

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

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

The company has no change in accounting policies, alteration of accounting estimates and rectification for significant errors during the first half of 2013.

### **4. TAXES**

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

#### **1. Income tax**

The Company is recognized as a high-tech enterprise according to the document Lu-Ke\_Gao-Zi No. (2012) 19 issued by Shandong Science Technology Bureau, Shandong Finance Bureau, Shandong National Tax Bureau and Shandong Local Tax Bureau. The Company has obtained the high-tech enterprise certification on October 31, 2011. The term of validity is 3 years. According to The People's Republic of China Enterprise Income Tax Law, the Company enjoys the enterprise income tax preferential policies at the rate of 15%. 2013 is a tax concession period for the Company, so the applicable tax rate is 15%.

The applicable tax rate for Company's other subsidiaries is 25%.

#### **2. Value added tax**

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

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

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

### 3. Business tax

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

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

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

### 5. Property tax

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

## 5. BUSINESS COMBINATION & CONSOLIDATED FINANCIAL STATEMENTS

### (1) Details of Subsidiaries

Name of company	Type of Subsidiaries	Place of registration	Nature of business	Registered capital	Business Scope	Investment at the end of the year	Other amount substantively constituted as net investment	Percentage of shareholding	Percentage of voting rights	Included in Consolidated Financial Statements	Minority Interests	Amounts of year attributable profit or loss for the year to minority shareholders' equity	The exceed amount taken up by the equity of the Company's shareholders for the loss for the year attributable to minority shareholders over beginning balance of minority shareholders' equity
Shandong Xinhua Pharmaceutical Trade Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB48.4869 millions	Drug sales	RMB48.58 millions	—	100	100	YES	—	—	—
Shandong Xinhua Pharmaceutical Export & Import Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB5 millions	Engaged in goods, and technology Import and export and conducting counter trade, entrepot trade	RMB5.5 millions	—	100	100	YES	—	—	—
Zibo Xinhua Pharmaceutical Design Institute Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB3 millions	Medical Engineering design	RMB3.04 millions	—	100	100	YES	—	—	—
Zibo Xinhua Drug Store Chain Company Limited	wholly-owned subsidiary	Zibo, Shandong	Sale of Medical Chemicals	RMB2 millions	Retailing of medicines	RMB2.16 millions	—	100	100	YES	—	—	—
Shandong Xinhua Pharmaceutical (European) GmbH	Control subsidiary	Rotterdam, Holland	Sale of Medical Chemicals	769,000 Euro	Pharmaceutical raw materials and intermediates	500,000 Euro	—	65	65	YES	RMB5.27 millions	—	—
Zibo Xinhua-west Pharmaceutical Company Limited	Control subsidiary	Zibo, Shandong	Medical Chemical Manufacture	1.5 million us dollars	Production and sales of non-calcium poly Kaposi APIs	1.125 millions us dollars	—	75	75	YES	RMB3.47 millions	—	—
Zibo Xinhua-Perigo Pharmaceutical Company Limited	Control subsidiary	Zibo, Shandong	Medical Chemical Manufacture	6 million us dollars	Production and sales of bulk drugs Ibuprofen	3.006 millions us dollars	—	50.1	50.1	YES	RMB31.98 millions	—	—
Xinhua Pharmaceutical (Shouguang ) Company Limited	wholly-owned subsidiary	Shouguang, Shandong	Medical Chemical Manufacture	RMB230 millions	Production and sales of chemical equipment and accessories	RMB230.71 millions	—	100	100	YES	—	—	—
Xinhua (Zibo) Properties Company Limited	wholly-owned subsidiary	Zibo, Shandong	Developing of real estate	RMB20 millions	Developing of real estate	RMB20 millions	—	100	100	YES	—	—	—
Xinhua Pharmaceutical (Gaomi ) Company Limited	wholly-owned subsidiary	Gaomi, Shandong	Turing of Medical Chemical Manufacture	RMB19 millions	Production and sales of powder injections (penicillin) and tablets and so on	RMB35 millions	—	100	100	YES	—	—	—
Shandong Xinhua Pharmaceutical (USA) Company Limited	wholly-owned subsidiary	South El Monte, USA	Sale of Medical Chemicals	1.5 million US dollars	Pharmaceutical raw materials and intermediates	1.5 millions us dollars	—	100	100	YES	—	—	—

## 1. Shandong Xinhua Pharmaceutical Trade Company Limited

Shandong Xinhua Pharmaceutical Trade Company Limited (hereafter referred to as Pharm. Trade) was established on 30 August 2004 with a registered capital of RMB5 million by the Company and Zibo Xinhua Drug Store Chain Company Limited (subsidiary of the Company), they held 98% and 2% of the registered capital in Pharm Trade, respectively. In March 2005, the registered capital of Pharm Trade increased by RMB43,498,900, among which, 42,628,900 was contributed by the Company in tangible assets, and RMB870,000 was contributed by Zibo Xinhua Drug Store Chain Company Limited in cash. There has been no change in proportion of shareholding in Pharm Trade of each shareholder's equity

On 9 November, 2009, the Company entered into an equity transfer contract with Zibo Xinhua Drug Store Chain Company Limited whereby the 2% equity interests of Pharm Trade held by Zibo Xinhua Drug Store Chain Company Limited was transferred to the Company at a consideration of RMB10,536,140. Pharm Trade is a wholly owned subsidiary of the Company.

## 2. Shandong Xinhua Pharmaceutical Export &amp; Import Company Limited

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

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

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

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

## 3. Zibo Xinhua Pharmaceutical Design Institute

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

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

On 7 August, 2009, the Company contributed additional capital of RMB1 million to Design Institute. The increase of capital have been verified by the verification report "Price Waterhouse Inspection Zi [2009] No. 098" issued by PricewaterhouseCoopers Limited. Thereafter registered capital of Design Institute was increased to RMB3 millions. At 31 December, 2009, Design Institute is the wholly-owned subsidiary of the company.

4. Zibo Xinhua Drug Store Chain Company Limited

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

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

5. Shandong Xinhua Pharmaceutical (European) GmbH

Shandong Xinhua Pharmaceutical (European) GmbH (hereinafter referred to as the Xinhua European) was established on 25 November 2003. It was jointly invested by the Company and Mr. Lipeng of Germany. The registered capital was 1 million Euros. The Company holds 70% of equity interests, while Mr. LIPENG owns 30%. The registered address of Xinhua European is at Rotterdam, Germany. Its reporting currency is Euro. In July 2006, the registered capital of the Company was changed to EURO650,000 according to the resolution of the Board of Directors' meeting, and the share of equity interest held by the Company and Mr. LI PENG was changed to 76.90% and 23.10% respectively.

On 24 June, 2009, the LK & K Trading Co., Ltd. signed a co-operation agreement with Mr. Lipeng, whereby Lipeng transferred all holding shares in Xinhua European to LK & K Trading Co. Ltd. After the transfer, the shares of Xinhua European held by the Company and LK & K Trading Co. Ltd are 76.9% and 23.1% respectively.

On 8 September, 2009, the first general meeting of Xinhua (European) passed the resolution that LK & K Trading Co, Ltd increases its contribution of RMB119,000 to Xinhua (European). The fund was received on 20 October, 2009. The verification report was obtained on 10 November, 2009. After the injection the registered capital of Xinhua (European) was Euro 769,000. The Company invested Euro 500,000 and accounts for 65%; LK & K Trading Co., Ltd. invested Euro 269,000, accounting for 35%.

6. Zibo Xinhua-West Pharmaceutical Company Limited

Zibo Xinhua-West Pharmaceutical Company Limited (hereafter referred to as Xinhua-West) was established on 15 November 2005 with a registered capital of USD1.5 million, jointly by the Company and West United Group, Inc., which hold 75% and 25% of the equity interests respectively, On 26 June 2006, the Company and West United Group, Inc. injected USD1.125 million and USD0.375 million in cash respectively. The paid-up capital of Xinhua-West was USD1.5 million. The principal operation of Xinhua-West is production and sales of Calcium Polycarbophil materials.

7. Zibo Xinhua-Perrigo Pharmaceutical Company Limited

Zibo Xinhua-Perrigo Pharmaceutical Company Limited (hereinafter referred to as the Xinhua-Perrigo) was established by the Company and Perrigo International Inc. on 11 September 2003 with a registered capital of USD6 million. Each party holds 50% of equity interests in Xinhua-Perrigo. On 3 April 2006, Perrigo International Inc. transferred 0.1% shares of Xinhua-Perrigo to the Company at pursuant to the amendment Joint Venture. The Company held 50.1% shares of Xinhua-Perrigo.

## 8. Shandong Xinhua Pharmaceutical (Shouguang) Company Limited

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

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

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

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

## 9. Xinhua (Zibo) Properties Company Limited

Xinhua (Zibo) Properties Company Limited (hereinafter referred to as the Xinhua Properties ) was established in December 2010, the registered capital of RMB20 million, all of the Xinhua Properties invest in cash by the company, a wholly owned subsidiary of the company. Xinhua properties established according to Shandong PuHua Accounting firm capital verification report which issued by the Price Waterhouse Yan Zi [2010] No. 191 on 14 December 2010.

## 10. Xinhua Pharmaceutical (Gaomi) Company Limited

Xinhua Pharmaceutical (Gaomi) Company Limited (hereinafter referred to as Xinhua Gaomi) formerly known as Shandong Tianda Bio-Pharmaceutics Co., Ltd. (hereinafter referred to as Tianda Pharmaceutical) is the surviving company after the division in July 2011. Before the merger the registered capital of Tianda Pharmaceutical was RMB6,000,000; a natural person Zhenhua Zhu held RMB5,000,000 shares of Tianda Pharmaceutical, being 83% of the total issued shares of Tianda Pharmaceutical; and Peng Zhang held RMB1,000,000 shares of Tianda Pharmaceutical, being 17% of the total issued shares of Tianda Pharmaceutical. The main business was production and sales of powder injections (penicillin), tablets, granules, dry suspension, hard capsules, sterile bulk drugs (sodium mezlocillin, azlocillin sodium, ticarcillin sodium) within the authorized business scope (valid until December 31, 2015).

On January 16, 2012, the Company and the former shareholders of Tianda Pharmaceutical, Zhenhua Zhen and Peng Zhang signed the "Share Transfer Agreement". By mutual agreement, the consideration was determined at RMB29,677,000, being the value of all the shareholders' interest evaluated with income approach. The Company purchased 100% shares of Tianda Pharmaceutical which were held by Zhu Zhen-hua and Zhang Peng (excluding the value of current assets) with its own funds of RMB22,000,000. On the same day, the proposal related to the acquisition of the entire shareholding of Tianda Pharmaceutical was approved on the second extraordinary meeting of the Seventh Session of the Board of Directors of the Company. Upon completion of the merger, the Company holds 100% shareholding of Tianda Pharmaceutical.

On March 2, 2012, upon the enterprise name change approval notice ((Gao) Name Change Approval Sizi [2012] No. 0192) was issued by Gaomi Industry and Commerce Administration Bureau, the name of Shandong Tianda Bio-Pharmaceutics Co., Ltd. was changed to Xinhua Pharmaceutical (Gaomi) Company Limited. On April 11, 2012, Xinhua Gaomi obtained a enterprise business license.

In May 2012, Xinhua Gaomi applied to increase the registered capital by RMB13,000,000. Gaomi Hongce Joint Accounting Firm issued the capital verification report for the capital increase (Hongce Nei Yan Bian Zi [2012] No. 12). On May 15, 2012, Xinhua Gaomi obtained a business license after the capital increase.

### 11. Shandong Xinhua Pharmaceutical (USA) Company Limited

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

## (2) Changes in the Scope of Consolidation

During the reporting period, Shandong Xinhua Pharmaceutical (USA) Company Limited was added into the scope of consolidated financial statements of the Company.

## (3) Translation of Financial Statements denominated in Foreign Currencies

Name of Company	Balance sheet		Income Statement and Cash Flow Statement
	Exchange rate at the end of the year	Exchange rate at the beginning of the year	
Shandong Xinhua Pharmaceutical (Europe) Ltd.	1 Euro=8.0536 RMB	1 Euro=8.3176 RMB	Exchange rate on the date of occurred
Shandong Xinhua Pharmaceutical (USA) Company Limited	1 USD=6.1787 RMB	1 USD=6.2855 RMB	Exchange rate on the date of occurred

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In the following financial statements, unless otherwise indicated, the term 'beginning of the year' refers to 1 January, 2013, 'end of the year' refers to 30 June 2013, 'this year' refers to the period from 1 January to 30 June 2013, and 'previous year' refers to the period from 1 January to 30 June 2012. All figures are stated in RMB'000.

### 1. Cash & Cash equivalents

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Converted into RMB	Original Currency	Exchange Rate	Converted into RMB
Cash on Hand	—	—	243	—	—	755
Including: USD	2	6.1787	12	7	6.2855	43
EURO	6	8.0536	46	9	8.3176	74
HKD	18	0.7966	14	18	0.81085	14
JPY	66	0.0626	4	66	0.073049	5
Cash in Bank	—	—	153,322	—	—	381,889
Including: USD	3,060	6.1787	18,908	5,186	6.2855	32,595
EURO	1,599	8.0536	12,875	390	8.3176	3,248
HKD	2	0.7966	2	4	0.8109	3
GBP	181	9.4213	1,702	63	10.1611	637
Fund in other currency	—	—	59,820	—	—	39,500
Total	—	—	213,385	—	—	422,144

At the end of the year, the balance of other cash and cash equivalents included bank acceptance security deposit of RMB53,320,000. There was RMB6,500,000 frozen bank deposit.

## 2. Notes Receivable

Nature of notes	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance bills	<b>106,157</b>	88,663

- (1) At the end of the year, in respect of the balances of notes receivable, there were no bills having been charged, pledged or overdue.
- (2) By the end of 30 June 2013, the total amount of the notes which were endorsed to the other party but has not yet expired was RMB394,790,000, and the details of the five largest bills were as follows:

Type	Drawer	Date of issue	Date of maturity	Amount
Bank acceptance bill	Shandong Wei Ao International Trade Co., Ltd	2013-6-20	2013-12-20	5,000
Bank acceptance bill	Shandong Rui Zhong Pharmaceutical Co., Ltd	2013-6-5	2013-12-5	3,000
Bank acceptance bill	Jinan Hengfeng Weiye Pharmaceutical Co., Ltd	2013-6-25	2013-12-25	2,614
Bank acceptance bill	Henan De Er Kang Pharmaceutical Co., Ltd	2013-2-25	2013-8-25	2,500
Bank acceptance bill	Xingtai Xin Kang Hong Pharmaceutical Co., Ltd	2013-4-23	2013-10-23	2,300

- (3) As of 30 June 2013, there is no discounted bank acceptance bills that is not yet expired.

## 3. Account Receivable

## (1) Risk Classification of Account Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Amount	Proportion %	Bad debts Provision	Proportion %	Amount	Proportion %	Bad debts Provision	Proportion %
Account receivable of individually significant account with individual provision for bad debts	50,329	11.28	50,329	100.00	50,329	15.73	50,329	100.00
Provision for bad debts according to combination analysis								
Aging combination	378,490	84.89	3,751	0.99	250,885	78.41	3,444	1.37
Combination with the relationship between trading partners	8,259	1.85	—	—	7,267	2.27	—	—
Combination for special account	619	0.14	—	—	1,002	0.31	—	—
Subtotal	387,368	86.89	3,751	0.97	259,154	80.99	3,444	1.33
Account receivable of individually insignificant amount but with individual provision for bad debts	8,138	1.83	8,138	100.00	10,503	3.28	10,503	100.00
Total	445,835	—	62,218	—	319,986	—	64,276	—

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

Clients	Book balance	Amount for bad debts	Ratio(%)	Reason
Shandong Xin Kang Qi Pharmaceutical Co., Ltd. *	40,606	40,606	100%	Solvency consideration provision
Zibo Hua Bang Pharmaceutical Co., Ltd. *	9,723	9,723	100%	Solvency consideration provision
Total	50,329	50,329	—	—

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

- 2) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion%	Bad debts Provision	Amount	Proportion%	Bad debts Provision
Within one year	370,949	0.41	1,524	243,344	0.5	1,217
1 to 2 years	6,277	20	1,256	6,277	20	1,256
2 to 3 years	732	60	439	732	60	439
More than 3 years	532	100	532	532	100	532
Total	378,490	—	3,751	250,885	—	3,444

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

Name of combination	Book balance	Amount for bad debts
Combination with the relationship between trading partners	8,259	—
Combination for special account	619	—
Total	8,878	—

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

Clients	Book balance	Amount for bad debts	Ratio (%)	Reason
Shandong Xinhua Industry & Trade Company	1,150	1,150	100	Solvency consideration provision
Shandong Bai Yi Mei Pharmaceutical Co., Ltd. *	3,997	3,997	100	Solvency consideration provision
Shandong Xin Bao Pharmaceutical Co., Ltd. *	2,991	2,991	100	Solvency consideration provision
Total	8,138	8,138	100	

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

- (2) There was no reversal (or recovery) of bad debts during the year.
- (3) There are no account receivables written off for this year.
- (4) At the end of the year, account receivable balance does not include receivable due from shareholders holding 5% or more voting rights in the Company's capital.
- (5) At the end of the year, the balance of account receivable due from the top five debtors is RMB126,562,000 accounting for 28.39% of the total balance of account receivable, details are as follows:

Clients	Relationship	Amount	Aging	Proportion%
Mitsubishi Corporation	Non-related parties	49,314	Less than one year	11.06
Shandong Xin Kang Qi Pharmaceutical Co., Ltd	Non-related parties	40,606	One to two years	9.11
Zibo Central Hospital	Non-related parties	14,115	Less than one year	3.17
DASTECH INTERNATIONAL. INC.	Non-related parties	12,804	Less than one year	2.87
Zibo Hua Bang Pharmaceutical Co., Ltd	Non-related parties	9,724	One to two years	2.18
Total		126,562		28.39

- (6) At the end of the year, the balance of account receivable due from the related parties is RMB16,656,000 accounting for 3.74% of the total balance of account receivable, details are as follows:

Name of equity	Relationship	Amount	Proportion%
China Shandong Group Ltd.	Control by the same parent company	3,891	0.87
USA Perrigo International Co. Ltd.	other-related parties	10,548	2.37
USA Xinhua-West Pharmaceutical Company Limited	other-related parties	796	0.18
Shandong Xinhua Industry & Trade Company Limited	other-related parties	1,150	0.26
Shandong Zibo XinCat Pharmaceutical Company Limited	Under common control of parent company	271	0.06
Total		16,656	3.74

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

Name of currency	At the end of the year			At the beginning of the year		
	Original Currency	Exchange Rate	Converted into RMB	Original Currency	Exchange Rate	Converted into RMB
USD	33,882	6.1787	166,613	18,999	6.2855	119,416
GBP	607	9.4213	5,720	204	10.1611	2,071
EURO	3,564	8.0536	28,702	2,623	8.3176	21,815
Total	—	—	201,035	—	—	143,302

- (8) The Company applied invoice financing under its limit of foreign exchange receivable from exports from China Merchants Bank, Zibo Branch. The account receivable corresponding to the limit of foreign exchange receivable from exports was \$2,118,000 dollar, and the amount of financing was \$1,990,000 dollar.

### 4. Advances to Suppliers

#### (1) Aging of advances to suppliers

Item	Balance at the end of the year		Balance at the beginning of the year	
	Amount	Proportion %	Amount	Proportion %
Less than 1 year	47,277	97.66	82,860	98.65
1 to 2 years	1,117	2.31	1,117	1.33
2 to 3 years	17	0.03	17	0.02
More than 3 years	—	—	—	—
<b>Total</b>	<b>48,411</b>	<b>100.00</b>	<b>83,994</b>	<b>100.00</b>

(2) At the end of year, the top five balances of advances to suppliers are RMB38,606,000 details as follow:

Name of equity	Relationship	Amount	Aging	Reason for unsettlement
Prepaid land premiums	Non-related party	28,555	Less than one year	Land certification in progress
Nanjing Hua Dong Pharmaceutical Co., Ltd	Non-related party	4,159	Less than one year	Goods not yet received
Qinghai Pharmaceutical Co., Ltd	Non-related party	2,726	Less than one year	Goods not yet received
Zibo Zhong Sheng Pharmaceutical Co., Ltd	Non-related party	1,596	Less than one year	Goods not yet received
Xizang Shen Wei Pharmaceutical Co., Ltd	Non-related party	1,570	Less than one year	Goods not yet received
<b>Total</b>		<b>38,606</b>		

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

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

Name of currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	28	6.1787	174	28	6.2855	178

## (5) Other Receivable

## (1) Classification of Other Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Amount	Proportion %	Bad debts Provision	Proportion %	Amount	Proportion %	Bad debts Provision	Proportion %
Account receivable of individually significant amount and with individual provision for bad debts	11,324	15.38	11,324	100	11,324	14.80	11,324	100.00
Aging combination	45,063	61.20	8,025	17.81	18,803	24.57	8,045	42.79
Combination with the relationship between trading partners	8	0.01	—	—	8	0.01	—	—
Combination for special accounts	14,413	19.57	—	—	45,642	59.65	—	—
Subtotal	59,484	80.78	8,025	13.49	64,453	84.23	8,045	12.48
Account receivable of individually insignificant amount but with individual provision for bad debts	2,823	3.84	2,823	100	745	0.97	745	100.00
Total	73,631	—	22,172	—	76,522	—	20,114	—

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

Clients	Book amount	Amounts of bad debts	Ratio (%)	Reason
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	11,324	11,324	100.00	Solvency consideration provision

- 2) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion%	Bad debts Provision	Amount	Proportion%	Bad debts Provision
Less than 1 year	36,736	0.09	32	10,476	0.5	52
1 to 2 years	376	20	75	376	20	75
2 to 3 years	83	60	50	83	60	50
More than 3 years	7,868	100	7,868	7,868	100	7,868
Total	45,063	—	8,025	18,803	—	8,045

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

Name of combination	Book balance	Amounts of bad debts
Combination with the relationship between trading partners	8	—
Combination for special accounts	14,413	—
Total	14,421	—

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

Clients	Amount of bad		Ratio (%)	Reason
	Book balance	debts		
Linyi ming yao chemical Co.,Ltd.	652	652	100	Not recoverable under judgement, full provision
Hayao Group Shi Yi Tang Bai Chuan Pharmaceutical Trade Co., Ltd	795	795	100	no recovery with long account aging
Jiangsu En Hua He Run Pharmaceutical Co., Ltd	308	308	100	no recovery with long account aging
Shandong Haiwang Yinhe Pharmaceutical Co., Ltd	213	213	100	no recovery with long account aging
Xinjiang Shen Zhou Pharmaceutical Co., Ltd	186	186	100	no recovery with long account aging
Shandong Kang Yuan Pharmaceutical Group Co., Ltd	164	164	100	no recovery with long account aging
Lianyungang Kang Yuan Pharmaceutical Trade Co., Ltd	116	116	100	no recovery with long account aging
Linyi Ren Hua Pharmaceutical Co., Ltd	95	95	100	no recovery with long account aging
Heze Mu Dan Pharmaceutical Co., Ltd	68	68	100	no recovery with long account aging
Anhui Hua Shi Pharmaceutical Co., Ltd	53	53	100	no recovery with long account aging
Pingyuan Pharmaceutical Co., Ltd	52	52	100	no recovery with long account aging
Shandong Yiyuan Pharmaceutical Co., Ltd	25	25	100	no recovery with long account aging
Shandong Guo Ying Pharmaceutical Co., Ltd	4	4	100	no recovery with long account aging
Harbin Zhenbaodao Pharmaceutical Co., Ltd.	28	28	100	No more transaction, full provision
Hainan Hai Ling Pharmaceutical Co., Ltd.	20	20	100	No more transaction, full provision
Jiangxi Hui Ren Pharmaceutical Co., Ltd.	20	20	100	No more transaction, full provision
Jiangxi Xiang Zhong Pharmaceutical Trade Co., Ltd.	8	8	100	No more transaction, full provision
Linyi Zhongrui pharmaceutical Co.,Ltd.	7	7	100	No more transaction, full provision
Jiangxi Zhongxing Hanfang Pharmaceutical Co., Ltd.	4	4	100	No more transaction, full provision
Jiangxi Ren He Pharmaceutical Co., Ltd.	3	3	100	No more transaction, full provision
Shandong Kangda Pharmaceutical Co., Ltd.	2	2	100	No more transaction, full provision
Zhangye Zhongxing Pharmaceutical Co., Ltd.	1	1	100	No more transaction, full provision
Total	<u>2,823</u>	<u>2,823</u>		

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

- (4) At the end of the year, the top five balances of other receivables are RMB35,326,000, accounting for 47.99% of the total balance of other receivable, details are as follows:

Name of equity	Relationships	Amount	Aging	Proportion %	Nature or Content
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	11,324	More than three years	15.38	Accounts
Houzhen Project	Non-related party	8,000	Less than one year	10.87	Receivable land accounts
VAT	Non-related party	7,237	Less than one year	9.83	VAT provisionally recognised according to domestic sales due to lack of export information
Export tax refund receivable	Non-related party	7,176	Less than one year	9.75	Export tax refund receivable
Fuzhou Wuhushan Pharmaceutical Co., Ltd	Non-related party	1,589	Less than one year	2.16	Accounts
Total		35,326		47.99	

- (5) At the end of the year, the balance of account receivable due from the related parties was RMB11,332,000 accounting for 15.39% of the total balance of account receivable, details are as follows:

Name of equity	Relationship	Amount	Proportion %
Shandong Xinhua Industry & Trade Company Limited	other-related parties	8	0.01
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	other-related parties	11,324	15.38
Total		11,332	15.39

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

Name of currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EURO	49	8.0536	395	111	8.3176	924
USD	201	6.1787	1,244	—	—	—
Total	250	—	1,639	111	—	924

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

#### (1) Classification of Inventories

Item	Balance at the end of the year			Balance at the beginning of the year		
	Book value	Provision for decline in value	Carrying value	Book value	Provision for decline in value	Carrying value
Raw material	60,066	840	59,226	56,411	840	55,571
Work-in-progress	200,153	2,981	197,172	147,390	2,981	144,409
Goods-in-stock	230,363	11,577	218,786	284,476	11,577	272,899
Low-value consumables	13,534	—	13,534	14,954	—	14,954
Special materials for Government	1,840	—	1,840	1,840	—	1,840
<b>Total</b>	<b>505,956</b>	<b>15,398</b>	<b>490,558</b>	<b>505,071</b>	<b>15,398</b>	<b>489,673</b>

#### (2) Inventory Impairment

Item	Balance at the beginning of the year	Provision made	Reduction		Balance at the end of the year
			Written back	Written off	
Raw material	840	—	—	—	840
Work-in-progress	2,981	—	—	—	2,981
Goods-in-stock	11,308	—	—	—	11,308
Finished Goods	269	—	—	—	269
<b>Total</b>	<b>15,398</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>15,398</b>

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

#### (3) Inventory impairment accrue

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

## 7. Other current assets

Items	Balance at the end of the year	Balance at the beginning of the year	Nature
Prepaid enterprise income tax	4,067	3,275	Prepaid enterprise income tax

## 8. Available-for-sale Financial Assets

Item	Balance at the end of the year	Balance at the beginning of the year
Shares of Ruiheng Pharmaceutical & Technology Investment Company Limited	3,200	3,200
Legal-person share of Bank of Communications	33,452	40,603
Shares of Pacific insurance Company Limited	79,650	112,500
Shares of Tiantong Securities Company Limited	30,000	30,000
Shandong Xinhua Changxing Chemical Equipment Company Limited	3,987	3,987
<b>Total</b>	<b>150,289</b>	<b>190,290</b>
Impairment of available-for-sale financial assets	33,987	33,987
Including: Impairment on shares of Tiantong Securities Company Limited	30,000	30,000
Impairment of Shandong Xinhua Changxing Chemical Equipment Company Limited	3,987	3,987
Net value of available-for-sale financial assets	116,302	156,303

## 9. Long-term Equity Investment

## (1) Long-term Equity Investment

Item	Balance at the end of the year	Balance at the beginning of the year
Using the equity method	27,857	26,469
Total long-term equity investment	27,857	26,469
Less: Impairment loss of Long-term equity investment	—	—
Net amount of Long-term equity investment	27,857	26,469

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

### (2) Using the Equity Method

Name of investee	Proportion of shareholding	Proportion of voting rights	Original Cost	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year	Cash Dividends received in the year
<b>Using the equity method</b>								
Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	10,179	26,469	1,388	—	27,857	—

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

Name of investee	Proportion of shareholding	Proportion of voting rights	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total operating income during this year	Net profit of this year
<b>Joint Ventures</b>							
Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	160,267	54,629	105,638	124,591	7,476

- (4) No provision for impairment has been made and no evidence indicates any impairment of long-term equity investment of the Company.
- (5) There is no significant restriction on the Company of the disposal of the long-term equity investments.

## 10. Investment properties

### (1) Investment properties measured by cost model

Item	Balance at the beginning of the year	Additions of the year	Reductions of the year	Balance at the end of the year
<b>Original price</b>	85,080	—	—	<b>85,080</b>
Buildings	76,304	—	—	<b>76,304</b>
Land use right	8,776	—	—	<b>8,776</b>
<b>Accumulated depreciation &amp; amortization</b>	16,174	2,490	—	<b>18,664</b>
Buildings	15,736	2,380	—	<b>18,116</b>
Land use right	438	110	—	<b>548</b>
<b>Book value</b>	68,906	—	—	<b>66,416</b>
Buildings	60,568	—	—	<b>58,188</b>
Land use right	8,338	—	—	<b>8,228</b>
<b>Provision for impairment</b>	—	—	—	<b>—</b>
Buildings	—	—	—	<b>—</b>
Land use right	—	—	—	<b>—</b>
<b>Book value</b>	68,906	—	—	<b>66,416</b>
Buildings	60,568	—	—	<b>58,188</b>
Land use right	8,338	—	—	<b>8,228</b>

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

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

## 11. Fixed Assets

## (1) Details of fixed assets

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the term
<b>Original value</b>				
Buildings	872,263	20,799	4,497	<b>888,565</b>
Machinery & Equipment	1,692,357	35,469	17,147	<b>1,710,679</b>
Vehicles	21,730	826	261	<b>22,295</b>
Office equipment and others	45,218	1,622	8	<b>46,832</b>
Subtotal	<u>2,631,568</u>	<u>58,716</u>	<u>21,913</u>	<u><b>2,668,371</b></u>
<b>Accumulated depreciation</b>				
Buildings	293,396	19,266	417	<b>312,245</b>
Machinery & Equipment	870,089	61,885	3,581	<b>928,393</b>
Vehicles	14,155	1,356	277	<b>15,234</b>
Office equipment and others	30,844	2,312	(10)	<b>33,166</b>
Subtotal	<u>1,208,484</u>	<u>84,819</u>	<u>4,265</u>	<u><b>1,289,038</b></u>
<b>Net book value</b>				
Buildings	578,867	—	—	<b>576,320</b>
Machinery & Equipment	822,268	—	—	<b>782,286</b>
Vehicles	7,575	—	—	<b>7,061</b>
Office equipment and others	14,374	—	—	<b>13,666</b>
Subtotal	<u>1,423,084</u>	<u>—</u>	<u>—</u>	<u><b>1,379,333</b></u>
<b>Provision for impairment</b>				
Buildings	—	—	—	<b>—</b>
Machinery & Equipment	98	—	—	<b>98</b>
Vehicles	—	—	—	<b>—</b>
Office equipment and others	—	—	—	<b>—</b>
Subtotal	<u>98</u>	<u>—</u>	<u>—</u>	<u><b>98</b></u>
<b>Book value</b>				
Buildings	578,867	—	—	<b>576,320</b>
Machinery & Equipment	822,170	—	—	<b>782,188</b>
Vehicles	7,575	—	—	<b>7,061</b>
Office equipment and others	14,374	—	—	<b>13,667</b>
Subtotal	<u>1,422,986</u>	<u>—</u>	<u>—</u>	<u><b>1,379,236</b></u>

During this year, the amount which fixed assets transferred from construction in progress was RMB20,391,000. The depreciation charge for the year was RMB84,819,000.

## (2) Temporary idle fixed assets

Item	Original Cost	Accumulated depreciation	Provision for impairment	Net value	Remarks
House & Building	3,864	474	—	3,390	
Equipment	10,168	5,220	98	4,850	
Subtotal	<u>14,032</u>	<u>5,694</u>	<u>98</u>	<u>8,240</u>	

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

### (3) Fixed assets leased through operating lease

Items	Original Cost	Net value
House & Building	76,305	58,189

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

Name of properties	Original Cost	Net value	The time expected to complete the title documents
Xinhua Building	45,800	43,261	At the end of 2013
Factory building of 3,000 ton Bunofen	26,046	20,693	At the end of 2013
Factory building of Aspirin	16,000	15,240	At the end of 2013
Comprehensive Office Building (block B)	12,930	7,002	At the end of 2013
Civil engineering of Sulphuric acid phase II	12,476	12,032	At the end of 2013
Factory building of Hutian Production Centre	12,000	11,667	At the end of 2013
Warehouse of Pharm. Trade	10,696	6,462	At the end of 2013
Factory building of DK phrase II	10,637	10,289	At the end of 2013
Hutian Quality Inspection Building	10,000	9,644	At the end of 2013
Xinhua Business Centre	9,847	7,685	At the end of 2013
Factory building of DK	8,759	7,473	At the end of 2013
Factory building of Pyrazolone phrase I	8,076	6,687	At the end of 2013
Civil Engineering of Southern District Power	7,670	7,427	At the end of 2013
Xinhua Building surrounding houses	7,405	6,994	At the end of 2013
Civil engineering of Pyrazolone Factory building phase II	6,874	5,971	At the end of 2013
Factory building of Violuric acid	6,610	5,301	At the end of 2013
R & D centre 1#	6,230	5,983	At the end of 2013
Factory building of TMP	6,000	5,834	At the end of 2013
Factory building of salicylic acid	5,500	5,238	At the end of 2013
CPC Factory building	4,800	4,667	At the end of 2013
Hutian storage warehouse project building	4,100	3,987	At the end of 2013
Power plant	3,700	3,524	At the end of 2013
Water treatment plant	3,668	2,961	At the end of 2013
5# Single staff quarter	3,391	2,957	At the end of 2013
Factory building of Sulphuric acid	3,346	2,917	At the end of 2013
3# Warehouse	3,299	2,941	At the end of 2013
2# Apartment	3,202	2,779	At the end of 2013
Hutian Sewage treatment plant	3,100	2,952	At the end of 2013
Factory building of Chloroacetic acid	2,810	2,387	At the end of 2013
Factory building of 35KV converting station	2,800	2,667	At the end of 2013
6# Single staff quarter	2,770	2,375	At the end of 2013
Factory building of bulk drug	2,600	2,487	At the end of 2013
Factory building of Chloro-propionyl chloride	2,433	2,100	At the end of 2013
1# Warehouse	2,405	2,096	At the end of 2013
Frozen plant	2,345	1,893	At the end of 2013
Canteen	2,255	1,972	At the end of 2013
Western Gongqingtuan Road Tiandu operating centre	2,189	1,929	At the end of 2013
Factory building of ethyl cyanoacetate	2,121	1,746	At the end of 2013
Factory building of formaldehyde	2,044	1,793	At the end of 2013
Warehouse of Pharm. Trade	1,802	1,331	At the end of 2013
Workshop of calcium polycarbophil	1,784	1,318	At the end of 2013
Staff quarter	1,775	1,355	At the end of 2013
2# Warehouse	1,533	1,306	At the end of 2013
Warehouse of Pharm. Trade	1,500	1,014	At the end of 2013
Warehouse of Western Park	1,394	1,236	At the end of 2013
Factory building of Diester	1,247	1,115	At the end of 2013
Analysis Laboratory	1,074	923	At the end of 2013
Factory building of Barbitone	1,000	972	At the end of 2013
Total	302,043	264,584	

## 12. Construction-in-progress

## (1) Detailed list of construction in progress

Projects	Balance at the end of the year			Balance at the beginning of the year		
	Book balance	Provision for Impairment	Book value	Book balance	Provision for Impairment	Book value
Innovation Park						
— Xinhua Building	15,636	—	15,636	9,982	—	9,982
Innovation Park						
— Annex Building	3,829	—	3,829	1,261	—	1,261
Innovation Park						
— R & D centre 1#	1,479	—	1,479	457	—	457
Innovation Park						
— R & D centre 2#	1,104	—	1,104	18,379	—	18,379
Xinhua Shouguang III						
east industrial park project	97,326	—	97,326	39,581	—	39,581
Aspirin project of Hutian	12,632	—	12,632	1,178	—	1,178
Analgin project of Hutian	150,690	—	150,690	67,677	—	67,677
Tribendimidine Project	5,511	—	5,511	971	—	971
Public project of Hutian	34,739	—	34,739	25,961	—	25,961
Barbitone, TMP, CPC product relocation	16,156	—	16,156	7,706	—	7,706
Others	119,752	—	119,752	100,824	—	100,824
Total	458,854	—	458,854	273,977	—	273,977

## (2) Major changes in construction projects

Projects	Balance at the beginning of the year	Additions	Deduction		Balance at the end of the year
			Transfer to fixed assets	Other deductions	
Innovation Park — Xinhua Building	9,982	5,654	—	—	15,636
Innovation Park — Annex Building	1,261	2,568	—	—	3,829
Innovation Park — R & D 1#	457	1,022	—	—	1,479
Innovation Park — R & D 2#	18,379	2,725	20,000	—	1,104
Xinhua Shouguang III					
east industrial park project	39,581	57,751	—	6	97,326
Aspirin project of Hutian	1,178	11,454	—	—	12,632
Analgin project of Hutian	67,677	83,013	—	—	150,690
Tribendimidine Project	971	4,541	—	—	5,512
Public project of Hutian	25,961	8,778	—	—	34,739
Barbitone, TMP, CPC product relocation	7,706	8,450	—	—	16,156
Others	100,824	19,318	391	—	119,751
Total	273,977	205,274	20,391	6	458,854

Projects	Budget	Proportion of construction investment to budget (%)	Progress of project	Accumulation amounts of Capitalization interest	Including: Capitalization interest of this year	Capitalization interest ratio (%)
Innovation Park - Xinhua Building	79,700	102.42%	Completed	—	—	—
Innovation Park - Annex Building	16,160	89.20%	Completed	—	—	—
Innovation Park - R & D 1#	16,850	70.79%	Completed	—	—	—
Innovation Park - R & D 2#	12,900	163.60%	Ongoing	—	—	—
Xinhua Shouguang III east industrial park project	383,098	80.82%	Ongoing	—	—	—
Aspirin project of Hutian	128,000	83.79%	Completed	—	—	—
Analgin project of Hutian	375,000	22.14%	Ongoing	7,894	1,149	5.93
Tribendimidine Project	36,500	110.99%	Ongoing	—	—	—
Public project of Hutian	19,000	182.84%	Ongoing	—	—	—
Barbitone, TMP, CPC product relocation	26,000	178.68%	Ongoing	—	—	—
Others	—	—	Ongoing	—	—	—
<b>Total</b>	<b>—</b>	<b>—</b>		<b>7,894</b>	<b>1,149</b>	<b>—</b>

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

### 13. Intangible Assets

#### (1) Details of Intangible Assets

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the ending of the year
<b>Original value</b>	312,412	<b>4,891</b>	—	<b>317,303</b>
Land use rights	283,237	<b>4,823</b>	—	<b>288,060</b>
Software use rights	5,671	<b>68</b>	—	<b>5,739</b>
Non-patented technology	23,504	—	—	<b>23,504</b>
<b>Accumulated amortization</b>	54,533	<b>5,115</b>	—	<b>59,648</b>
Land use rights	41,995	<b>3,102</b>	—	<b>45,097</b>
Software use rights	3,721	<b>325</b>	—	<b>4,046</b>
Non-patented technology	8,817	<b>1,688</b>	—	<b>10,505</b>
<b>Net book value</b>	257,879	—	—	<b>257,655</b>
Land use rights	241,242	—	—	<b>242,963</b>
Software use rights	1,950	—	—	<b>1,693</b>
Non-patented technology	14,687	—	—	<b>12,999</b>
<b>Provision for impairment</b>	—	—	—	—
Land use rights	—	—	—	—
Software use rights	—	—	—	—
Non-patented technology	—	—	—	—
<b>Net carrying value</b>	257,879	—	—	<b>257,655</b>
Land use rights	241,242	—	—	<b>242,963</b>
Software use rights	1,950	—	—	<b>1,693</b>
Non-patented technology	14,687	—	—	<b>12,999</b>

The amortization charge for the year is RMB5,115,000.

(2) The Company has mortgaged two plots of land in Zhangdian District of Hutian Town, to the Construction Bank of China Zibo Branch for a loan of RMB39,377,000. The Property Right Certificates are Zi Guo Yong (2009) A15409 and Zi Guo Yong (2009) A15408. (See details in notes 6 (28) Long-term borrowing). The total area is 187,030m<sup>2</sup>. The original book value of the land is 73,109,000 and the net value is 67,371,000.

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

Address	Net value
Land of Xinhua Pharmaceutical (shouguang) Company Limited eastern district	9,674
Land use rights of Xinhua Industrial Park, Development Zone (East Park)	5,629
Total	<u>15,303</u>

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

#### 14. Goodwill

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

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

#### 15. Deferred Tax Assets

##### (1) Recognized deferred tax assets

Items	Balance at the ending of the year	Balance at the beginning of the year
Provision for bad debts of subsidiaries	15,776	15,776
Provision for decline in value of inventories of subsidiaries	1,098	1,098
Provision for impairment of fixed assets of subsidiaries	24	24
Unrealized internal profits on sales and purchase with subsidiaries	2,269	2,269
Total	<u>19,167</u>	<u>19,167</u>

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

Item of deductible temporary difference	Balance at the ending of the year	Balance at the beginning of the year
Provision for bad debts of subsidiary	63,105	63,105
Provision for decline in value of inventories of subsidiaries	4,394	4,394
Provision for impairment of fixed assets of subsidiaries	98	98
Unrealized internal profits on sales and purchase with subsidiaries	13,357	13,357
<b>Total</b>	<b>80,954</b>	<b>80,954</b>

### 16. Statement of provision for impairment of Assets

Items	Balance at the beginning of the year	Addition		Reductions		Balance at the end of the year
		Provision for the year	Recovery of years bad debts written off in previous years	written back	written off	
Provision for bad debts	84,390	—	—	—	—	84,390
Provision for decline in value of inventories	15,398	—	—	—	—	15,398
Provision for impairment loss of fixed assets	98	—	—	—	—	98
Provision for impairment loss of available-for-sale financial assets	33,986	—	—	—	—	33,986
<b>Total</b>	<b>133,872</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>133,872</b>

### 17. Short-term Loans

Types of loans	Balance at the end of the year	Balance at the beginning of the year
Credit loan	150,000	357,000
Pledge Loan	12,354	62,855
<b>Total</b>	<b>162,354</b>	<b>419,855</b>

In pledge loan, it includes a pledge loan of account receivable of export exchange receipt right for the Company, which is 13,084,000. See notes 6 (3) 8 account receivable pledge.

**18. Note Payable**

<b>Nature of note</b>	<b>Balance at the end of the year</b>	Balance at the beginning of the year
Bank acceptance	<b>99,231</b>	122,278
Total	<b>99,231</b>	122,278

The ending balance of note payable which will be matured on 30 September 2013 is RMB99,231,000

**19. Account Payable****(1) Account payable**

	<b>Balance at the end of the year</b>	Balance at the beginning of the year
Accounts payable	<b>330,829</b>	274,151
Including: More than one year	<b>11,636</b>	11,895

Account payable aged over one year is unsettled because of purchase of raw materials.

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

<b>Item</b>	<b>Balance at the end of the year</b>			Balance at the beginning of the year		
	<b>Original Currency</b>	<b>Exchange Rate</b>	<b>Translated into RMB</b>	Original Currency	Exchange Rate	Translated into RMB
USD	408	6.1787	2,521	—	—	—
EURO	3,546	8.0536	28,557	1,820	8.3176	15,139

**20. Advances from Customers****(1) Advances from Customers**

	<b>Balance at the end of the year</b>	Balance at the beginning of the year
Advances from customers	<b>12,566</b>	14,523
Including: More than one Year	<b>1,467</b>	1,467

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

<b>Item</b>	<b>Balance at the end of the year</b>			Balance at the beginning of the year		
	<b>Original Currency</b>	<b>Exchange Rate</b>	<b>Translated into RMB</b>	Original Currency	Exchange Rate	Translated into RMB
USD	246	6.1787	1,518	637	6.2855	4,004

### 21. Employees' wage Payable

Item	Balance at the beginning of the year	Additions	Payment	Balance at the end of the year
Salaries (including bonuses, allowance and subsidies)	—	116,962	116,962	—
Staff welfare	—	6,369	6,369	—
Social securities	—	29,646	29,646	—
Including: 1. Pension insurance	—	18,927	18,927	—
2. Medical insurance	—	6,952	6,952	—
3. Unemployment insurance	—	996	996	—
4. Work injury insurance	—	965	965	—
5. Maternity insurance	—	700	700	—
6. Only child pension subsidy	—	1,106	1,106	—
Housing funds	381	15,459	15,579	<b>261</b>
Union running costs and employee education costs	8,822	1,953	1,902	<b>8,873</b>
Directors' and Supervisors' remuneration	5,571	—	1,320	<b>4,251</b>
Compensation to employee for termination of employment relationship	—	56	56	—
Other	1,650	1,924	3,400	<b>174</b>
Total	<b>16,424</b>	<b>172,369</b>	<b>175,234</b>	<b>13,559</b>

### 22. Tax Payable

Categories of tax	Balance at the end of the year	Balance at the beginning of the year
Value added tax	<b>2,389</b>	(11,219)
Business tax	<b>443</b>	1,095
Income tax	<b>1,124</b>	1,649
Urban maintenance & construction tax	<b>1,228</b>	358
Corporation individual income tax	<b>202</b>	118
Property tax	<b>2,427</b>	1,969
Land use tax	<b>2,581</b>	2,337
Stamp tax	<b>119</b>	222
Educational surcharge	<b>877</b>	256
Embankment protection fee	—	3
Local water conservancy construction fund	<b>175</b>	47
Total	<b>11,565</b>	(3,165)

### 23. Interest payable

Items	Balance at the end of the year	Balance at the beginning of the year
Interest on long term loan repayable by instalments	<b>20,984</b>	516

**24. Dividends Payable**

Item	Balance at the end of the year	Balance at the beginning of the year
Dividends for State owned legal person share	—	—
Dividends for other domestic share	—	—
Others	5,311	5,311
Total	5,311	5,311

**25. Other Payable****(1) Other payable**

	Balance at the end of the year	Balance at the beginning of the year
Other payable	80,449	94,122
More than one year	10,527	10,527

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

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

Item	Amount	Ageing	Content
Linqu Longgang Tongji Insulation Material Co., Ltd	4,292	Less than one year	Construction cost
Jingjiang Shenju Manufacture Co., Ltd	2,109	Less than one year	Construction cost
Jiangsu Leke Reli Technology Co., Ltd	2,070	Less than one year	Construction cost
Shandong Ronghe Construction Co., Ltd	2,205	Less than one year	Construction cost
Jiangsu Saideli Pharmaceutical Machine Co., Ltd	1,843	Less than one year	Construction cost
Total	12,519		

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

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EURO	4	8.0536	30	86	8.3176	718
USD	2	6.1787	14	—	—	—

### 26. Non-current liabilities payable within one year

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

Items	Balance at the end of the year	Balance at the beginning of the year
Long-term loan payable within one year	196,000	73,515

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

Types of loan	Balance at the end of the year	Balance at the beginning of the year
Guarantee loan	80,000	—
Credit loans	116,000	73,515
Total	196,000	73,515

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

Lender	Date of inception	Date of maturity	Currency	Interest rate	Balance at the end of the year	Balance at the beginning of the year
Nanyang Commercial Bank, Qingdao Branch	2010-5-11	2013-5-10	HKD	HIBOR (three months) + 1.5	—	23,515
Bank of China, Zibo Branch	2010-9-27	2013-9-26	RMB	4.86%	50,000	50,000
Bank of China, Zibo Branch	2011-3-30	2014-3-30	RMB	6.15%	46,000	—
Ex-im Bank, Qingdao Branch	2012-2-29	2014-2-28	RMB	4.26%	80,000	—
Agricultural Bank, Zibo Branch	2011-4-21	2014-4-20	RMB	6.15%	20,000	—
Total					196,000	73,515

### 27. Other current liabilities

Items	Balance at the end of the year	Balance at the beginning of the year
Deferred income carried over in one year	4,247	2,897

Deferred income carried over in one year refers to the grants of subsidies relating to the 3000 ton Bunuofen project, 100 ton tribendimidine High-tech industrialization project, technology centre creativity construction project and Aspirin product GMP modification project, which will carried over within one year.

## 28. Long-term borrowing

## (1) Classification of long-term borrowing

Types of loan	Balance at the end of the year	Balance at the beginning of the year
Guarantee loan	10,000	90,000
Credit loan	736,250	583,500
Mortgage loan	39,377	44,147
Total	785,627	717,647

- (2) The guarantee loan is guaranteed by Hualu Holdings Co., Ltd., the ultimate controlling company of the Company. See notes 7 (2) 5 Acceptance of Guarantee.
- (3) RMB700,000,000 credit loan is borrowed from the ultimate controlling company, Hualu Holdings Co., Ltd. Also, the Company needs to prepay the relevant handling charge of RMB6,750,000.
- (4) The mortgage loan is the loan granted by China Construction Bank Zibo Branch. The mortgage is the land use right. See notes 6 (13) Intangible Assets for details of the mortgage.

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

Lender	Date of inception	Date of maturity	Currency	Interest rate	Balance at the end of the year	Balance at the beginning of the year
The Export-Import Bank of China, Qingdao Branch	2012-2-29	2014-2-28	RMB	4.20%	—	80,000
Agricultural Bank of China, Zibo Branch	2011-4-21	2014-4-20	RMB	6.15%	—	20,000
Bank of China, Zibo Branch	2011-3-30	2014-3-30	RMB	6.15%	—	47,000
Construction Bank of China, Zibo Branch	2011-3-3	2016-3-2	RMB	6.40%	39,377	44,147
Construction Bank of China, Zibo Branch	2012-10-30	2017-4-29	RMB	6.40%	10,000	10,000
Construction Bank of China, Zibo Branch	2013-1-14	2017-4-29	RMB	6.40%	12,000	—
Construction Bank of China, Zibo Branch	2013-3-7	2017-4-29	RMB	6.40%	11,000	—
Key project subsidy loan	2009-6-30	2017-6-29	RMB	5.895%	20,000	20,000
Hualu Holdings Co., Ltd.	2011-12-30	2016-12-30	RMB	5.83%	494,750	496,500
Hualu Holdings Co., Ltd.	2013-1-1	2015-12-31	RMB	5.85%	198,500	—
Total					785,627	717,647

### 29. Special Payable

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year	Notes
Tribendimidine High-tech industrialization project*	13,500	1,500	—	15,000	—
Total	13,500	1,500	—	15,000	—

\* Based on 'Notice of Stated-owned Capital Operating Budget for Major Technology Innovation and Industrial Capital Budget', Lu-Cai-Qi No. (2011) 107, issued by Shandong Financial Bureau, the Company acquired funds of 1,500,000 for major technology innovation and industrial capital during the year.

### 30. Deferred Tax Liabilities

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

Items	Balance at the end of the year		Balance at the beginning of the year	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Changes in fair value of available-for-sale financial asset	23,348	4,672	65,180	11,130

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

Items	Temporary differences	Deferred income tax amount for the year
<b>Deferred income tax asset</b>		
Bad debts provision of the parent company	21,188	3,178
Provision for decline in value of inventories of the parent company	9,841	1,476
Provision for impairment loss of the parent company's available-for-sale financial asset	30,000	4,500
Loses on the parent company investment in associates	7,700	1,155
Unpaid wages and salaries of the parent company	6,972	1,047
Unpaid accrued expense	4,529	679
Subtotal	<u>80,230</u>	<u>12,035</u>
<b>Deferred income tax liabilities</b>		
The change in fair value of the parent company's available-for-sale financial asset	91,876	13,782
Asset appraisal appreciation	11,702	2,925
Subtotal	<u>103,578</u>	<u>16,707</u>
<b>Net amount</b>	<u><u>23,348</u></u>	<u><u>4,672</u></u>

**31. Other non-current liabilities****(1) Details of other non-current liabilities**

Items	Balance at the end of the year	Balance at the beginning of the year
Asset-related government subsidies	135,795	85,015
Authorized reserve fund	3,562	3,562
Total	<u><u>139,357</u></u>	<u><u>88,577</u></u>

### (2) Government subsidies

Types of government subsidiaries	Balance in the end of the year		Credited to the Profit and Loss for the year	Refund for the year	Reason for refund
	Balance in the end of the year	Amounts to other current liabilities			
Compensation for relocation *1	101,231	—	—	—	—
3000 tons Ibuprofen Project *2	3,097	590	295	—	—
Tribendimidine High-tech industrialization project *3	4,966	590	295	—	—
Technology centre creativity construction project *4	4,083	500	250	—	—
Aspirin product GMP modification project *5	10,243	1,217	609	—	—
MVR energy conservation technology modification special fund *6	400	—	—	—	—
Aspirin famous large breed cultivation *7	11,775	1,350	375	—	—
<b>Total</b>	<b>135,795</b>	<b>4,247</b>	<b>1,824</b>	<b>—</b>	<b>—</b>

\*1 Based on Shandong Province Zibo City Eastern Chemical Area Relocation Plan issued in September 2008, certain products of the Company were listed in this relocation plan. In this respect, Zibo Financial Bureau granted to the Company relocation compensation pursuant to Zi-Cai Qi(2009) No.29, Zi-Cai-Qi (2009) No.33 & Zi-Cai-Qi (2009) No.55. During this year, the Company received compensation of RMB40,453,000 in total from Finance Bureau of Zibo City.

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

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

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

\*5 Based on the document Zi-Fa-Gai-Fa (2012) No.253 issued by Zibo Development and Innovation Committee and Zibo Economic Information Committee, the Company received RMB12,170,000 in 2012 for Aspirin product GMP modification project. The expected amount to be brought forward as income within one year shall be reclassified to "other current liabilities", and the remaining amount of the government subsidies shall be shown under "other non-current liabilities".

\*6 Based on the document Zi-Zheng-Ban Zi No. (2012) 73 issued by Zibo People's Government Office, the Company received RMB400,000 in 2012 as MVR energy conservation technology modification special fund.

\*7 Based on the document Lu-Ke-Zhuan No. (2012) 187 issued by Shandong Science Department and Finance Department, the Company received RMB13,500,000 in 2013 for Aspirin famous large breed cultivation project. The expected amount to be brought forward as income within one year shall be reclassified to "other current liabilities", and the remaining amount of the government subsidies shall be shown under "other non-current liabilities".

### 32. Share Capital

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

### 33. Capital reserve

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Revaluation of assets appreciation	60,910	—	—	<b>60,910</b>
Premium share	496,492	—	—	<b>496,492</b>
Receipt of donation	1,158	—	—	<b>1,158</b>
Other capital reserve	118,136	—	34,001	<b>84,135</b>
<b>Total</b>	<b>676,696</b>	<b>—</b>	<b>34,001</b>	<b>642,695</b>

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

### 34. Surplus Reserves

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Statutory surplus reserves	131,962	—	—	131,962
Discretionary surplus reserve	64,797	—	—	64,797
Total	196,759	—	—	196,759

### 35. Undistributed Profits

Item	Balance at the end of the year	Appropriation rate
<b>Undistributed profit at the end of last year</b>	407,128	—
Add: adjustment to the undistributed profit at beginning of the year	—	—
<b>Undistributed profit at beginning of the year</b>	407,128	—
Add: Net profit of the year	4,988	—
Less: Appropriation of statutory surplus reserve	—	10%
Appropriation of discretionary surplus reserve	—	—
Appropriation of common risk provision	—	—
Dividends payable on common stock	4,573	—
Dividends transferred to capital stock	—	—
<b>Undistributed profit at the end of the year</b>	407,543	—

On 24 May 2013, the 2012 profit distribution plan was endorsed at the Company's Annual General Meeting. After deduction of 10% from the profit to the statutory surplus reserve fund, the Company with its total share capital of 457,312,830 shares as a base, distributes cash dividends to all shareholders, RMB0.01 per share (including tax).

### 36. Minority Interests

Name of minority shareholder	Proportion of minority interests	Balance at the end of the year	Balance at the beginning of the year
LK&K Trade Co., Ltd.	35%	5,275	4,752
Eastwest United Group, INC	25%	3,461	3,220
Perrigo Asia Holding Company	49.9%	31,977	31,729
Total		40,713	39,701

## 37. Operating Income and Operating Cost

## (1) Operating Income and Operating Cost

Item	Amount of the year	Amount of last year
Income from main operation	1,600,002	1,516,741
Income from other operation	17,133	21,189
<b>Sub-total of operation income</b>	<b>1,617,134</b>	<b>1,537,930</b>
Cost for main operation	1,344,065	1,239,572
Cost for other operation	19,669	24,604
<b>Sub-total of operation cost</b>	<b>1,363,734</b>	<b>1,264,176</b>

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

Category of products	Amount of this year		Amount of last year	
	income	costs	income	costs
Bulk Pharmaceuticals	781,092	657,492	744,897	603,001
Including: Export sales	560,225	492,877	557,868	478,508
Preparations	303,471	180,951	290,644	161,785
Commerical circulations	411,502	392,093	385,869	372,171
Chemical and others	103,937	113,529	95,331	102,615
Total	1,600,002	1,344,065	1,516,741	1,239,572

## (3) Operating Income from top five customers

Name of customers	Amount of this year	Proportion (%)
Mitsubishi Corporation	101,305	6.26
Chongqing Hengyun Pharmaceutical Co., Ltd	45,385	2.81
Bayer Pharmaceutical Co., Ltd	43,182	2.67
CHINA SHANDONG GROUP LIMITED	35,919	2.22
Shandong Ruizhong Pharmaceutical Co., Ltd	31,101	1.92
Total	256,892	15.89

### 38. Business Taxes and Surcharges

Item	Tax rate	Amount of this year	Amount of last year
Business tax	5%	573	293
Urban maintenance & construction tax	7%	5,278	4,290
Educational surcharges	5%	3,770	3,064
Local water conservancy construction funds	1%	745	606
Total		<b>10,366</b>	<b>8,253</b>

### 39. Selling Expense

Item	Amount of this year	Amount of last year
Salary	23,912	25,751
Sales and Promotion Expenses	9,058	5,123
Transport Expense	13,045	8,920
Travel Expense	6,221	5,888
Office Expense	1,250	724
Export Commission	1,652	1,767
Advertising Expense	41,690	56,802
Terminal Selling Expense	9,508	7,402
Other	3,628	4,773
Total	<b>109,964</b>	<b>117,150</b>

### 40. Management Expense

Item	Amount of this year	Amount of last year
Salary and Welfare	15,744	16,653
Five Social Insurances and one housing fund and fee	6,137	7,840
Other Welfare	5,487	5,965
Labor Protection Expense	594	143
Insurance Expense	2,180	2,957
Depreciation	9,242	7,316
Repair Expense	1,006	689
Intangible Assets Amortization	5,108	3,917
Low Cost Consumables Amortization	1,789	1,279
Inventory Loss and Damage	—	10
Entertainment Expense	2,336	3,147
Travel Expense	1,307	1,102
Office Expense	1,901	2,726
Tax	9,827	8,676
Litigation Expense	400	300
Employment of Intermediaries Expense	1,201	461
R & D Expense	13,904	13,771
Sewage Expense	1,840	2,006
Others	21,446	20,627
Total	<b>101,448</b>	<b>99,584</b>

**41. Financial Expense**

Item	Amount of this year	Amount of last year
Interest expense	36,988	27,855
Less: interest income	1,156	1,471
Add: exchange loss	8,472	(1,080)
Add: other	1,971	2,140
Total	46,275	27,444

**42. Investment Gain****(1) The source of income investment gain**

Sources of income on investment	Amount of this year	Amount of last year
Income from long-term equity investment accounted for using equity method	1,432	1,615
Investment income from holding Available for sale financial assets	175	2,572
Others	—	14
Total	1,607	4,201

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

Item	Amount of this year	Amount of last year	The reason for change
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	1,432	1,615	Net profit changes of the investee
	1,432	1,615	

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

**43. Non-operating Income****(1) Details of non-operating income**

Item	Amount of this year	Amount of last year	The amount of non-recurring gains and losses reckon into this year
Proceed from disposal of non-current asset	111	260	111
Including: Proceeds from disposal of fixed asset	111	260	111
Government Subsidies	23,799	22,104	23,799
Other	869	2,269	869
Total	24,779	24,633	24,779

### (2) Details of Government subsidies

Type of Subsidies	Amount of this year	Amount of last year	Approval document
Recycling economy and sewage funds	—	12,261	Hou-Zhen-Fa No. (2010)3
East park sewage treatment system the pool acid hydrolysis funds	—	500	Lu-Jian-Cai-Zhi No. (2011)143
State grants	—	130	Zibo Municipal Bureau of Finance issued
Paracetamol technological transformation funds	—	385	Significant special funds of the National Science and Technology
Major project of Tribendimidine matching funds	962	—	Zibo High-tech No. (2012)58
Ibuprofen technology modification project funds	965	—	Zibo High-tech No. (2012)59
Benfluorex hydrochloride funds	50	—	Zibo High-tech No. (2012)60
Technology Innovation Center won the first prize	200	—	Zibo High-tech No. (2012)61
Industry standard reward	200	—	Zibo High-tech No. (2012)62
The first prize of progress of science and technology	100	—	Zibo High-tech No. (2012)62
Paracetamol technological transformation funds	268	—	Wei-Ke-Yao No.[2011] 93-201-101-04
High-tech Zone science and technology support funds	4,087	—	Finance Bureau of Zibo High-tech Zone
International market development support funds	3	—	Zi-Cai-Qi-Zhi No. (2013)9
The financial support of sewage treatment	15,140	—	Hou-Qu-Fa No. (2013)2
<b>Subtotal</b>	<b>21,975</b>	<b>13,276</b>	
Government Subsidies amortized this year			
3000 tons of Ibuprofen project transferred from deferred income	295	295	Lu-Jian-Cai-Zhi No. (2009)157
Relocation compensation amortization	—	6,530	Zi-Zheng-Ban-Zi No. (2009)10
Bulk drug of Aspirin technology modification project	—	2,003	Wei-Ke-Yao No. (2011)85-23-001
Technology center creativity construction project	250	—	Fa-Gai-Ban-Gao-Ji No. (2011)1247
Tribendimidine High-tech industrialization project	295	—	Zi-Fa-Gai-Fa No. (2011)94
Aspirin product GMP modification project	609	—	Zi-Fa-Gai-Fa No. (2012) 253 issued by Zibo Development and Innovation Committee, Zibo Economic Information Committee
Aspirin famous large breed cultivation project	375	—	Lu-Ke-Zhuan No. (2012)187
<b>Subtotal</b>	<b>1,824</b>	<b>8,828</b>	
<b>Total</b>	<b>23,799</b>	<b>22,104</b>	

## 44. Non-operating Expense

Item	Amount of this year	Amount of last year	The amount of non-recurring gains and losses reckon into this year
Loss on disposal of non-current asset	120	6,559	120
Including: loss on disposal of fixed asset	120	6,559	120
Overdue fines and penalties	—	682	—
Other	2,332	2,914	2,332
Total	2,452	10,155	2,452

## 45. Income Tax Expense

Item	Amount of this year	Amount of last year
Income tax expenses for current period	3,628	6,968
Deferred income tax expense	(458)	—
Total	3,170	6,968

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

Items	No.	Amount of this year	Amount of last year
Net profit attributable to shareholders of the Company	1	4,988	31,195
Non-recurring gains and losses attributable to the Company	2	21,433	11,092
The net profit after attributable shareholders of the Company, excluding non-recurring gains and losses	3=1-2	(16,445)	20,103
The total number of shares in the beginning of the year	4	457,313	457,313
The number of shares of capitalisation of reserve or business (I)	5	—	—
The number of shares increase in Issuing new shares or debt to equity (II)	6	—	—
The accumulated number of months of Increase share (II) from next month to the end of the year	7	—	—
Reduction due to the shares repurchased	8	—	—
The accumulated number of reduction share from next month to the end of the year	9	—	—
The number of shares reduced	10	—	—
No. of Month of the reporting period	11	—	—
Weighted average number of ordinary shares public outstanding	$12=4+5+6\times7\div11-8\times9\div11-10$	457,313	457,313
Basic earnings per share (I)	$13=1\div12$	0.01	0.07
Basic earnings per share (II)	$14=3\div12$	(0.04)	0.04
Dilution potential ordinary shares interest recognized as an expense	15	—	—
Conversion expresses	16	—	—
Income tax rate	17	15%	15%
The increase in number of shares weighted average number of Warrants and options exercisable, convertible bonds, etc	18	—	—
Diluted earnings per share (I)	$19=[1+(15-16)\times(1-17)]\div(12+18)$	0.01	0.07
Diluted earnings per share (II)	$20=[3+(15-16)\times(1-17)]\div(12+18)$	(0.04)	0.04

### 47. Other comprehensive Income

Items	Amount of this year	Amount of last year
1. The profits generated by Available- for- sale financial assets	(40,001)	16,208
less: Income tax impact on Available- for- sale financial assets	(6,000)	2,431
Previously recognized in other comprehensive income transferred to net profit or loss	—	—
Subtotal	(34,001)	13,777
2. Conversion differences of financial statements denominated in foreign currencies	(421)	(458)
3. Others	—	—
Total	(34,422)	13,319

## 48. Cash Flow Statement

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

## 1) Other Cash Receipt Relating to Operating Activities

Item	Amount of this year	Amount of last year
Subsidies income	75,928	26,775
Interest income	1,156	1,333
Bank acceptance security deposit	8,500	5,982
Other	11,654	21,801
Total	97,238	55,891

## 2) Other Cash Payments Relating to Operating Activities

Item	Amount of this year	Amount of last year
Office expense	1,901	2,530
Travel expense	5,528	4,994
Annual listing fee, audit fee and Board's fee	1,201	1,889
Sewage discharge fee	1,840	613
Advertising and marketing expense	61,908	61,816
Freight charge	13,045	16,499
Entertainment expense	2,336	3,172
Research and development expense	13,904	13,621
Guarantee fund	21,720	6,000
China port technology significant funds	—	15,634
Other	8,950	37,301
Total	132,332	164,069

## 3) Other Cash Payments Relating to Financing Activities

Item	Amount of this year	Amount of last year
Financing charges	4,800	—

### (2) Additional information for consolidated cash flow statement

Item	Amount of this year	Amount of last year
<b>1. Reconciliation of net income to cash flows from operating activities</b>		
Net profit	6,111	33,035
Add: Provisions for impairment loss of asset	—	—
Depreciation of fixed asset	84,819	67,424
Amortization of intangible asset	5,115	3,057
Losses on disposal of fixed asset, intangible asset and other long-term asset	120	6,300
Losses of scrapped fixed asset	—	—
Profit or loss from changes in fair value	36,988	27,444
Financial expense	(1,607)	(4,201)
Investment loss	—	(650)
Decrease in deferred tax assets	(6,458)	1,566
Increase in deferred tax liabilities	(884)	(22,145)
Decrease in inventories	(133,856)	(78,792)
Decrease in operating receivables	15,030	(75,225)
Increase in operating payables	5,378	(42,187)
Net cash flows from operating activities		
<b>2. Significant investing and financing activities not involving cash receipt or payment:</b>		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired on Finance lease	—	—
<b>3. Changes in cash and cash equivalents:</b>		
Ending balance of cash	153,565	369,065
Less: beginning balance of cash	375,544	267,965
Add: ending balance of cash equivalents	—	—
Less: beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	<b>(221,979)</b>	<b>101,100</b>

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

Item	Amount of this year	Amount of last year
Cash	153,565	375,544
Including: Cash in hand	243	755
Bank deposit available for payments at any moment	153,322	372,789
Other funds available for payments at any moment	—	2,000
Cash equivalents	—	—
Ending balance of cash and equivalents	153,565	375,544
Including: Restricted cash and Cash equivalents of the Company or subsidiaries in the Group.	—	—

## 7. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

## (1) Related Party Relationships

## 1. Parent company and the ultimate controlling entity

## (1) Parent company and the ultimate controlling entity

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

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

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

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

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

### 2. Subsidiaries

#### (1) Subsidiaries

Name of subsidiaries	Type of organisation	Place of registration	Principal activities	Legal person	Code of Organization
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	Limited company	Zibo Shandong	Sales of Pharmaceutical Chemical	He Tongqing	766662729
2. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	Limited company	Zibo Shandong	Sales of Pharmaceutical Chemical	Zhang Daiming	788496661
3. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	Limited company	Zibo Shandong	Engineering Design of Pharmaceutical Chemical	Du Deping	737227162
4. Zibo Xinhua Drugstore Chain Co., Ltd.	Limited company	Zibo Shandong	Sales of Pharmaceutical Chemical	He Tongqing	267196268
5. Shandong Xinhua Pharmaceutical (Europe) Ltd.	Limited company	Rotterdam Holland	Sales of Pharmaceutical Chemical	Zhang Daiming	—
6. Zibo Xinhua - West Pharmaceutical Co., Ltd.	Limited company	Zibo Shandong	Manufacturing of Pharmaceutical Chemical	Zhang Daiming	779742314
7. Zibo Xinhua - Perrigo Pharmaceutical Co., Ltd.	Limited company	Zibo Shandong	Manufacturing of Pharmaceutical Chemical	Zhang Daiming	746569703
8. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	Limited company	Shouguang Shandong	Manufacturing of Pharmaceutical Chemical	Du Deping	793907875
9. Xinhua (Zibo) Property Development Co., Ltd.	Limited company	Zibo Shandong	Development of real estate	Zhang Daiming	567705933
10. Xinhua Pharmaceutical (Gaomi) Co., Ltd.	Limited company	Gaomi Shandong	Manufacturing of Pharmaceutical Chemical	He Tongqing	72623228-1
11. Shandong Xinhua Pharmaceutical (USA) Company Limited	Limited company	South El Monte, USA	Sales of Pharmaceutical Chemical	Guo Qiang	—

#### (2) Registered capital of the subsidiaries and their changes

Name of subsidiaries	Currency	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	RMB	48,499	—	—	48,499
2. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	RMB	5,000	—	—	5,000
3. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	RMB	3,000	—	—	3,000
4. Zibo Xinhua drugstore chain Co., Ltd.	RMB	2,000	—	—	2,000
5. Shandong Xinhua Pharmaceutical (Europe) Ltd.	Euro	769	—	—	769
6. Zibo Xinhua - West Pharmaceutical Co., Ltd.	USD	1,500	—	—	1,500
7. Zibo Xinhua - Perrigo Pharmaceutical Co., Ltd.	USD	6,000	—	—	6,000
8. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	RMB	230,000	—	—	230,000
9. Xinhua (Zibo) Property Development Co., Ltd.	RMB	20,000	—	—	20,000
10. Xinhua Pharmaceutical (Gaomi) Co., Ltd.	RMB	19,000	—	—	19,000
11. Shandong Xinhua Pharmaceutical (USA) Co., Ltd	USD	—	1,500	—	1,500

## (3) Proportion of shareholding in subsidiaries and the changes

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

\* The currency for holding the shares is Euro,

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

## 3. Associates

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

## 4. Other related parties

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

### (2) Related Party Transactions

#### 1. Pricing Policy

The price of product sales to related parties as well as the price of raw materials purchased from related parties is determined based on the market price.

#### 2. Purchase of materials

Name of Related Party	Nature of Transaction	Amount of this year		Amount of last year	
		Amount	Proportion (%)	Amount	Proportion (%)
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Chemical materials	16,216	3.90	15,987	3.16
Zibo DSM Pharmaceutical Company Limited	Pharmaceutical materials	6,917	1.66	13,836	2.73
Shandong Xincat Chemical & Industrial Company Limited	Drug	581	—	410	—
Total		23,714	—	30,233	—

#### 3. Sale of goods

Name of Related Party	Transaction contents	Amount of this year		Amount of last year	
		Amount	Proportion (%)	Amount	Proportion (%)
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of power	711	6.00	1,169	7.94
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of wastes (water, gas, solid)	533	7.70	2,381	—
Zibo DSM Pharmaceutical Company Limited	Sale of power	2,898	24.50	2,757	18.73
Shandong Zibo XinCat Pharmaceutical Company Limited	Sale of power	325	2.76	271	1.84
China Shandong Group Ltd.	Sale of bulk drug	35,920	4.60	31,963	4.29
USA Perrigo International Co., Ltd.	Sale of bulk drug	71,860	9.20	67,718	9.09
USA Xinhua-west Pharmaceutical Co., Ltd.	Sale of bulk drug	554	0.07	—	—
Total		112,801	—	106,259	—

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

Name of related party	Transaction contents	Amount of this year	Amount of last year
Hualu Holdings Co., Ltd.	loan interest	20,539	14,737
Hualu Holdings Co., Ltd.	underwriting fee	1,050	750

**5. Acceptance of guarantee**

The Company entered into a loan contract with Qingdao Branch of Export-Import Bank of China with a contracted amount of RMB80,000,000 for a period from 29 February 2012 to 28 February 2014. The loan was guaranteed by the ultimate controlling company, Hualu Holdings Co., Ltd.

The Company entered into a loan contract with Zibo Branch of China Construction Bank with a contracted amount of RMB10,000,000 for a period from 10 October 2012 to 29 April 2017. The loan was guaranteed by the ultimate controlling company, Hualu Holdings Co., Ltd.

**6. Related Party Borrowing or Lending Transaction**

Name of Related Party	Borrowing / Lending	Amount of Transaction	Date of inception	Date of maturity
Hualu Holdings Co., Ltd.	Borrowing	198,500	2013-1-1	2015-12-31

**7. Lease of Assets**

## 7.1. Lease-in assets

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

**8. Other Transactions**

## 8.1 Trademark Using Fee

Name of Related Party	Nature of Transaction	Amount of current the year	Amount of last year
Shandong Xinhua Pharmaceutical Group Company Limited	Trademark using fee	5,000	3,750

Pursuant to the Trademark License Agreement signed by the parent company Shandong Xinhua Pharmaceutical Group Company Limited and the Company on 7 December 1996, the Company was granted the exclusive right to use the trademark Xinhua (Trademark) by the Shandong Xinhua Pharmaceutical Group Company Limited for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at the rate of an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000. The terms of the agreement will be effective during the period when the Trademark is valid and until the agreement is terminated.

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

### 9. Key Management Personnel Salaries

Item	Amount of this year	Amount of last year
Key Management Personnel Salaries*	1,119	706

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

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

#### 1. Related party transactions balance of asset classes

Name of Related Party	Balance at the end of the year		Balance at the beginning of the year	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
<b>Account receivable</b>				
Shandong Xinhua Industry & Trade Company Limited	1,150	1,150	1,150	1,150
Shandong Zibo XinCat Pharmaceutical Company Limited	271	—	—	—
China Shandong Group Ltd.	3,891	—	3,935	—
USA Perrigo International Co., Ltd.	10,548	—	7,185	—
USA Xinhua - West Pharmaceutical Co., Ltd.	796	—	1,306	—
Total	<u>16,656</u>	<u>1,150</u>	<u>13,576</u>	<u>1,150</u>
<b>Advances to Suppliers</b>				
Shandong Xinhua Industry & Trade Company Limited	46	—	28	—
<b>Other Receivable</b>				
Shandong Xinhua Industry & Trade Company Limited	8	—	8	—
Zibo DSM Pharmaceutical Company Limited	8	—	8	—
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	130	—	—	—
Total	<u>11,324</u>	<u>11,324</u>	<u>11,324</u>	<u>11,324</u>
Total	<u>11,462</u>	<u>11,324</u>	<u>11,332</u>	<u>11,324</u>

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

Name of Related Party	Balance at the end of the year	Balance at the beginning of the year
<b>Account Payable</b>		
Shandong Xinhua industrial & trading Co., Ltd.	—	62
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	3,859	2,052
Zibo DSM Pharmaceutical Company Limited	316	729
Shandong Zibo XinCat Pharmaceutical Company Limited	609	101
Total	<u>4,784</u>	<u>2,944</u>
<b>Long-term Loan</b>		
Hualu Holdings Co., Ltd.	<u>693,250</u>	<u>496,500</u>

**8. CONTINGENCIES****1. Contingent liabilities caused by pending litigation**

- (1) In July 2012, Nanjing Huadong Pharmaceutical Company Limited (hereinafter referred to as Huadong Pharm.) sued Pharm. Trade at Nanjing Xuanwu District People's Court for payment of RMB6,000,000 and the relevant interest of RMB300,000. The reasons that Huadong Pharm. sued Pharm. Trade were as following:

In October 2011, Pharm. Trade paid RMB6,000,000 for commercial goods to Huadong Pharm. through bank acceptances endorsed by Xin Kang Qi. The validity terms of the bank acceptances were up to April 2012. However, the previous endorsee of Xin Kang Qi's bank acceptances, Jinan Jinbaisheng Steel Trade Co. Ltd. (hereinafter referred to as Baisheng Steel) reported the loss of the bank acceptances to Sichuan Panzhuhua Eastern District People's Court and applied for the announcement of such loss. The bank acceptances was declared invalid by the court in March 2012. Therefore, Huadong Pharm. actually did not receive the payment.

Pharm. Trade realized that Huadong Pharm. endorsed bank acceptances received from Pharm. Trade to Nanjing Jinling Pharmaceutical Company Limited (hereinafter referred to as Jinling Pharm.), the subsidiary of Nanjing Jinling Pharmaceutical Group Limited. Pharm. Trade's bank deposit of RMB6,500,000 was frozen by the court in August 2012.

Pharm. Trade presented objections to the jurisdiction of the above lawsuit. Pharm. Trade believed that this lawsuit was an issue of notes, and it should be heard by People's Courts in the domicile of Pharm. Trade or the payer of the bank acceptances. On September 12, 2012, based on the civil ruling paper, Chu-Shang-Zi (2012) No. 948-1, issued by Nanjing Xuanwu District People's Court, the objections proposed by Pharm. Trade were rejected. Pharm. Trade refused to accept the judgment. On September 17, 2012, Pharm. Trade lodged an appeal to Nanjing People's Intermediate Court. As at the financial reporting date, the lawsuit is still in progress.

After seeking legal advice, the Company believed that when the bank acceptances were paid from Pharm. Trade to Huadong Pharm., they were lawful. Huadong Pharm. or Jinling Pharm. did not report their interest to Sichuan Panzhihua Eastern District People's Court during the interpellation period after the announcement was published nor sue after the ex-right judgement was issued. The reason that the bank acceptances became invalid was that Huadong Pharm. or Jinling Pharm., as the lawful holder, failed to execute their legal right. The facts of the issue described above are relatively clear. The Company's potential liability is small.

- (2) On May 5, 2011, the Company and its subsidiary Pharm. Trade, Huaxia Bank Jinan Huaiyin Branch (hereinafter referred to as Huaxia Bank), Shandong Hengan Pharmaceutical Company Limited (hereinafter referred to as Hengan) signed the "Prospective Delivery Financing Business Cooperation Agreement". In the agreement, Hengan use bank acceptances for payments to Pharm. Trade; which means that Huaxia Bank would send lading bill to Pharm. Trade when it acquires margin from Hengan, and Pharm. Trade would deliver goods to Hengan. If Pharm. Trade delivers more quantity of goods than the lading bill required, Huaxia bank would not bear the obligation. The obligation is to be borne by the Company, Pharm. Trade and Hengan.

On August 29, 2011, Huaxia Bank accepted two bank acceptances, issued by Hengan and the payee is Pharm. Trade. Their term of validity was from August 29, 2011 to February 29, 2012. The total amount was 3,000,000. Hengan had paid back 900,000. After the bank acceptances' maturity date, Hengan did not pay the remaining 2,100,000 to Huaxia Bank.

On March 28, 2012, Huaxia Bank sued the Company and its subsidiary Pharm. Trade at Jinan Intermediate Railroad Transportation Court to request payment of the bank acceptances of 2,100,000 and the interest of 29,000 thereof. The Company's bank deposit of RMB2,600,000 was frozen by the court in March 2012.

As at the date of the financial statements, after obtaining legal opinion, the Company believes Huaxia Bank had issued delivery bill of 2,100,000 to Hengan. Pharm. Trade should not bear the legal liability.

- (3) The Company sold an office building through Shandong Jixia Auction Company Limited (hereinafter referred to as Jixia) to Yantai Longjing Investment Company Limited (hereinafter referred to as Longjing). Since a small area of the building was rented to and still occupied by China Unicom's Zibo branch, Longjing could not normally sell or lease to other parties.

Longjing sued the Company and Jixia at the court for the reason that Longjing was not informed of the issue described above and the selling area of the building was different to what it should be. Longjing requested the Company to pay for the loss of 7,475,000. According to the civil judgement by Shandong High People's Court (2010) Lu Shang Zhong Zi No. 242, the Company should compensate 560,000 for Longjing's loss of unmatched investment building area. The remaining prayer for relief was not approved by the court. The Company had paid the compensation.

On November 25, 2012, Longjing lodged an appeal to Shandong High People's Court to overrule the civil judgement by Shandong High People's Court (2010) Lu Shang Zhong Zi No. 242 and amend the judgement that the Company should immediately compensate the economic loss of 5,074,000 and the economic loss of 2,400,000 due to the Company's concealment of the real estate area to Longjing. As at the financial reporting date, the lawsuit is still in progress.

**2. Apart from contingencies described above, the Company has no other important events to be disclosed at 30 June 2013.**

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

Items	Contract Amount	Amount Unpaid
Innovation Zone	83,219	28,571
Hutian park	295,319	119,457
DK Project	39,380	6,320
Waste Water Treatment Project	13,008	2,070
Sulfuric acid project	66,555	6,139
Others	126,476	62,620
	<u>623,957</u>	<u>225,177</u>
Total	<u>623,957</u>	<u>225,177</u>

**2. Other than as disclosed above, the Company has no other material commitment as at 30 June 2013.****10. POST BALANCE SHEET DATE EVENTS**

The Company has no other important post balance sheet date events to be disclosed at 30 June 2013.

**11. OTHER IMPORTANT EVENTS**

The Company has no other important events to be disclosed at 30 June 2013.

**12. MAIN ITEMS' NOTES OF THE COMPANY'S FINANCIAL STATEMENTS****1. Account Receivable****(1) Classification of Account Receivable**

Item	Balance at the end of the year				Balance at the beginning of the year				
	Amount	Proportion%	Bad debts Provision	Proportion%	Amount	Proportion%	Bad debts Provision	Proportion%	
Account receivable of individual amount is significant, individually provision for bad debts	—	—	—	—	—	—	—	—	
Combination of aging	208,592	54.61	1,293	0.62	139,354	47.65	1,293	0.94	
Combination with the relationship between trading partners	172,240	45.09	—	—	151,969	51.95	—	—	
Combination for special account	—	—	—	—	—	—	—	—	
Subtotal	380,832	99.7	1,293	0.34	291,323	99.60	1,293	0.44	
Account receivable of individual amount is not significant, but individually provision for bad debts	1,150	0.30	1,150	100.00	1,150	0.40	1,150	100	
Total	<u>381,982</u>	<u>—</u>	<u>2,443</u>	<u>—</u>	<u>292,473</u>	<u>—</u>	<u>2,443</u>	<u>—</u>	

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

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion %	Bad debts Provision	Amount	Proportion %	Bad debts Provision
Within one year	207,724	0.33	693	138,486	0.50	693
1 to 2 years	156	20	31	156	20	31
2 to 3 years	359	60	216	359	60	216
More than 3 years	353	100	353	353	100	353
Total	208,592	—	1,293	139,354	—	1,293

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

Clients	Book balance	Amount for bad debts	Ratio (%)	Reason
Combination with the relationship between trading partners	172,240	—	—	—

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

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

- (2) There were no accounts receivables being written off in this year in accordance with the Company's policies.
- (3) At the end of the year, accounts receivable balance do not include receivable due from shareholders holding 5% inclusive or more of the Company's voting capital.
- (4) At the end of the year, the balance of accounts receivable due from the top five debtors is RMB233,100,000 accounting for 61.02% of the total balance of account receivable.

Name of equity	Relationship	Amount	Aging	proportion%
Shandong Xinhua Pharmaceutical Trade Company Limited	wholly-owned subsidiary	154,650	Within two years	40.49
Mitsubishi corporation	Non-related parties	49,314	Within one year	12.91
DASTECH INTERNATIONAL INC.	Non-related parties	12,804	Within one year	3.35
Xinhua Pharmaceutical (Shouguang) Company Limited	wholly-owned subsidiary	8,897	More than two years	2.33
M. CASSAB	Non-related parties	7,435	Within one year	1.95
Total		233,100		61.02

- (5) At the end of the year, the balance of account receivables due from the related parties of RMB173,389,000 accounting for 45.39% of the total balance of account receivable, details as follows:

Name of equity	Relationship	Amount	Proportion%
Shandong Xinhua Pharmaceutical Trade Company Limited	wholly-owned subsidiary	154,650	40.49
Xinhua Pharmaceutical (Shouguang) Company Limited	wholly-owned subsidiary	8,897	2.33
China Shandong Group Ltd.	Subsidiary of ultimate control company	3,891	1.02
USA Perrigo International Co., Ltd.	Subsidiary shareholder	3,734	0.98
USA Xinhua - West Pharmaceutical Co., Ltd.	Subsidiary shareholder	796	0.21
Shandong Xinhua Industry & Trade Company Limited	Other related parties	1,150	0.3
Shandong Xinhua-west Pharmaceutical Company Limited	Other related parties	271	0.07
Total	Control subsidiary	173,389	45.39

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

Name of currency	At the ending of the year			At the beginning of the year		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	26,973	6.1787	166,613	18,469	6.2855	116,084
GBP	607	9.4213	5,720	204	10.1611	2,071

## 2. Other Receivable

### (1) Classification of Other Receivable

Item	Balance at the end of the year				Balance at the beginning of the year			
	Amount	Proportion %	Bad debts Provision	Proportion %	Amount	Proportion%	Bad debts Provision	Proportion %
Account receivable of individual amount is significant, individually provision for bad debts	11,324	2.34	11,324	100	11,324	2.82	11,324	100
Combination of aging	17,057	3.53	7,421	43.51	11,092	2.76	7,421	66.90
Combination with the relationship between trading partners	442,366	91.60	—	—	345,121	85.94	—	—
Combination for special account	12,172	2.52	—	—	34,033	8.48	—	—
Subtotal	471,595	97.66	7,421	1.57	390,246	97.18	7,421	1.90
Account receivable of individual amount is not significant, but individually provision for bad debts	—	—	—	—	—	—	—	—
Total	482,919	—	18,745	—	401,570	—	18,745	—

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

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

- 2) Provision for bad debts according to aging analysis

Item	Balance at the end of the year			Balance at the beginning of the year		
	Amount	Proportion %	Bad debts Provision	Amount	Proportion %	Bad debts Provision
Less than 1 year	9,341	0.18	17	3,376	0.5	17
1 to 2 years	360	20	71	360	20	71
2 to 3 years	58	60	35	58	60	35
More than 3 years	7,298	100	7,298	7,298	100	7,298
Total	17,057	—	7,421	11,092	—	7,421

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

Name of combination	Book balance	Amounts of bad debts
Combination with the relationship between trading partners	442,366	—
Combination for special account	12,172	—
Total	454,538	—

- (2) At the ending of the year, other receivables do not include receivable shareholders holding 5% or more of the Company's voting capital.
- (3) At the end of the year, the top five balances of other receivables are RMB456,372,000 accounting for 94.49% of the total balance of other receivable, details as follows:

Name of equity	Relationships	Amount	Aging	Proportion %	Nature or Content
Shandong Xinhua Pharmaceutical (Shouguang) Company Limited	related party	300,000	Within three years	62.12	Current accounts
Shandong Xinhua Pharmaceutical Trade Company Limited	related party	81,726	Within two year; more than three years	16.92	Current accounts
Xinhua (Zibo) Properties Company Limited	related party	56,085	Within one year	11.61	Current accounts
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	11,324	More than three year	2.34	Current accounts
VAT	Non-related party	7,237	Within one year	1.50	According to the sales inside confirmation
Total		456,372		94.49	

## Notes to the Financial Statements (Continued)

- (4) At the end of the year, the balance of other receivable due from the related parties is RMB453,691,000 accounting for 93.95% of the total balance of other receivable, details as follows:

Name of Company	Relationships	Amount	Proportion %
Shandong Xinhua Pharmaceutical (Shouguang) Company Limited	Holding subsidiary	300,000	62.12
Shandong Xinhua Pharmaceutical Trade Company Limited	Holding subsidiary	81,726	16.92
Xinhua (Zibo) Property Development Co., Ltd	Holding subsidiary	56,085	11.61
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Other related party	11,324	2.34
ZiBo Xinhua Drugstore Chain Company Limited	Holding subsidiary	4,110	0.85
ZIBO Xinhua-west Pharmaceutical Company Limited	Holding subsidiary	195	0.04
Shandong Xinhua Pharmaceutical Export & Import Company Limited	Holding subsidiary	32	0.01
Shandong Xinhua Pharmaceutical (Gaomi) Company Limited	Holding subsidiary	219	0.05
Total		453,691	93.95

### 3. Long-term equity investment

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

Item	Balance at the end of the year	Balance at the beginning of year
Using cost method	392,846	383,475
Using equity method	26,395	24,963
<b>Total long-term equity investment</b>	<b>419,241</b>	408,438
Less: provision for impairment loss of Long-term equity investment	—	—
<b>Net amount of Long-term equity investment</b>	<b>419,241</b>	408,438

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

Name of investee	Proportion of shareholding %	Proportion of voting %	Original amount	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year	Cash Dividends received in the year
<b>Using cost method</b>								
1. Shandong Xinhua Pharmaceutical Trade Co., Ltd.	100%	100%	48,582	48,582	—	—	48,582	—
2. Zibo Xinhua Pharmaceutical Design Institute Co., Ltd.	100%	100%	3,038	3,038	—	—	3,038	—
3. Zibo Xinhua Drugstore Chain Co., Ltd.	100%	100%	2,159	2,159	—	—	2,159	—
4. Shandong Xinhua Pharmaceutical (Europe) Ltd.	65%	65%	4,597	4,597	—	—	4,597	—
5. Zibo Xinhua - West Pharmaceutical Co., Ltd.	75%	75%	9,008	9,008	—	—	9,008	—
6. Zibo Xinhua - Perrigo Pharmaceutical Co., Ltd.	50.10%	50.10%	24,877	24,877	—	—	24,877	—
7. Xinhua Pharmaceutical (Shouguang) Co., Ltd.	100%	100%	230,713	230,713	—	—	230,713	—
8. Shandong Xinhua Pharmaceutical Import & Export Co., Ltd.	100%	100%	5,501	5,501	—	—	5,501	—
9. Xinhua (Zibo) Properties Development Co., Ltd	100%	100%	20,000	20,000	—	—	20,000	—
10. Xinhua Pharmaceutical (Gaomi) Co., Ltd.	100%	100%	—	35,000	—	—	35,000	—
11. Shandong Xinhua Pharmaceutical (USA) Company Limited	100%	100%	—	—	9,371	—	9,371	—
Subtotal			348,475	383,475	9,371	—	392,846	—
<b>Using equity method</b>								
1. Shandong Xinhua Changxing Chemical Equipment Company Limited	35%	35%	7,700	—	—	—	—	—
2. Shandong Zibo XinCat Pharmaceutical Company Limited	20%	20%	10,179	24,963	1,432	—	26,395	—
Subtotal			17,879	24,963	1,432	—	26,395	—
Total			366,354	408,438	10,803	—	419,241	—

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

Name of investee	Proportion of shareholding (%)	Proportion of voting (%)	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total operation income of the year	Net profit of the year
<b>Joint Ventures</b>							
Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	160,267	54,629	105,638	124,591	7,476

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

**4. Operating Income and Operating Costs****(1) Operating Income and Operating Costs**

Item	Amount of this year	Amount of last year
Income for main operation	929,388	885,069
Income for other operation	21,809	23,157
<b>Total</b>	<b>951,197</b>	<b>908,226</b>
Cost for main operation	787,903	725,465
Cost for other operation	24,880	27,298
<b>Total</b>	<b>812,783</b>	<b>752,763</b>

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

Types	Amount of this year		Amount of last year	
	income	cost	income	cost
Bulk Pharmaceutical	729,106	619,253	690,786	564,169
Including: Export sale Preparation	508,239	444,813	503,757	430,070
Chemical and other	200,130	168,498	194,206	161,219
	152	152	77	77
<b>Total</b>	<b>929,388</b>	<b>787,903</b>	<b>885,069</b>	<b>725,465</b>

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

Name of customers	Amount of this year	Proportion (%)
Shandong Xinhua Pharmaceutical Trade Co., Ltd.	171,646	18.05
Mitsubishi Corporation	101,305	10.65
Bayer Health Care	36,908	3.88
China Shandong Group Limited	35,919	3.78
Dastech International. INC.	21,908	2.30
Total	367,686	38.66

### 5. Investment Gain

#### (1) The source of investment gain or loss

Sources of Investment gain or loss	Amount of this year	Amount of last year
Long-term equity investment income accounted for using equity method	1,432	1,615
Investment income from Available-for-sale financial assets during the period of ownership	175	2,572
Total	1,607	4,187

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

Item	Amount of this year	Amount of last year	The reason for change
Shandong Zibo Xincat Pharmaceutical Co., Ltd.	1,432	1,615	Net profit changes in the investee
	1,432	1,615	

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

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

Item	Amount of this year	Amount of last year
<b>1. Reconciliation of net income to cash flows from operating activities</b>		
Net profit	1,716	34,908
Add: Provisions for impairment loss of asset	—	—
Depreciation of fixed asset	59,137	50,015
Amortization of intangible asset	2,632	2,331
Losses on disposal of fixed asset, intangible asset and other long-term asset	120	6,300
Profit or loss from changes in fair value	—	—
Financial expense	33,361	28,088
Investment loss	(1,607)	(4,187)
Decrease in deferred tax asset	—	—
Increase in deferred tax liabilities	(6,000)	1,566
Decrease in inventories	58,587	(25,976)
Decrease in operating receivable	(127,326)	(70,835)
Increase in operating payable	(61,075)	(59,057)
Net cash flows from operating activities	(40,455)	(36,847)
<b>2. Significant investing and financing activities not involving cash receipt or payment:</b>		
Conversion of debts to capital	—	—
Convertible bond due within one year	—	—
Fixed assets acquired on finance lease	—	—
<b>3. Changes in cash and cash equivalents:</b>		
Ending balance of cash	65,465	261,694
Less: beginning balance of cash	253,745	178,748
Add: ending balance of cash equivalents	—	—
Less: beginning balance of cash equivalents	—	—
<b>Net increase in cash and cash equivalents</b>	<b>(188,280)</b>	<b>82,946</b>

### 13. SUPPLEMENTARY INFORMATION

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

According to China Securities Regulatory Commission, public offering of securities of the Company Disclosure interpretative bulletin No. 1 - Extraordinary (2008) requirement, the company in Jan. - Jun. 2013 non-operating gains and losses are as follows:

Items	Amount of this year	Amount of last year	Notes
1. Gains and losses, including the write-off portion of provision for impairment loss on assets	(120)	(6,300)	Loss of disposal of fixed assets and intangible assets
2. Government subsidies in profit and loss of the year, but except for the subsidies that are closely related to the Company's normal operations, in line with national policies and regulations, and subsidies in accordance with certain standards of quotas or quantity that the Company continually enjoys	23,799	22,104	Received government subsidies reckon into current term
3. Except for the normal operations associated with the Company effective hedging business, gain or loss held-for-trading financial assets, held-for-trading financial liabilities, as well as incomes gains from the disposal of held-for-trading financial assets and financial liabilities and available for sale of financial assets	175	2,572	Disposal and dividends of available-for-sale
4. In addition to the above, the non-operating income and expenditure;	(1,352)	(1,326)	
Total	22,502	17,050	
Less: Income tax effect	1,082	3,866	
<b>Total non-recurring net gain or loss</b>	<b>21,420</b>	<b>13,184</b>	
Including: attributable to shareholders of the Company	21,433	13,183	

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

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

Items	Net profit		Net assets	
	Amount of this year	Amount of last year	Amount of this year	Amount of last year
According to foreign accounting standards	4,510	30,416	1,709,716	1,744,090
Adjustments 1. Education provision	562	916	(7,439)	(8,002)
2. Impact on deferred income tax	(84)	(137)	1,115	1,200
Subtotal of adjustment	478	779	(6,324)	(6,802)
Amount according to 'Accounting Standard for Enterprises' attributable to the Company	4,988	31,195	1,703,392	1,737,288

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

According to China Securities Regulatory Commission, public offering of securities of the company Information Disclosure Rule No. 9 - ROE and earnings per share calculation and disclosure (2010 Amendment) requirement, the first half 2013, the weighted average net Company Return on assets, basic earnings per share and diluted earnings per share are as follows;

Profits of the reporting period	Weighted average return on equity	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to of the Company shareholders	0.29%	0.01	0.01
Net profit after deducting non-recurring gains and losses , attributable to shareholders of the Company	(0.95%)	(0.04)	(0.04)

**14. APPROVAL OF FINANCIAL STATEMENTS**

The Financial Statement has been approved to report by the Board of Directors on 30 July 2013.

# Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

## Condensed Consolidated Income Statement

	Notes	Six months ended 30 June	
		2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Revenue	3	<b>1,600,002</b>	1,525,008
Cost of sales		<b>(1,354,431)</b>	(1,247,825)
Gross profit		<b>245,571</b>	277,183
Investment income		<b>1,331</b>	4,057
Other income		<b>41,801</b>	46,607
Other expenses		<b>(27,468)</b>	(32,823)
Distribution and selling expenses		<b>(109,964)</b>	(125,417)
Administrative expenses		<b>(106,996)</b>	(103,989)
Finance costs		<b>(36,988)</b>	(28,146)
Share of profit of an associate		<b>1,432</b>	1,615
Profit before tax	4	<b>8,719</b>	39,087
Income tax expense	5	<b>(3,086)</b>	(6,831)
Profit for the period		<b>5,633</b>	32,256
Profit for the period attributable to:			
Owners of the Company		<b>4,510</b>	30,416
Non-controlling interests		<b>1,123</b>	1,840
		<b>5,633</b>	32,256
Earnings per share — basic and diluted	6	<b>RMB0.010</b>	RMB0.067

	<b>Six months ended 30 June</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Profit for the period	<b>5,633</b>	32,256
Other comprehensive (expense) income:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation	<b>(421)</b>	(460)
Fair value (loss) gain on available-for-sale investments	<b>(40,001)</b>	15,343
Income tax relating to components of other comprehensive income (expense)	<b>6,000</b>	(1,566)
Other comprehensive (expense) income for the period, net of tax	<b>(34,422)</b>	13,317
Total comprehensive (expense) income for the period	<b>(28,789)</b>	45,573
Total comprehensive (expense) income attributable to:		
Owners of the Company	<b>(29,801)</b>	43,894
Non-controlling interests	<b>1,012</b>	1,679
	<b>(28,789)</b>	45,573

# Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

## Condensed Consolidated Statement of Financial Position

	Notes	<b>30 June 2013 RMB'000 (unaudited)</b>	31 December 2012 RMB'000 (audited)
<b>Non-current assets</b>			
Technical know-how	8	13,246	14,686
Property, plant and equipment	8	1,382,152	1,426,187
Construction in progress	8	458,854	273,977
Prepaid lease payments on land use rights	8	305,403	235,658
Investment properties	8	66,416	68,906
Interest in an associate		26,395	24,963
Available-for-sale investments		116,302	156,303
Deferred tax assets		19,168	19,168
Goodwill		2,716	2,716
Prepayments for acquisition of land use rights		28,555	63,555
		<b>2,419,207</b>	<b>2,286,119</b>
<b>Current assets</b>			
Inventories		420,777	489,673
Trade and other receivables	9	567,962	428,468
Prepaid lease payments on land use rights	8	7,332	5,840
Amounts due from fellow subsidiaries		3,945	3,971
Tax recoverable		4,067	3,275
Restricted bank balances		59,820	46,600
Bank balances and cash		153,565	375,544
		<b>1,217,468</b>	<b>1,353,371</b>
<b>Current liabilities</b>			
Trade and other payables	10	574,866	522,747
Dividend payables		5,311	5,311
Amounts due to fellow subsidiaries		4,045	1,484
Amount due to an associate		338	514
Amount due to ultimate holding company		15,000	13,500
Tax payable		1,123	883
Borrowings		358,354	493,370
		<b>959,037</b>	<b>1,037,809</b>
<b>Net current assets</b>		<b>258,431</b>	<b>315,562</b>
<b>Total assets less current liabilities</b>		<b>2,677,638</b>	<b>2,601,681</b>

Condensed Consolidated Statement  
of Financial Position (Continued)

Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

	Notes	<b>30 June 2013 RMB'000 (unaudited)</b>	31 December 2012 RMB'000 (audited)
<b>Capital and reserves</b>			
Share capital	11	<b>457,313</b>	457,313
Reserves		<b>1,252,403</b>	1,282,204
Proposed final dividend		—	4,573
		<b>1,709,716</b>	1,744,090
Equity attributable to owners of the Company		<b>40,713</b>	39,701
Non-controlling interests			
<b>Total equity</b>		<b>1,750,429</b>	1,783,791
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>5,789</b>	12,331
Loan from ultimate holding company		<b>693,250</b>	496,500
Borrowings		<b>92,377</b>	221,147
Deferred income		<b>135,793</b>	87,912
		<b>927,209</b>	817,890
		<b>2,677,638</b>	2,601,681

# Financial Report

(Prepared under Hong Kong Generally Accepted Accounting Principles)

## Condensed Consolidated Statement of Changes In Equity

	Attributable to owners of the Company													
	Share capital	Share premium	Capital reserve	Reserve funds	Asset revaluation reserve	Available-for-sale investment reserve	Other reserve	Exchange reserve	Retained earnings	Dividend reserve	Total	Non-controlling interests	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2013 (audited)</b>	457,313	466,618	78,642	196,877	—	112,096	481	(608)	428,098	4,573	1,744,090	39,701	1,783,791	
Profit for the period	—	—	—	—	—	—	—	—	4,510	—	4,510	1,123	5,633	
Other comprehensive expense	—	—	—	—	—	(34,001)	—	(310)	—	—	(34,311)	(111)	(34,422)	
Total comprehensive (expenses) income for the period	—	—	—	—	—	(34,001)	—	(310)	4,510	—	(29,801)	1,012	(28,789)	
Dividends recognised as distribution (Note 7)	—	—	—	—	—	—	—	—	—	(4,573)	(4,573)	—	(4,573)	
<b>At 30 June 2013 (unaudited)</b>	457,313	466,618	78,642	196,877	—	78,095	481	(918)	432,608	—	1,709,716	40,713	1,750,429	
<b>At 1 January 2012 (audited)</b>	457,313	466,618	78,642	191,288	25,850	94,900	481	(823)	389,993	13,719	1,717,981	39,807	1,757,788	
Profit for the period	—	—	—	—	—	—	—	—	30,416	—	30,416	1,840	32,256	
Other comprehensive income (expenses)	—	—	—	—	—	13,777	—	(299)	—	—	13,478	(161)	13,317	
Total comprehensive income (expenses) for the period	—	—	—	—	—	13,777	—	(299)	30,416	—	43,894	1,679	45,573	
Dividends recognised as distribution (Note 7)	—	—	—	—	—	—	—	—	—	(13,719)	(13,719)	—	(13,719)	
<b>At 30 June 2012 (unaudited)</b>	457,313	466,618	78,642	191,288	25,850	108,677	481	(1,122)	420,409	—	1,748,156	41,486	1,789,642	

	<b>Six months ended 30 June</b>	
	<b>2013</b> <b>RMB'000</b> <b>(unaudited)</b>	2012 <i>RMB'000</i> (unaudited)
Cash generated from (used in) operations	<b>7,962</b>	(35,193)
Income tax paid	<b>(4,180)</b>	(6,994)
Net cash from (used in) operating activities	<b>3,782</b>	(42,187)
Net cash used in investing activities	<b>(197,960)</b>	(161,301)
Net cash (used in) from financing activities	<b>(27,801)</b>	304,587
Net (decrease) increase in cash and cash equivalents	<b>(221,979)</b>	101,099
Cash and cash equivalents at 1 January	<b>375,544</b>	267,966
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>153,565</b>	369,065

### 1. BASIS OF PREPARATION

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

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

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

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

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

The Group’s unaudited condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012.

### 2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of calculation used in the condensed consolidated interim financial information for the six months ended 30 June 2013 are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012.

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

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
HKFRS 1 (Amendments)	Government loans
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangement
HKFRS 12	Disclosures of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associate and Joint Ventures
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HK(IFRIC) — Interpretation (“INT”) 20	Stripping Costs in the Production Phase of a Surface Mine

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

HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>1</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities <sup>2</sup>
HKFRS 9	Financial Instruments <sup>1</sup>
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets <sup>2</sup>
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting <sup>2</sup>
HK(IFRIC) — INT 21	Levies <sup>2</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2014.

### Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The directors of the Company anticipate that the application of these amendments to HKAS 32 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

### HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2011 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new standard will have no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

### Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

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

## 3. SEGMENT INFORMATION

### (a) Description of segments

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

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

Information regarding the above segments is reported below.

(b) Segment turnover and results

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

**For the six months ended 30 June 2013 (Unaudited)**

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

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

	Bulk pharmaceuticals RMB'000	Preparations RMB'000	Commerce circulations RMB'000	Chemical and other products RMB'000	Eliminations RMB'000	Total RMB'000
<b>REVENUE</b>						
External sales	750,812	291,004	387,861	95,331	—	1,525,008
Inter-segment sales	3,758	182,753	1,301	128,972	(316,784)	—
Total	<u>754,570</u>	<u>473,757</u>	<u>389,162</u>	<u>224,303</u>	<u>(316,784)</u>	<u>1,525,008</u>
Segment profit (loss)	<u>80,779</u>	<u>7,013</u>	<u>(147)</u>	<u>(16,135)</u>		<u>71,510</u>
Unallocated income						28,560
Unallocated expenses						(34,452)
Finance costs						(28,146)
Share of profits of an associate						1,615
Profit before tax						<u>39,087</u>

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

Inter-segment sales are charged at prevailing market rates.

### (c) Segment assets

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

#### At 30 June 2013 (Unaudited)

	Bulk pharmaceuticals <i>RMB'000</i>	Preparations <i>RMB'000</i>	Commerce circulations <i>RMB'000</i>	Chemical and other products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	1,828,688	374,268	223,535	764,451	3,190,942
Unallocated corporate assets					445,733
Consolidated assets					3,636,675

#### At 31 December 2012 (Audited)

	Bulk pharmaceuticals <i>RMB'000</i>	Preparations <i>RMB'000</i>	Commerce circulations <i>RMB'000</i>	Chemical and other products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	1,600,335	569,590	135,428	639,378	2,944,731
Unallocated corporate assets					694,759
Consolidated assets					3,639,490

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

## 4. PROFITS BEFORE TAX

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

	Six months ended 30 June	
	2013 <i>RMB'000</i> (unaudited)	2012 <i>RMB'000</i> (unaudited)
Depreciation for property, plant and equipment	80,870	82,634
Depreciation for investment properties	2,490	1,629
Amortisation of prepaid lease payments on land use rights	3,359	2,645
Amortisation of technical know-how (included in administrative expenses)	1,440	820
Total depreciation and amortisation	88,159	87,728
Cost of inventories recognised as an expense	1,354,431	1,247,825
Dividends and interest income	(2,763)	(4,057)
Loss on disposal of property, plant and equipment	120	6,300

## 5. INCOME TAX EXPENSE

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

	<b>Six months ended 30 June</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Current income tax — PRC Enterprise Income Tax (“EIT”)	<b>3,628</b>	6,968
Deferred income tax	<b>(542)</b>	(137)
Income tax expense	<b>3,086</b>	6,831

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

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

Pursuant to the relevant laws and regulations in the PRC, the Group’s subsidiary, SINO-USA Zibo Xinhua — Perrigo Pharmaceutical Company Limited, operating in the PRC is entitled to exemption from the PRC income tax for the two years ended 31 December 2009, followed by a 50% reduction of the PRC income tax for the three years ended 31 December 2012. No extension on this tax reduction after 31 December 2012.

## 6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group’s profit for the period attributable to the owners of the Company of RMB4,510,000 (2012: RMB30,416,000) and based on the weighted average of 457,312,830 shares (2012 : 457,312,830 shares) in issue during the period.

Basic earnings per share and diluted earnings per share for the six months ended 30 June 2013 and 2012 are the same as there were no dilutive events existed during both periods.

## 7. DIVIDENDS

- (a) **The board of the directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2013 (2012: Nil).**
- (b) **Dividends attributable to the previous financial year, approved during the interim period.**

	<b>Six months ended 30 June</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Final dividend in respect of the financial year ended 31 December 2012, approved during the following interim period, of RMB0.01 per share (year ended 31 December 2011: RMB0.03 per share)	<b>4,573</b>	13,719

### 8. CAPITAL EXPENDITURES

	Prepaid lease payments on land use rights <i>RMB'000</i>	Technical know-how <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Total <i>RMB'000</i>
Net carrying values at 1 January 2013	241,498	14,686	1,426,187	273,977	68,906	2,025,254
Additions	74,596	—	38,357	205,274	—	318,227
Disposals	—	—	(21,913)	(6)	—	(21,919)
Transfers	—	—	20,391	(20,391)	—	—
Depreciation and amortisation	(3,359)	(1,440)	(80,870)	—	(2,490)	(88,159)
Net carrying values at 30 June 2013 (unaudited)	<u>312,735</u>	<u>13,246</u>	<u>1,382,152</u>	<u>458,854</u>	<u>66,416</u>	<u>2,233,403</u>
Representing:						
Non-current portion	<u>305,403</u>	<u>13,246</u>	<u>1,382,152</u>	<u>458,854</u>	<u>66,416</u>	<u>2,226,071</u>
Current portion	<u>7,332</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,332</u>
Net carrying values at 1 January 2012	222,733	—	1,065,521	363,330	37,142	1,688,726
Additions	29,452	—	67,327	446,068	—	542,847
Acquired on acquisition of a subsidiary	—	16,946	7,148	—	—	24,094
Disposals	(4,847)	—	(58,334)	—	—	(63,181)
Transfers	—	—	499,351	(535,421)	36,070	—
Depreciation and amortisation	(5,840)	(2,260)	(154,728)	—	(4,306)	(167,134)
Impairment loss recognised	—	—	(98)	—	—	(98)
Net carrying values at 31 December 2012 (audited)	<u>241,498</u>	<u>14,686</u>	<u>1,426,187</u>	<u>273,977</u>	<u>68,906</u>	<u>2,025,254</u>
Representing:						
Non-current portion	<u>235,658</u>	<u>14,686</u>	<u>1,426,187</u>	<u>273,977</u>	<u>68,906</u>	<u>2,019,414</u>
Current portion	<u>5,840</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,840</u>

9. TRADE AND OTHER RECEIVABLES

	<b>30 June 2013 RMB'000 (unaudited)</b>	31 December 2012 RMB'000 (audited)
Trade and bills receivables	<b>548,737</b>	403,563
Less : Allowance for doubtful debts of trade receivables	<b>(63,125)</b>	(63,125)
	<b>485,612</b>	340,438
Other receivables, deposits and prepayments	<b>83,903</b>	53,096
VAT recoverable	<b>7,237</b>	14,737
Consideration receivable on disposal of land	<b>—</b>	28,987
Less : Allowance for doubtful debts of other receivables	<b>(8,790)</b>	(8,790)
	<b>82,350</b>	88,030
Total trade and other receivables	<b>567,962</b>	428,468

The Group's revenue from export sales is on letter of credit or documents against payment. The credit period is agreed upon and stipulated in the sales contract. Except for some particular customers where payment in advance is normally required, the Group allows an average credit period of 30 days to its local trade customers and 90 days for local hospital customers.

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

	<b>30 June 2013 RMB'000 (unaudited)</b>	31 December 2012 RMB'000 (audited)
Within one year	<b>479,641</b>	333,317
More than one year but within two years	<b>5,754</b>	6,904
More than two years but within three years	<b>217</b>	217
	<b>485,612</b>	340,438

### 10. TRADE AND OTHER PAYABLES

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

	<b>30 June 2013 RMB'000 (unaudited)</b>	31 December 2012 RMB'000 (audited)
Within one year	<b>413,380</b>	382,711
More than one year but less than two years	<b>6,426</b>	6,294
More than two years but less than three years	<b>1,680</b>	1,707
Over three years	<b>3,790</b>	3,719
	<b>425,276</b>	394,431
Other payables and accrued charges	<b>149,590</b>	128,316
	<b>574,866</b>	522,747

### 11. SHARE CAPITAL

	<b>30 June 2013</b>		31 December 2012	
	Number of shares '000 (unaudited)	RMB'000 (unaudited)	Number of shares '000 (audited)	RMB'000 (audited)
<b>Issued and fully paid:</b>				
<b>State-owned shares of RMB1 each</b>				
At the beginning and the end of the period / year	<b>166,116</b>	<b>166,116</b>	166,116	166,116
<b>PRC legal person shares of RMB1 each</b>				
At the beginning and the end of the period / year	<b>13,158</b>	<b>13,158</b>	13,158	13,158
<b>Restricted senior management shares of RMB1 each</b>				
At the beginning of the period / year	<b>1</b>	<b>1</b>	5	5
Transfer to ordinary shares	<b>—</b>	<b>—</b>	(4)	(4)
At the end of period / year	<b>1</b>	<b>1</b>	1	1
<b>RMB ordinary shares (A Shares) of RMB1 each</b>				
At the beginning of the period / year	<b>128,038</b>	<b>128,038</b>	128,034	128,034
Transfer from restricted senior management shares	<b>—</b>	<b>—</b>	4	4
At the end of period / year	<b>128,038</b>	<b>128,038</b>	128,038	128,038
<b>Overseas listed foreign invested shares (H Shares) of RMB1 each</b>				
At the beginning and the end of the period / year	<b>150,000</b>	<b>150,000</b>	150,000	150,000
	<b>457,313</b>	<b>457,313</b>	457,313	457,313

## 12. COMMITMENTS

### Capital commitments

At 30 June 2013, the Group had the following capital commitments principally related to construction in progress, purchase of land use rights and purchase of property, plant and equipment in respect of buildings and production facilities which were not provided for in the unaudited condensed consolidated financial statements:

	<b>30 June 2013 RMB'000 (unaudited)</b>	31 December 2012 RMB'000 (audited)
Contracted but not provided for	<b>230,286</b>	239,826
Authorised but not contracted for	<b>17,626</b>	17,626
	<b>247,912</b>	257,452

### Commitments under operating leases

#### The Group as lessee

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

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

	<b>30 June 2013 RMB'000 (unaudited)</b>	31 December 2012 RMB'000 (audited)
Within one year	<b>632</b>	764
In the second to fifth year inclusive	<b>750</b>	1,393
	<b>1,382</b>	2,157

#### The Group as lessor

The Group leases certain of its properties under operating lease arrangements. The properties are expected to generate rental yields of 4.48% (2012: 3.16%) on an ongoing basis. Lease for properties are negotiated for a term of ten years.

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

	<b>30 June 2013 RMB'000 (unaudited)</b>	31 December 2012 RMB'000 (audited)
Within one year	<b>4,933</b>	4,953
In the second to fifth year inclusive	<b>7,618</b>	8,758
After five years	<b>225</b>	1,537
	<b>12,776</b>	15,248

### 13. ACQUISITION OF A SUBSIDIARY

On 30 April 2012, the Group acquired 100% equity interest in 新華製藥(高密)有限公司 (Xinhua Pharmaceutical (Gaomi) Company Limited ("Gaomi")) (formerly known as 山東天達生物製藥股份有限公司), from two independent third parties, in cash consideration of approximately RMB22,000,000. The acquisition has been accounted for using acquisition method. The amount of goodwill arising as a result of the acquisition was RMB2,716,000. Gaomi is engaged in the business of manufacturing and trading of medicine. Gaomi was acquired so as to continue the expansion of the Group's medicine business.

Details of the fair value of net assets acquired in respect of the acquisition of Gaomi at the date of acquisition were as follow:

	<i>RMB'000</i>
Net assets acquired:	
Intangible assets	16,946
Plant and equipment	7,148
Other payables	(817)
Deferred tax liabilities	(3,993)
	<u>19,284</u>
Net assets acquired	<u>19,284</u>
Goodwill arising on acquisition:	
Consideration transferred	22,000
Less: net assets acquired	(19,284)
	<u>2,716</u>
Goodwill arising on acquisition	<u>2,716</u>
	<i>RMB'000</i>
Satisfied by:	
Cash consideration	<u>22,000</u>
Analysis of net outflow arising on acquisition:	
	<i>RMB'000</i>
Cash consideration paid	22,000
Less: cash and cash equivalent balances acquired	—
	<u>22,000</u>

Included in the profit for the year ended 31 December 2012 of the Group was a loss of RMB5,612,000 attributable to the additional business incurred by Gaomi. Revenue for the year ended 31 December 2012 includes RMB5,180,000 generated from Gaomi.

Had the acquisition been completed on 1 January 2012, total group revenue for the year ended 31 December 2012 would had been no change, and profit for the year ended 31 December 2012 of the Group would had been RMB21,646,000.

#### 14. RELATED PARTY TRANSACTION

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

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
<b>Immediate holding company</b>		
— Payment of annual trademark license fee (Note i)	5,000	3,750
— Rental expense	500	500
— Acquisition of land use rights	—	8,399
<b>Ultimate holding company</b>		
— Interest expenses of loan from ultimate holding company	20,539	14,737
— Share of underwriting expenses of loan from ultimate holding company	1,050	750
<b>Fellow subsidiaries</b>		
— Sale of water, electricity, steam and waste materials	4,142	6,308
— Sale of bulk pharmaceuticals and chemical raw Materials	35,920	31,963
— Purchase of raw materials	23,133	29,823
— Design fee income	—	6
<b>Associate</b>		
— Sale of water, electricity and steam	325	271
— Purchase of raw materials	581	410
<b>Non-controlling interest shareholders</b>		
— Sale of bulk pharmaceuticals and chemical raw materials	72,414	73,205

Note:

- i. On 7 December 1996, the Group was granted the exclusive right to use the trademark "Xinhua" ("Trademark") by SXPGC for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at the rate of an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000, which shall stay as such until the agreement is terminated. The terms of the agreement shall continue to have effect during the validity period of the Trademark, being 28 February 2013, subject to further renewal of the registration of the Trademark.

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

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

(b) As at 30 June 2013, Hualu Holdings Company Limited provide guarantee to the Group amounted to RMB90,000,000 (2012: RMB230,000,000).

(c) **Compensation of key management personnel**

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

	<b>Six months ended 30 June</b>	
	<b>2013</b> <b>RMB'000</b> <b>(unaudited)</b>	2012 <i>RMB'000</i> (unaudited)
Short-term benefits	<b>657</b>	916
Post-employment benefits	<b>80</b>	126
	<b>737</b>	1,042

## *Documents for Inspection and Place for Inspection*

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### **(1) DOCUMENTS FOR INSPECTION**

- (1) The original copy of the Company's 2013 Interim Report signed by the Chairman of the Board.
- (2) Financial statements for the six months ended 30 June 2013 signed by the Chairman of the Board, the financial controller and the chief of accounting department of the Company.

### **(2) PLACE FOR INSPECTION**

Office of the Secretary to the Board of the Company.

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

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

the following non-executive directors:

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

and the following independent non-executive directors:

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

**Shandong Xinhua Pharmaceutical Company Limited**

30 July 2013