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山東新華製藥股份有限公司

Shandong Xinhua Pharmaceutical Company Limited

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

（Stock Code: 00719）

2016 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the "**Board**") and directors ("**Directors**") of Shandong Xinhua Pharmaceutical Company Limited (the "**Company**") hereby announce the unaudited results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2016 (the **"Reporting Period"**). The following financial information has been prepared in accordance with China Accounting Standards for Business Enterprises (the "C**ASBE**"). This interim results announcement (the "**Announcement**") is abstracted from the Company's 2016 interim report (the "**Interim Report**") and investors are advised to read the full text of the Interim Report for complete information.

The Announcement is published in Chinese and English. If there are any discrepancies between the Chinese version and the English version, the Chinese version shall prevail.

I. COMPANY INFORMATION

Chinese Name of the Company : 山東新華製藥股份有限公司

English Name of the Company: SHANDONG XINHUA PHARMACEUTICAL COMPANY LIMITED

Legal Representative: Mr. Zhang Daiming

Secretary to the Board: Mr. Cao Changqiu

Telephone Number: 86-533-2196024

Facsimile Number: 86-533-2287508

E-mail Address of the Secretary to the Board: cqcao@xhzy.com

Registered Address: Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, the People's Republic of China (the "**PRC**")

Office Address: No. 1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province, the PRC

Postal Code: 255086

Website of the Company: http://www.xhzy.com

E-mail Address of the Company: xhzy@xhzy.com

PRC newspaper for information disclosure: Securities Times

Website designated by the China Securities Regulatory Commission (the "**CSRC**") for the publication of the interim report :

http://www.cninfo.com.cn

Listing Information:

H Shares: The Stock Exchange of Hong Kong Limited (the "**SEHK**")

Stock Short Name: Shandong Xinhua

Stock Code: 00719

A Shares: Shenzhen Stock Exchange

Stock Short Name: Xinhua Pharm

Stock Code: 000756

II. SUMMARY OF FINANCIAL RESULTS

Principal Financial Data (prepared in accordance with CASBE)
Unit: RMB Yuan

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

	As at 30 June 2016 (unaudited)	As at 31 December 2015(the "End of Last Year") (audited)	Change as compared to the End of Last Year (%)
Total assets	4,387,046,443.24	4,492,122,436.63	（2.34）
Total liabilities	2,389,856,720.53	2,508,040,118.23	（4.71）
Minority shareholder's equity	89,476,095.68	99,825,757.46	(10.37）
Total of equity assigned to the shareholders of parent company	1,907,713,627.03	1,884,256,560.94	1.24

III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON SHAREHOLDERS

1. Share capital structure

Class of shares	30 June 2016		1 January 2016	
	Number of shares (share)	Percentage of the total share capital (%)	Number of shares (share)	Percentage of the total share capital (%)
1. Total number of conditional tradable shares	8,925	0.002	8,925	0.002
State-owned shares	0	0	0	0
Shares owned by domestic legal persons	0	0	0	0
Conditional tradable shares owned by senior management (A shares)	8,925	0.002	8,925	0.002
Others	0	0	0	0

2. Total number of unconditional tradable shares	457,303,905	99.998	457,303,905	99.998
Renminbi-denominated ordinary shares (A shares)	307,303,905	67.198	307,303,905	67.198
Overseas listed foreign shares (H shares)	150,000,000	32.80	150,000,000	32.80
3. Total number of shares	457,312,830	100.00	457,312,830	100.00

2. Shareholders information

(1) As at 30 June 2016，the Company had on record a total of 30,303 shareholders (the "**Shareholders**"), including 46 holders of H Shares and 30,257 holders of A Shares.

(2) As at 30 June 2016, the ten largest Shareholders were as follows:

Unit: share

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

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

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

Unit: share

Name of shareholders	Number of unconditional listed shares	Class of shares
山東新華醫藥集團有限責任公司(Shandong Xinhua Pharmaceutical Group Co. Ltd. ("**SXPGC**")*)	157,587,763	RMB ordinary Shares
HKSCC (Nominees) Limited	148,883,698	Overseas listed foreign shares
興業銀行股份有限公司－中歐新趨勢股票型證券投資基金(LOF) (Industrial Bank Co., Ltd － New Trend Of China EU Securities Investment Fund Shares (LOF)*)	3,366,032	RMB ordinary Shares
新華人壽保險股份有限公司－傳統－普通保險產品-018L-CT001 深(New China Life Insurance Co., Ltd.- Traditional - General Insurance Products - 018L-CT001 Shen*)	3,194,559	RMB ordinary Shares
交通銀行股份有限公司－長信量化先鋒混合型證券投資基金(Bank of Communications Co., Ltd. – Chang Xin Quantify the Mixed Type Securities Investment Fund*)	3,185,564	RMB ordinary Shares
中信銀行股份有限公司－浦銀安盛醫療健康靈活配置混合型證券投資基金(China CITIC Bank Corporation Limited － AXA SPDB Health Flexible Configuration Hybrid Securities Investment Funds*）	3,115,433	RMB ordinary Shares
中國農業銀行股份有限公司－富蘭克林國海彈性市值混合型證券投資基金(Agricultural Bank of China Limited－Franklin Guohai Elastic Market Value of Hybrid Securities Investment Funds*)	2,858,815	RMB ordinary Shares
中國銀行股份有限公司－博時醫療保健行業混合型證券投資基金(Bank of China Limited － Boshera Healthcare Industry Hybrid Securities Investment Funds*）	2,399,799	RMB ordinary Shares
匯投控股集團有限公司(Huitou Group Holdings Co., Ltd*)	1,513,707	RMB ordinary Shares
新時代證券－廣發銀行－新時代新財富 22 號集合資產管理計畫(New Times Securities - Guangdong Development Bank - A New Era Of the New Wealth Of the Asset Management Plan 22*）	1,416,077	RMB ordinary Shares

Note:

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

The Directors do not know whether there is any association amongst the ten largest Shareholders of unconditional tradable shares of the Company, or any association between ten largest Shareholders of unconditional tradable shares and the ten largest Shareholders or if any of them are persons acting in concert as defined in the CSRC Rules.

ii. Save as disclosed above and so far as the Directors are aware, as at 30 June 2016 no other person (other than the Directors, supervisors of the Company (the "**Supervisors**"), chief executives or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("**SFO**") and as recorded in the register required to be kept under section 336 of the SFO), or was otherwise a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**")) of the Company.

3. There was no change of controlling Shareholder (as defined under the Listing Rules) of the Company during the Reporting Period.

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

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

Name	Position	Number of Shares (share) as at 30 June 2016	Number of Shares (share) as at 1 January 2016
Directors:			
Mr. Zhang Daiming	Chairman	11,900	11,900
Mr. Ren Fulong	Non-executive Director	Nil	Nil
Mr. Du Deping	Executive Director, General Manager	Nil	Nil
Mr. Xu Lie	Non-executive Director	Nil	Nil
Mr. Zhao Bin	Non-executive Director	Nil	Nil
Mr. Chan Chung Kik, Lewis	Independent non-executive Director	Nil	Nil
Mr. Du Guanhua	Independent non-executive Director	Nil	Nil
Mr. Li Wenming	Independent non-executive Director	Nil	Nil
Supervisors:			
Mr. Li Tianzhong	Chairman of Supervisory Committee	Nil	Nil
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	Nil	Nil
Mr. Wang Jianping	Employee Supervisor	Nil	Nil
Mr. Xiao Fangyu	Independent Supervisor（has been appointed with effect from 26 February 2016）	Nil	Nil
Other senior management:			
Mr. Wang Xiaolong	Deputy General Manager	Nil	Nil
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil

Mr. Du Deqing	Deputy General Manager	Nil	Nil
Mr. He Tongqing	Deputy General Manager	Nil	Nil
Mr. Hou Ning	Financial Controller	Nil	Nil
Mr. Cao Changqiu	Secretary to the Board	Nil	Nil
Total		**11,900**	**11,900**

Note:

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

So far as the Directors, the Senior Management and Supervisors are aware, as at 30 June 2016, no Director, senior management or Supervisor had any interest or short position in the shares, underlying shares and / or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, senior management or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

V. CHAIRMAN'S STATEMENT

To all shareholders:

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

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

The board of directors of the Company does not recommend the distribution of interim dividends in the first of 2016.

BUSINESS REVIEW

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

1. Focusing on product structural adjustment, further expanding operating scale

In the first half of the year, the Group captured opportunities in the market of pharmaceutical raw materials, and major pharmaceutical raw materials such as aspirin, ibuprofen and caffeine recorded a significant increase. The Group attained an income of

USD101,000,000 in export. While reducing the procurement costs, the Group prudently managed and monitored the sales channels to maintain stable selling prices of pharmaceutical raw materials.

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

2. Stepping up technological advancements with significant technological results

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

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

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

3. Steadily advancing project construction

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

4. Receiving further enhancement on basic management work

In the first half of the year, the Food and Drug Administration from the United States carried out a two-week on-site GMP investigation on the products of pharmaceutical raw materials in three parks of the Company exported to the US, obtaining approval with zero defects. The Company received 56 on-site reviews from customers, among which 37 on-site reviews were from foreign customers, and approvals were successfully obtained.

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

PLANNING FOR THE SECOND HALF OF THE YEAR

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

In the new round of national bidding of basic medicines, the bid-winning mode of the lowest price did not have fundamental changes; the price in chemical market was sluggish with robust competition. The assessment on the quality of products was consistent, and the reform plans of provincial and municipal public hospital were successively introduced, causing impacts on pharmaceutical preparation development.

1. <u>Focusing on innovation of marketing mode and striving for a new stage of marketing work</u>

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

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

2. <u>Strengthening technological innovation and leading improved technology into a new stage</u>

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

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

3. Organizing meticulously to ensure smooth progress of project construction

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

4. Enhancing basic management and realizing breakthroughs of management level

We implemented thorough cost-effective construction to achieve technological improvement by applying to new technology, optimize production and organization to enhance management efficiency, speed up promotional application of intelligent equipment and automatic control to reduce the labor strength and enhance work efficiency as well as reduce the generation of costs.

The Group strived for strict execution of budgets and stringent control of expenditures, strengthened risk control, reduced capital risks, and enhanced energy management to ensure the realization of energy conservation target confirmed at the beginning of the year.

VI. MANAGEMENT DISCUSSION AND ANALYSIS

The Group is mainly engaged in the development, production and sale of chemical bulk drugs, preparations, medical intermediate and other products. The profit of the Group is mainly attributable to its principal operations.

Analysis of business conditions and financial position under the relevant disclosure requirement and provisions of the PRC

Principal Financial Data

Unit: RMB Yuan

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

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

As at 30 June 2016, total equity attributable to the shareholders of the Company was approximately RMB1,907,714,000, increased by approximately RMB23,457,000 or 1.24%, as compared with the figure of approximately RMB1,884,257,000 at the beginning of the year. This increase was mainly attributable to the profits generated in the first half year.

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

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

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

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

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

The Group's turnover from principal operations with products and by geographical breakdowns as compiled in accordance with ABSE is as follow (RMB Yuan):

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

By industry and by product	Prime operating revenue	Operating costs	Gross profit margin(%)
Chemical bulk drugs	917,243,597.27	698,365,445.63	23.86
Preparations	863,807,066.84	649,231,417.02	24.84
Medical intermediate and other products	200,337,537.14	167,967,655.15	16.16
Total	1,981,388,201.25	1,515,564,517.80	23.51

An analysis of profit as compared to 2015 was as follow:

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

The composition of profits in the Reporting Period changed sharply as compared to 2015 was mainly attributable to the increase of operating profit during the Reporting Period.

Liquidity and analysis of financial resources and capital structure under the Listing Rules published by the SEHK

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

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

The main sources of funds for the Group were loans from financial institutions and funds provided by the ultimate holding company of the Company. As at 30 June 2016, the total amount of bank loans was RMB757,400,000, and the total amount of loans from the ultimate holding company was RMB599,250,000. As at 30 June 2016, The Group borrowed RMB168,449,000 through finance lease arrangements. The amount of cash the Group has on hand and in bank amounted to RMB403,203,000 (including deposits for, *inter alia,* bank acceptance bills of RMB106,900,000).

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

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

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

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

As at 30 June 2016, the asset-liability ratio of the Group was 54.48% (asset-liability ratio = total liabilities / total assets ×100%).

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

The assets and liabilities of the Group were denominated in RMB. However, the Group recorded an income of 101,124,000 United States Dollars (the "**USD**") for export for the first half of 2016.In this connection, the Group would be subject to the impact of fluctuations from foreign exchange. The Group has adopted the following measures to minimise the risks of fluctuation in foreign exchange: (1) raising the prices for exports in order to lower foreign exchange fluctuation risks; and (2) when entering into larger export contracts, the Group will seek prior agreements that the parties for exports to the contracts shall jointly bear the foreign exchange fluctuation risks should the foreign exchange fluctuation exceed the as agreed by both parties.

VII. REVIEW OF MAJOR EVENTS

Save as disclosed herein:

1. The Company has generally compiled with the relevant regulatory requirements of corporate governance regarding listed companies in the PRC.

2. In accordance with the resolutions at the 2015 annual general meeting of the Company, a cash dividend of RMB0.2 (tax inclusive) for every ten Shares had been distributed to all Shareholders on 12 August 2016 as based on the total Shares of the Company of 457,312,830 Shares as at the end of the year 2015.

3. The Board did not recommend any interim dividend, nor any transfer of capital reserve to share capital, for the six months ended 30 June 2016.

4. The Group was not involved in any material litigation or arbitration, whether pending or threatened during the Reporting Period.

5. There was no material purchase of assets or disposal of the Company's assets, nor did any material mergers or acquisitions involving the Company occurred during the Reporting Period. Similarly, no transactions of such nature occurred during the last Reporting Period and were carried over to the Reporting Period.

6. During the Reporting Period, there was no material entrustment, subcontracting and lease of assets between the Company and other companies.

7. The specific illustration and independent opinions of the independent non-executive Directors in respect of the use of funds by related parties and external guarantee provided are as follows:

   During the Reporting Period, there was no non-operational use of the Company's funds by the controlling Shareholder and other related parties.

There were no guarantees provided in favour of any controlling Shareholders, non-legal entities or individuals which were prejudicial to the interests of the Company and its Shareholders, in particular the minority Shareholders of the Company. As at 30 June 2016, the Company had no overdue foreign guarantee for debts and the Company had no liability arising from any guarantee due to the default of a guaranteed party.

8. Undertaking for disclosure by the Company and its Shareholders holding more than 5% of the total number of issued Shares: Nil

9. Purchase, Sales and Redemption of the Company's Listed Securities

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

10. Entrusted Management of Funds

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

11. Information about holding equity in financial institutions (RMB Yuan)

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

12. There was no penalty on and remedial actions of the Company during this Reporting Period.

13. On 24 July 2015, the Company initiated the exercise for the proposed issue and placing of A shares of the Company and the proposed first phase employee stock ownership scheme, the proposed placing of A shares had been approved at the extraordinary general meeting of the Company convened on 29 December 2015. After the approval of the adjusted proposed issue and placing by the second extraordinary board meeting 2016 of the eighth session of the Board – convened on 24 March 2016, it is expected that the proposed placing would involve issuance of not more than 67 million A Shares to raise approximately RMB627 million. The proposed placing plan needs the approval of Stated-owned Assets Supervision and Administration Commission of Shandong Province and the CSRC. The above-mentioned announcements were published on the Cninfo website on 30 December 2015 and 25 March 2016 respectively, HKExnews and on the Company's website.

VIII. CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors confirmed that the Company was in compliance with the Corporate Governance Code (the "**Code**") and has not deviated from the Code during the Reporting Period. The Code includes the provisions contained in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

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

The audit committee along with the management of the Company has reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2016.

The audit committee agreed to the accounting standards, principles and methods adopted by the Group for the unaudited interim accounts for the six months ended 30 June 2016, and 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 2015 Annual Report of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

During the Reporting Period, the Company has adopted a code of conduct 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 the Supervisors, the Company has confirmed that during the Reporting Period, all Directors and Supervisors have complied with the required standard set out in the Model Code in relation to directors' securities transactions and they did not have any non-compliance with the Mode Code.

IX. FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Consolidated Balance Sheet

Unit: RMB Yuan

Assets	*Notes*	30 June 2016 (unaudited)	31 December 2015 (audited)
Current assets:			
Monetary funds		403,202,882.31	476,288,884.09
Notes receivable		163,773,295.30	225,146,715.24
Accounts receivable	*3*	432,153,263.28	314,348,372.90
Prepayments		21,095,015.70	23,862,000.43
Interest receivable		3,833,684.46	1,937,851.12
Other accounts receivable	*4*	43,355,910.67	42,363,264.11
Inventories		443,218,403.27	546,460,168.40
Other current assets		7,978,060.27	21,072,010.76
Total current assets		1,518,610,515.26	1,651,479,267.05
Non-current assets:			
Financial assets available for sale		184,674,096.00	200,431,648.00
Investment real estate		76,600,514.63	78,919,116.83
Fixed assets		2,014,392,620.76	2,070,424,188.32
Projects under construction		264,309,979.94	155,326,282.87
Intangible assets		288,464,500.30	294,564,809.70
Deferred income tax assets		24,594,216.35	25,577,123.86
Other non-current assets		15,400,000.00	15,400,000.00
Total non-current assets		2,868,435,927.98	2,840,643,169.58
Total assets		4,387,046,443.24	4,492,122,436.63

Consolidated Balance Sheet (Continued)

Unit: RMB Yuan

Liabilities and Shareholders' Equity	*Notes*	30 June 2016 (unaudited)	31 December 2015 (audited)
Current liabilities:			
Short-term borrowing		430,000,000.00	530,000,000.00
Notes payable		12,338,712.00	215,648,469.78
Accounts payable	*5*	439,853,012.18	380,787,628.21
Accounts received in advance		24,849,436.74	40,445,572.01
Payroll payable	*6*	27,757,007.12	30,882,312.65
Taxes and dues payable		22,939,871.74	16,464,788.72
Interest payable		20,386,618.73	1,206,341.11
Dividends payable		14,456,856.13	5,310,599.53
Other payables		169,870,879.00	140,023,098.13
Non-current liabilities due within one year		663,316,666.66	585,544,786.58
Other current liabilities		4,732,000.00	4,602,000.00

Total current liabilities		1,830,501,060.30	1,950,915,596.72
Non-current liabilities:			
Long-term loans		330,000,000.00	378,200,000.00
Long-term payables		101,782,355.95	52,011,490.15
Special payables		15,420,000.00	15,420,000.00
Deferred income		100,642,685.39	97,909,029.94
Deferred income tax liabilities		7,949,118.89	10,022,501.42
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		559,355,660.23	557,124,521.51
Total liabilities		2,389,856,720.53	2,508,040,118.23
Shareholders' equity:			
Capital Stock		457,312,830.00	457,312,830.00
Capital surplus	*7*	513,092,452.66	513,092,452.66
Less: Treasury stock			
Other comprehensive income	*8*	135,119,428.39	148,383,251.38
Surplus reserve		213,465,177.68	213,465,177.68
Undistributed profits	*9*	588,723,738.30	552,002,849.22
Total of equity assigned to the shareholders of parent company		1,907,713,627.03	1,884,256,560.94
Minority shareholders' equities		89,476,095.68	99,825,757.46
Total of shareholders' equity		1,997,189,722.71	1,984,082,318.40
Total of liabilities and shareholder's equity		4,387,046,443.24	4,492,122,436.63

Consolidated Income Statement

Unit: RMB Yuan

		Six months ended 30 June	
Item		**2016 (unaudited)**	**2015 (unaudited)**
I. Gross revenue		1,998,500,412.91	1,948,408,051.58
Including: operating revenue	*10*	1,998,500,412.91	1,948,408,051.58
II. Total operating cost		1,929,863,877.24	1,910,857,985.72
Including: operating cost	*10*	1,540,700,405.16	1,529,865,315.16
Business taxes and surcharges	*11*	15,371,596.63	16,848,872.41
Selling expenses		190,013,019.85	184,613,300.35
Administration expenses		154,128,143.32	146,438,132.33
Financial expenses		27,453,462.70	37,036,592.74
Assets impairment loss		2,197,249.58	(3,944,227.27)
Add: incomes from changes in fair value (losses to be listed with "-")		-	-
Investment incomes (losses to be listed with "-")		12,981.57	2,706,323.45
Including: income from investment into affiliates and joint ventures		-	-
III. Operating profits (losses to be listed with "-")		68,649,517.24	40,256,389.31
Add: non-operating income		6,464,006.72	16,357,590.90
Including: gains from disposal of		1,229,732.89	6,298,902.03

non-current assets			
Less: non-operating expenditure		7,227,258.10	12,134,863.65
Including: losses from disposal of non-current assets		424,844.28	2,625,581.66
IV. Total profits (total loss to be listed with "-")		67,886,265.86	44,479,116.56
Less: income tax expense	*12*	15,298,546.67	13,383,052.06
V. Net profits (net loss to be listed with "-")		52,587,719.19	31,096,064.50
Net profit which belongs to shareholders of parent company		45,867,145.68	25,859,577.55
Minority interest income		6,720,573.51	5,236,486.95
VI Net of tax of other comprehensive income		(13,311,026.89)	911,758.51
Net of tax of other comprehensive income that belongs to the owners of parent company		(13,263,822.99)	958,162.49
(I) Other comprehensive income not subject to reclassification to profit or loss in future		-	-
1. Changes in net indebtedness or net assets subject to remeasurement of defined benefit plans		-	-
2. Shares enjoyed in other comprehensive income not subject to reclassification to loss or profit in investment-receiving company under equity law		-	-
(II) Other comprehensive income to be reclassified to profit or loss in future		(13,263,822.99)	958,162.49
1. Shares enjoyed in other comprehensive income to be reclassified to loss or profit in investment-receiving company under equity law		-	-
2. Profit and loss of change in fair value of financial assets available for sale		(13,393,919.20)	1,050,300.80
3.Profit and loss of held-to-maturity investment reclassified to available-for-sale financial assets		-	-
4. Effective part of cash flow hedging profit and loss		-	-
5. Conversion difference of foreign currency statement		130,096.21	(92,138.31)
6. Others		-	-
Net of tax of other consolidated income that belongs to the minority shareholders		(47,203.90)	(46,403.98)
VII. Total comprehensive income		39,276,692.30	32,007,823.01
Total comprehensive income attributable to the shareholders of parent company		32,603,322.69	26,817,740.04
Total comprehensive income attributable to the minority shareholders		6,673,369.61	5,190,082.97
VIII. Earnings per share:			
(I) Basic earnings per share	*13*	0.10	0.06
(II) Diluted earnings per share		0.10	0.06

SUMMARY NOTES TO THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CHINA ABSE

NOTES:

1. Basis of preparation

On a going-concern basis, the financial statements of the Company have been prepared based on transactions and items that have actually-occurred, and in accordance with the *Accounting Standards for Business Enterprises – Basic Principles*, the *Application Guidance for Accounting Standards for Business Enterprises*, *Interpretations of Accounting Standards for Business Enterprises* and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and thereafter and the disclosure requirements stipulated under the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Rules on Financial Reporting* (2014 revised) issued by the China Securities Regulatory Commission, disclosure requirements in the *Listing Rules* and the *Companies Ordinance* of Hong Kong.

2. Segment information

(a) Description of segments

The Group determines its business unit on the basis of internal organization structure, management requirements and internal reporting system. For disclosure purposes, the Group then adopts business units as reporting segments. The reporting segment refers to each business unit within the Group which satisfies the following conditions: (1) the business unit should be able to generate income and incur expenses in its daily operation; (2) the senior management of the Group would be able to evaluate the operating results of such business unit at regular intervals so as to decide resources allocation and conduct performance evaluation; (3) the Company would be able to obtain the relevant accounting information of such business unit, such as financial position, operating results and cash flow, etc. If two or more business units share similar economic characteristics and meet certain conditions, these business units would be merged into one business unit.

The Group's reporting segments are as follows:

Chemical bulk drugs	Development, production and sales of bulk pharmaceuticals
Preparations	Development, production and sales of preparations (e.g. tablets and injections)
Medical intermediate and other products	Production and sales of medical intermediate and other products

Information regarding the above segments is as below:

(b) Segment information for six months ended 30 June 2016 and six months ended 30 June 2015 (unaudited):

Six months ended 30 June 2016 (unaudited)

Unit: RMB Yuan

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

Six months ended 30 June 2015 (unaudited)

Unit: RMB Yuan

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

3. Accounts receivable

	30 June 2016 RMB Yuan (unaudited)	31 December 2015 RMB Yuan (audited)
Accounts receivable	490,381,807.79	372,999,200.15
Less: provision for bad debts	58,228,544.51	58,650,827.25
	432,153,263.28	314,348,372.90

The aging of accounts receivable based on their recording dates is analysed below:

	30 June 2016	31 December 2015
	RMB Yuan (unaudited)	RMB Yuan (audited)
Within one year	431,522,065.41	313,548,568.89
More than one year but less than two years	511,377.73	724,878.49
More than two years but less than three years	119,820.14	74,925.52
Total	**432,153,263.28**	**314,348,372.90**

4. Other accounts receivable

	30 June 2016	31 December 2015
	RMB Yuan (unaudited)	RMB Yuan (audited)
Other accounts receivable	68,019,847.98	66,701,547.70
Less: provision for bad debts of other accounts receivable	24,663,937.31	24,338,283.59
	43,355,910.67	42,363,264.11

The aging of other receivable based on their recording dates is analysed below:

	30 June 2016	31 December 2015
	RMB Yuan (unaudited)	RMB Yuan (audited)
Within one year	34,872,516.54	32,691,319.89
More than one year but less than two years	2,350,828.35	2,857,766.27
More than two years but less than three years	3,732,565.78	6,805,884.59
Over three years	2,400,000.00	8,293.36
Total	43,355,910.67	42,363,264.11

5. Accounts payable

The aging of accounts payable based on their recording dates is analysed below:

	30 June 2016	31 December 2015
	RMB Yuan (unaudited)	RMB Yuan (audited)
Within one year	427,225,806.74	365,380,255.03
More than one year but less than two years	6,120,981.59	9,914,896.72
More than two years but less than three years	2,117,155.97	1,527,982.52
Over three years	4,389,067.88	3,964,493.94
Total	439,853,012.18	380,787,628.21

6. Payroll payable

(1) Classification of payroll payable

	31 December 2015	Increase during the first half of 2016	Decrease during the first half of 2016	30 June 2016
	RMB Yuan (audited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Short-term wages	30,882,312.65	233,526,887.85	236,652,193.38	27,757,007.12
Post-employment welfare - Defined contribution plan	-	27,850,537.80	27,850,537.80	-
Dismission welfare	-	104,320.00	104,320.00	-
Total	30,882,312.65	261,481,745.65	264,607,051.18	27,757,007.12

(2) Short-term wages

	31 December 2015	Increase during the first half of 2016	Decrease during the first half of 2016	30 June 2016
	RMB Yuan (audited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Salary, bonus, allowance and subsidy	23,508,100.01	198,783,342.97	203,518,715.98	18,772,727.00
Employee welfare expenses	726,176.62	10,436,406.01	10,291,121.03	871,461.60
Social insurance charges	-	11,358,442.23	11,358,442.23	-
Including: Medical insurance premiums	-	9,194,802.44	9,194,802.44	-
Work-related injury insurance premiums	-	1,210,822.65	1,210,822.65	-
Maternity insurance premium	-	952,817.14	952,817.14	-
Housing fund	-	7,711,390.38	7,714,221.18	(2,830.80)
Labor union expenditure & personnel education fund	6,648,036.02	2,785,726.26	1,318,112.96	8,115,649.32
Labor costs	-	2,451,580.00	2,451,580.00	-
Total	30,882,312.65	233,526,887.85	236,652,193.38	27,757,007.12

(3) Defined contribution plan

	31 December 2015	Increase during the first half of 2016	Decrease during the first half of 2016	30 June 2016
	RMB Yuan （audited）	RMB Yuan (unaudited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Basic endowment insurance	-	26,262,097.43	26,262,097.43	-
Unemployment insurance premium	-	1,588,440.37	1,588,440.37	-
Total	-	27,850,537.80	27,850,537.80	-

7. Capital surplus

	31 December 2015	Increase during the first half of 2016	Decrease during the first half of 2016	30 June 2016
	RMB Yuan （audited）	RMB Yuan (unaudited)	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Capital stock premium	424,084,320.48	-	-	424,084,320.48
Other capital reserves	89,008,132.18	-	-	89,008,132.18
Total	513,092,452.66	-	-	513,092,452.66

8. Other comprehensive income

	Amount incurred in six months ended 30 June 2016(unaudited)						
	31 December 2015	Amount incurred this year before income tax	Less: Amount recorded into other comprehensive income in early stage transferred to loss and gain in current period	Less: income tax expense	Attributing to the parent after tax	Attributing to minor shareholders after tax	30 June 2016
	RMB Yuan (audited)	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan	RMB Yuan (unaudited)
I. Other comprehensive income unable to be reclassified into loss and gain in future	-	-	-	-	-	-	-
II. Other comprehensive income to be reclassified into loss and gain in future	148,383,251.38	(15,674,659.69)	-	(2,363,632.80)	(13,263,822.99)	(47,203.90)	135,119,428.39
Fair value variation of financial assets available for sale	149,605,380.50	(15,757,552.00)	-	(2,363,632.80)	(13,393,919.20)	-	136,211,461.30
Conversion difference of foreign currency statement	(1,222,129.12)	82,892.31	-	-	130,096.21	(47,203.90)	(1,092,032.91)
Total	**148,383,251.38**	**(15,674,659.69)**	-	**(2,363,632.80)**	**(13,263,822.99)**	**(47,203.90)**	**135,119,428.39**

9. Undistributed profits

	Six months ended 30 June 2016 RMB Yuan (unaudited)	2015 RMB Yuan (audited)
Amount at the end of last year	552,002,849.22	482,238,546.28
Add: Adjustment for undistributed profit at the beginning of the year	-	-
Amount at the beginning of the year	552,002,849.22	482,238,546.28
Add: Net profits attributable to the parent company's shareholders in the current year	45,867,145.68	83,062,257.17
Less: appropriation of statutory surplus reserve	-	4,151,697.63
Appropriation of discretionary surplus reserves	-	-
Withdrawal of provision for general risk	-	-
Common stock dividends payable	9,146,256.60	9,146,256.60
Amount at the end of the Reporting Period	588,723,738.30	552,002,849.22

10. Operating revenue and cost

	Six months ended 30 June 2016 RMB Yuan (unaudited)	2015 RMB Yuan (unaudited)
Revenue of main operations	1,981,388,201.25	1,922,090,088.62
Other operating revenue	17,112,211.66	26,317,962.96
Total	1,998,500,412.91	1,948,408,051.58

	Six months ended 30 June 2016 RMB Yuan (unaudited)	2015 RMB Yuan (unaudited)
Cost of main operations	1,515,564,517.80	1,501,637,851.56
Other operating costs	25,135,887.36	28,227,463.60
Total	1,540,700,405.16	1,529,865,315.16

11. Business taxes and surcharges

	Six months ended 30 June 2016	2015
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Business tax	207,109.62	193,662.97
City maintenance and construction tax	8,165,599.45	8,968,251.71
Educational surcharge	5,832,406.29	6,405,859.98
Local water conservancy fund	1,166,481.27	1,281,097.75
Total	15,371,596.63	16,848,872.41

12. Income tax expense

（1）Income tax expense

	Six months ended 30 June 2016	2015
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Current income tax expense	12,763,098.20	13,396,519.38
Including: China	12,763,098.20	13,396,519.38
Overstatements (understatements) from previous years	1,262,290.69	1,186,478.80
Deferred income tax expense	1,273,157.78	(1,199,946.12)
Total	15,298,546.67	13,383,052.06

(2)Adjustment process of accounting profits and income tax

	Six months ended 30 June **2016**
	RMB (unaudited)
Annual total profit from amalgamation	67,886,265.86
Income tax expense calculated in accordance with legal/applicable tax rate	10,182,939.91
Effect of different tax rate applicable to subsidiaries	3,499,327.84
Effect of income tax before adjustment	1,262,290.69
Effect from non-assessable income	-
Effect of cost, expense and loss nondeductible	-
Effect of deductible loss of the unrecognized deferred income tax assets before usage	(42,864.09)
Deductible temporary difference or effect of deductible loss of unrecognized deferred income assets in the current year	396,852.32
Income tax expense	15,298,546.67

13. 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 RMB 45,867,145.68 (2015: RMB 25,859,577.55) and based on the weighted average of 457,312,830 shares (2015: 457,312,830 shares) in issue during the period.

	Six months ended 30 June	
	2016	2015
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Consolidated net profit attributable to shareholders of ordinary shares of the parent company	45,867,145.68	25,859,577.55
Weighted average of ordinary shares outstanding of the parent company	457,312,830.00	457,312,830.00
Basic earnings per share	0.10	0.06

Basic earnings per share and diluted earnings per share for the six months ended 30 June 2016 and that for the six months ended 30 June 2015 are the same as there were no dilutive events existed during both periods.

14. 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 2016(2015: nil).

(b) Dividends attributable to the previous financial year, approved during the interim period.

	Six months ended 30 June	
	2016	2015
	RMB Yuan (unaudited)	RMB Yuan (unaudited)
Final dividend in respect of the financial year ended 31 December 2015, approved during the following interim period, of RMB 0.02 per share (year ended 31 December 2014: RMB0.02 per share)	9,146,256.60	9,146,256.60

X. DOCUMENTS FOR INSPECTION AND PLACE FOR INSPECTION

(1) DOCUMENTS FOR INSPECTION

i. The original copy of the Company's 2016 Interim Report signed by the Chairman of the Board.

ii. Financial statements for the six months ended 30 June 2016 signed and stamped by the legal representative, the financial controller and the chief of the accounting department of the Company.

(2) PLACE FOR INSPECTION

Office of the secretary to the Board of the Company.

By Order of the Board
Shandong Xinhua Pharmaceutical Company Limited
Zhang Daiming
Chairman

29 August 2016, Zibo, PRC

As at the date of this announcement, the Board comprises:

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

Independent Non-executive Directors:
Mr. Li Wenming
Mr. Du Guanhua
Mr. Chan Chung Kik, Lewis

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

**for identification purpose only*