山東新華製藥股份有限公司

Shandong Xinhua Pharmaceutical Company Limited
（a joint stock company established in the People's Republic of China with limited liability）
（Stock Code: 0719）

2016 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "**Board**") and directors ("**Directors**") of Shandong Xinhua Pharmaceutical Company Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016. The following financial information has been prepared in accordance with China Accounting Standards for Business Enterprises (the "**CASBE**").

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 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 publication of the annual 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. FINANCIAL SUMMARY

Principal Financial Data (prepared in accordance with CASBE) (Audited)

Unit: RMB

Item	2016	2015	Change as compared to that of last year (%)	2014
Total operating income	4,014,963,065.74	3,597,033,209.79	11.62%	3,589,749,770.93
Total profits	159,968,492.21	117,729,615.03	35.88%	91,485,154.18
Income tax expense	26,921,218.34	23,720,864.46	13.49%	23,150,467.44
Net profits	133,047,273.87	94,008,750.57	41.53%	68,334,686.74
Minority interest income	10,775,724.19	10,946,493.40	(1.56%)	17,609,375.69
Net profit attributable to shareholders of parent company	122,271,549.68	83,062,257.17	47.20%	50,725,311.05
Net profit attributable to shareholders of parent company after deduction of non-recurring profit and loss	100,986,664.19	40,944,834.40	146.64%	8,778,507.42
Net cash flow from operating activities	439,348,332.79	348,636,176.12	26.02%	346,342,064.00
Basic earnings per share	0.27	0.18	50.00%	0.11
Diluted earnings per share	0.27	0.18	50.00%	0.11
Ratio of weighted average return on net assets %	6.31%	4.44%	Increase 1.87 percentage points	2.81%

Item	As at 31 December 2016	As at 31 December 2015	Change as compared to that of last year (%)	As at 31 December 2014
Total assets	4,722,785,963.84	4,492,122,436.63	5.13%	4,245,149,713.77
Total liabilities	2,643,478,538.19	2,508,040,118.23	5.40%	2,333,280,726.09
Minority shareholder's equity	90,887,601.32	99,825,757.46	(8.95%）	91,178,815.24
Total of equity assigned to the shareholders of parent company	1,988,419,824.33	1,884,256,560.94	5.53%	1,820,690,172.44

Note: Reconciliation of accounts prepared in accordance with CASBE and Hong Kong Generally Accepted Accounting Principles ("**HK GAAP**")

Unit: RMB

	Net profit		**Net assets**	
Item	**2016**	**2015**	**2016**	**2015**
Belong to the Company prepared under HK GAAP	121,396,175.54	81,967,517.24	1,991,476,665.40	1,888,188,776.15
Adjustment：				
1. Education Reserve Fund	1,029,851.93	1,287,929.33	(3,596,283.61)	(4,626,135.54)
2. Impact of Deferred Income Tax	(154,477.79)	(193,189.40)	539,442.54	693,920.33
Subtotal of Adjustment	875,374.14	1,094,739.93	(3,056,841.07)	(3,932,215.21)
Belong to the Company prepared under CASBE	122,271,549.68	83,062,257.17	1,988,419,824.33	1,884,256,560.94

III. CHANGES IN SHARE CAPITAL STRUCTURE AND INFORMATION ON SHAREHOLDERS

1. Share capital structure

Unit: share

Class of shares	31 Dec 2016 Number of shares	31 Dec 2016 % of the total share capital	31 Dec 2015 Number of shares	31 Dec 2015 % 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	457,312,830	99.998
Renminbi-denominated ordinary shares (A shares)	307,303,905	67.198	307,312,830	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	99.998	457,312,830	99.998

2. Shareholders information

(1) As at 31 December 2016, the Company had on record a total of 34,395 shareholders, including 46 holders of H Shares and 34,349 holders of A Shares. As at 28 February 2017, the Company had a record a total of 29,550 shareholders, including 47 holders of H Shares and 29,503 holders of A Shares.

(2) As at 31 December 2016, the top ten shareholders of the Company were as follows:

Unit: share

Name of shareholders	Nature of shareholders	% of the total share capital	Number of shares held	Change	Number of conditional tradable shares held	Number of unconditional tradable shares
山東新華醫藥集團有限責任公司 Shandong Xinhua Pharmaceutical Group Company Limited (“**SXPGC**”)	State-owned shares	34.46%	157,587,763	-	-	157,587,763
香港中央結算（代理人）有限公司 HKSCC (Nominees) Limited	Listed H shares	32.56%	148,883,698	(4,000)	-	148,883,698

招商銀行股份有限公司－匯添富醫療服務靈活配置混合型證券投資基金 (China Merchants Bank Co., Ltd.—Hui Tian Fu Medical Services Flexible Configuration Hybrid Securities Investment Fund*)	Fund	1.29%	5,899,812	5,899,812	-	5,899,812
中國工商銀行股份有限公司－匯添富醫藥保健混合型證券投資基金 (The Industrial and Commercial Bank of China Co., Ltd.—Hui Tian Fu Healthcare Hybrid Securities Investment Fund*)	Fund	0.76%	3,468,088	3,468,088	-	3,468,088
上海齊熙投資管理有限公司－齊熙和諧進取私募證券投資基金 (Shanghai QiXi Investment Management Co., Ltd.—Harmonious Enterprising Private Equity Securities Investment Fund*)	Fund	0.44%	2,000,100	2,000,100	-	2,000,100
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 Co., Ltd.—Pu Ying An Sheng Healthcare Flexible Configuration Hybrid Securities Investment Fund*)	Fund	0.38%	1,715,433	1,715,433	-	1,715,433
中國通用技術（集團）控股有限責任公司 China General Technology (Group) Holding Co., Ltd.	State-owned legal person	0.36%	1,666,040	1,666,040	-	1,666,040
夏遠香 (Xia Yuan Xiang*)	Domestic individual	0.34%	1,550,100	310,100	-	1,550,100
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—Bo Shi Healthcare Industry Hybrid Securities Investment Funds*)	Fund	0.33%	1,500,000	1,500,000	-	1,500,000
楊林 (Yang Lin*)	Domestic individual	0.30%	1,352,800	-	-	1,352,800

(3) As at 31 December 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	RMB ordinary shares	Overseas listed foreign share
山東新華醫藥集團有限責任公司 SXPGC	157,587,763	157,587,763	-
香港中央結算（代理人）有限公司 HKSCC (Nominees) Limited	148,887,698	-	148,887,698
招商銀行股份有限公司－匯添富醫療服務靈活配置混合型證券投資基金 (China Merchants Bank Co., Ltd.—Hui Tian Fu Medical Services Flexible Configuration Hybrid Securities Investment Fund*)	5,899,812	5,899,812	-
中國工商銀行股份有限公司－匯添富醫藥保健混合型證券投資基金 (The Industrial and Commercial Bank of China Co., Ltd.—Hui Tian Fu Healthcare Hybrid Securities Investment Fund*)	3,468,088	3,468,088	-
上海齊熙投資管理有限公司－齊熙和諧進取私募證券投資基金 (Shanghai QiXi Investment Management Co., Ltd.—Harmonious Enterprising Private Equity Securities Investment Fund*)	2,000,100	2,000,100	-
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 Co., Ltd. - Pu Ying An Sheng Healthcare Flexible Configuration Hybrid Securities Investment Fund*)	1,715,433	1,715,433	-
中國通用技術（集團）控股有限責任公司 China General Technology (Group) Holding Co., Ltd.	1,666,040	1,666,040	-
夏遠香 (Xia Yuan Xiang*)	1,550,100	1,550,100	-
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—Bo Shi Healthcare Industry Hybrid Securities Investment Funds*)	1,500,000	1,500,000	-
楊林 (Yang Lin*)	1,352,800	1,352,800	-

Note:

i. As of 31 December 2016, SXPGC and Well Bring Limited ("**Well Bring**") are a directly wholly owned subsidiary and an indirectly wholly owned subsidiary of 華魯集團有限公司(Hualu Holdings Group Company Limited*) ("**Hualu Holdings**") respectively. Well Bring owns 13,686,000 H shares of the Company being overseas listed foreign shares) or approximately 2.99% of the issued share capital of the Company. As such, Hualu Holdings is deemed to be interested in the abovementioned shares held by SXPGC and Well Bring.

ii. A description of the above shareholders relationship or persons acting in concert:
The Directors are not aware as to whether there is any Association Relationship (as defined in the Rules Governing Listing of Stocks On Shenzhen Stock Exchange) amongst the ten largest shareholders of the Company, nor if any of them are persons acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies" ("**Administration Measures for Takeover**") 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 Administration Measures for Takeover.

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

iii. Save as disclosed, the only domestic shareholder directly holding more than 5% of the total issued shares of the Company is SXPGC.

iv. Save as disclosed above and so far as the Directors are aware, as at 31 December 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. DIVIDENDS

The Board does not recommend declaration of a final dividend for the year 2016.

V. 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 31 December 2016	Change in number of Shares	Number of Shares (share) as at 31 December 2015
Directors:				
Mr. Zhang Daiming	Chairman	11,900	Nil	11,900
Mr. Ren Fulong	Non-executive Director	Nil	Nil	Nil
Mr. Du Deping	Executive Director General Manager	Nil	Nil	Nil
Mr. Xu Lie	Non-executive Director	Nil	Nil	Nil
Mr. Zhao Bin	Non-executive Director	Nil	Nil	Nil
Mr. Chan Chung Kik, Lewis	Independent non-executive Director	Nil	Nil	Nil
Mr. Du Guanhua	Independent non-executive Director	Nil	Nil	Nil
Mr. Li Wenming	Independent non-executive Director	Nil	Nil	Nil
Supervisors:				

Mr. Li Tianzhong	Chairman of Supervisory Committee	Nil	Nil	Nil
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil	Nil
Ms. Hu Yanhua	Employee Supervisor	Nil	Nil	Nil
Mr. Wang Jianping	Employee Supervisor	Nil	Nil	Nil
Mr.Xiao Fangyu	Independent Supervisor	Nil	Nil	Nil
Other senior management:				
Mr. Wang Xiaolong	Deputy General Manager	Nil	Nil	Nil
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil	Nil
Mr. Du Deqing	Deputy General Manager	Nil	Nil	Nil
Mr. He Tongqing	Deputy General Manager	Nil	Nil	Nil
Mr. Hou Ning	Financial Controller	Nil	Nil	Nil
Mr. Cao Changqiu	Company Secretary	Nil	Nil	Nil
Total		**11,900**	**Nil**	**11,900**

Note:
All shares held by the Directors, Supervisors and senior management of the Company are A Shares.

So far as the Directors, the senior management and Supervisors are aware, as at 31 December 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.

VI.MAIN BUSINESS AND FINANCIAL SITUATION

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

Analysis of financial situation and operating results in accordance with CABSE

As at 31 December 2016, the total assets of the Group was approximately RMB4,722,786,000, increased by approximately RMB230,664,000 or 5.13% as compared with the figure of approximately RMB4,492,122,000 at the beginning of the year. The increase in total assets was mainly due to the increase of constructions in process and fixed assets.

As at 31 December 2016, the currency funds of the Group was approximately RMB561,332,000, increased by approximately RMB85,043,000 or 17.86%, as compared with the figure of approximately RMB476,289,000 at the beginning of the year. The increase was mainly attributable to the operating profits generated this year.

As at 31 December 2016, the notes receivable of the Group was approximately RMB107,005,000, representing a decrease of approximately 52.47%, as compared with the figure at the beginning of the year. The decrease was as mainly attributable to the enhanced management in capital operation and the increased turnover rate of notes receivable.

As at 31 December 2016, the total equity attributable to the shareholders of the Company was approximately RMB1,988,420,000, increased by approximately RMB104,163,000 or 5.53%, 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 this year.

As at 31 December 2016, the total liabilities of the Group were approximately RMB2,643,479,000, representing an increase of approximately RMB135,438,000 or 5.40%, as compared with the figure of approximately RMB2,508,040,000 at the beginning of the year. The increase in liabilities was mainly attributable to the increase of the scale of non-interest bearing liabilities under enhanced capital operation management.

For the year of 2016, the operating profit of the Group amounted to RMB147,167,000 , while the operating profit of the Group amounted to RMB92,068,000 for the same period last year, representing an increase of RMB55,099,000 or 59.85%, the net profit attributable to the shareholder of listed company was 122,272,000, the increase is 47.2% as compared with the same period last year. The main reason for the change was due to active exploration of the international and domestic markets; increasing sales volume of main products in depth research on technological breakthrough; technological progress leading to reduction of energy and consumption, and continual price comparison policy in tendering and procurement process resulting in reduction in production costs.

For the year of 2016, the Group's sales expense amounted to RMB404,318,000, representing an increase of 14.29% as compared with the same period last year. The increase was mainly attributable to the increase of terminal sales expenses.

For the year of 2016, the Group's administration expense amounted to RMB335,871,000 for the year of 2016, representing an increase of 10.75% as compared with the same period last year. The increase was mainly attributable to the increase of expenses in research and development.

For the year of 2016, the Group's financial expense amounted to RMB51,838,000, representing a decrease of 23.31% as compared with the same period last year. The decrease was mainly attributable to an active expansion of financing channels and optimization the credit structure.

For the year of 2016, the Group's net increase in cash and cash equivalents was RMB126,454,000. The increase was mainly attributable to the increase of RMB90,712,000 net cash flow from operating activities.

For the year of 2016, the Group recorded a net cash outflow from investment activities amounting to RMB243,293,000, representing an increase in outflow by RMB133,117,000 as compared with the previous year. This increase in outflow was mainly due to the increasing investment in engineering projects.

For the year of 2016, the Group recorded a net cash outflow from financing activities amounting to RMB75,025,000, representing an decrease in outflow by RMB88,524,000 as compared with the previous year. The increase was mainly attributable to receipt of loan deposits

The Group's operating revenue classified by products and by geographical location in accordance with CABSE is as follow (RMB):

	Operating revenue	Operating cost	Gross profit rate	Operating revenue change as compared to the same period last year	Operating cost change as compared to the same period last year	Gross profit rate change as compared to the same period last year
By product						
Chemical bulk drugs	1,770,296,038.38	1,309,151,281.76	26.05%	19.79%	15.21%	Increase by 2.94 percentage points
Preparations	1,747,610,869.90	1,280,905,040.50	26.71%	5.36%	4.22%	Increase by 0.80 percentage point

Medical intermediates and other products	497,056,157.46	423,528,302.13	14.79%	7.96%	7.21%	Increase by 0.60 percentage point
Total	**4,014,963,065.74**	**3,013,584,624.39**	**24.94%**	**11.62%**	**9.17%**	Increase by 1.68 percentage points
By geographical location						
PRC (including Hong Kong)	2,598,593,092.37	1,861,821,812.42	28.35%	1.39%	(1.11%)	Increase by 1.81 percentage points
America	691,242,586.64	565,555,354.20	18.18%	43.78%	36.40%	Increase by 4.43 percentage points
Europe	305,128,386.73	249,411,457.77	18.26%	27.01%	24.76%	Increase by 1.48 percentage points
Others	419,999,000.00	336,796,000.00	19.81%	34.21%	27.97%	Increase by 3.91 percentage points
Total	**4,014,963,065.74**	**3,013,584,624.39**	**24.94%**	**11.62%**	**9.17%**	Increase by 1.68 percentage points

Liquidity and analysis of financial resources and capital structure

As at 31 December 2016, the current ratio and the quick ratio of the Group were 75.34% and 50.70% respectively, and the accounts receivable turnover rate (accounts receivable turnover rate = revenue/average trade and bill receivables×100%) and the rate of inventory turnover (rate of inventory turnover = cost of sales/average inventories×100%) were 1,220.84% and 544.98% respectively.

The Group's working capital need did not show significant seasonal fluctuation throughout the year.

The Group's main source of funds was loans and operating profit. As at 31 December 2016, the total amount of loans was RMB1,419,793,000. As at 31 December 2016, currency funds of the Group amounted to approximately RMB561,332,000 (including the amount of RMB68,239,000 which the Group charged for securing bank acceptance bills).

As at 31 December 2016, the Company and Shandong Zibo Xincat Pharmaceutical Co., Ltd., a subsidiary of the Company, charged the currency funds of RMB53,126,000 and RMB15,113,000 to the bank for arrangement of bank's acceptance bill respectively. Besides, RMB128,600,000 worth of the Company's fixed asset was charged as security for loans. Save as disclosed, the Group did not have other assets charged.

Save as disclosed, the Group did not have any material investment, acquisitions or any disposal of assets during the reporting period.

The classification of the performance results of the Group is referred to in the section headed "Analysis of financial situation and operating results in accordance with CASBE".

For the staff of the Group and their remuneration, please refer to section IX "Important Issues" of this announcement.

The asset-liability ratio of the Group was 55.97% (asset-liability ratio = total liabilities / total assets ×100%).

The bank balance of the Company will be used mainly as working capital for project construction and the operation of the Company.

The assets and liabilities of the Group were mainly recorded in Renminbi. For the year 2016, the revenue from the Group's exports was approximately US$198,595,000, which exposed the Group to exchange risks associated with the fluctuation of foreign currencies. Therefore, the Group has taken the following measures to lower the risks from the fluctuation of exchange rates: (1) the Group has increased the price of its export products to reduce the risks from fluctuation of exchange rates; (2) the Group has made arrangements with overseas customers when entering into material export contracts that the risks associated with the fluctuation in exchange rates shall be borne by both parties if the fluctuation exceeds the range agreed by both parties; (3) in relation to the accounts receivable denominated in foreign currencies, the Group has arranged such accounts receivable to be charged in order to reduce the risk of exchange rate fluctuations.

Ⅷ BUSINESS REVIEW

In 2016, the Group overcame various unfavorable factors, including downward pressure from the macroeconomic environment; the increasing stringent safety and environmental requirements and the fierce market competition and had actively engaged in market development, implemented product cost control, vigorously reduced procurement cost, facilitated technological improvements and promoted research and development on new products. As a result, the Group has achieved the highest operating results in the Group's history, enabling it to accomplish its designated goals in the first year of the "13th Five-Year Plan" period.

1. <u>Vigorously carrying out market development to facilitate operating results enhancement</u>

   In 2016, the Group achieved a double-digit growth for its key economic and technical indicators, with an operating revenue of approximately RMB4,014,963,000, representing a 11.62% year-on-year growth; gross profit of approximately RMB159,968,000, representing a 35.88% year-on-year growth; export income of approximately USD198,595,000, representing a 15.68% year-on-year growth.

   Operating revenue deriving from the business of chemical pharmaceutical raw materials has recorded a 19.62% growth, while its preparation operation recorded 8.26% increase in terms of the relevant revenue. The operating cash outflow amounted to approximately RMB439,348,000, representing a 26.02% year-on-year growth.

2. <u>Strengthening the internal management to lay ground for accelerated expansions</u>

   Concerted efforts were taken to facilitate efficient production and to improve scientific production management standards to response to market needs.

   The Group also achieved notable results in quality management. During the year, the Company has passed a total number of 141 different audit assessments. During the two-week site inspection conducted by the Food and Drug Administration of the United States on 14 products, the Group passed the inspection with zero defects under Form 483. The production facility for the Group's solid preparations successfully passed the re-assessment of the Medicines and Healthcare Products Regulatory Agency of the United Kingdom. Active pharmaceutical ingredients including L-Dopa and Theophylline passed the Europe Good Manufacturing Practice inspection. In China, the production facility for Antibiotics radiopaques small volume parenteral solutions and the Xinhua Pharmaceutical (GaoMi) Co., Ltd's new manufacturing plant passed the domestic GMP site inspection. Three products including Annaijin Metamizole Sodium cleared the veterinary medicine GMP certification.

By way of the 6S management approach, the Group succeeded in raising the standard of on-site management. Fifty-six environmental measures were implemented, 10 major tasks were completed and 5 technical innovation projects were commenced. The Group was awarded with the title of 山東省風險分析管控和隱患排查治理標杆先進企業 (Advanced Organization of the Shangdong Province Risks Analysis & Control and Prevention, Inspection and Governance of Hidden Risks*). It was also awarded with the title of 淄博市高新區化工異味綜合治理先進單位 (Advanced Unit for Comprehensive Control of Chemical Odours in Hi-tech Area of Zibo City*).

A total of 43 energy conservation projects were implemented; preliminary results of automation were positive. Following the automation upgrades, the production process for the Annaijin Metamizole Sodium drug series was awarded as an exemplary project among the initial batch of smart production facilities in Zibo City.

3. Increase research and development input and attain technological advancements

Over the past year, our Group co-established 協新創新藥物聯合研究中心實驗室 (Xie Xin Innovative Pharmaceutical Biotechnology Research Centre and Laboratory*) with 中國醫學科學院醫藥生物技術研究所 (Institute of Medicinal of Biotechnology of the Chinese Academy of Medical Sciences*). During the same period, our Group also set up 山東省抗老年癡呆藥物重點實驗室 (Shandong Province Senile Dementia Drugs Key Laboratory*) with 山東理工大學 (Shandong University of Technology*) and entered into a strategic collaboration agreement with 瀋陽藥科大學 (Shenyang Pharmaceutical University*).

During the year, the Group obtained two approval documents for the production of active pharmaceutical ingredients, namely L-Dopa and VE soft capsules. 15 clinical approval documents were also obtained. The evaluation process on the quality and the effectiveness consistency of generic medicine was underway and in order. The vitro dissolution of 9 products was found to be consistent with their reference drugs. The Group obtained 12 authorization patents and 8 invention patents.

The Group continued its strategy of cost control and enhancement of employee incentives, embarking on an extensive host of initiatives to reduce cost and increase efficiency within its entire staff force. The technical and economic indicators on major products were stabilized, while the production costs for its active pharmaceutical ingredients continued to decrease. Several of the Group's products achieved the quality standards required as well as cost breakthroughs.咖啡因工藝改進研究及產業化應用(Caffeine Techniques Improvement Research and Commercialize Application*) project was awarded as 淄博市科技進步二等獎 (Zibo Municipal Technological Improvement Grade Two Award*) and the 高新區科技進步一等獎 (Hi-tech Region Technological Improvement Grade One Award*).

4. Steadily promoting the development strategy of preparations

Six strategic key preparations of the Group, including Shutaide, Glimepiride Tablets and Aspirin Enteric-coated Sustained Release Tablets, reported a 24.89% year-on-year growth for the sales volume in 2016, whilst generic drug varieties sales also had a year-on-year growth. Preparations subcontract processing resulted in a 8.5% year-on-year growth of operating income in 2016. Sales generated through 新華大藥店B2C (Xinhua Pharmacy B2C Platform*) increased by 100% and the Group's collaboration with Baidu's 藥直達 (Pharmaceutical Direct*) project initially launched in central Shandong region, AliHealth's online-to-offline project and Zhonghua Hospital Group's remote medical care project entered the pilot operational phase, all of which were named as 阿里健康全國優秀合作夥伴 (AliHeath Nationwide Outstanding Partners*).

The "Healthy Zibo" project, the first tri-party collaboration project led by the government and being a pioneer project in China has been finalized and is now being integrated with the Hospital HIS system (Hospital Information System). The Group's medical trade business has been granted a business-to-business operating license and is in the process of finalising its online transaction platform. Recently, the Group has also completed preliminary arrangements of its e-commerce plans pertaining to commercial wholesale and retail distribution within the pharmaceutical industry.

5. Actively developing infrastructure projects as a driving force for further business expansions

   In 2016, the Group's key projects progressed smoothly. At 現代醫藥國際合作中心(International Cooperation Center for Modern Pharmacy*), renovation and equipment installation works were undertaken in its production facility, alongside supporting the completion of the civil engineering for its warehouse. Construction of the International Cooperation Center for Modern Pharmacy (Phase 2) was completed, with trial manufacturing and preparations for DMF data and GMP information certification currently ongoing. The construction phase of the main factory building for the hormones pharmaceutical project was completed and the tender process for the relevant equipment has commenced.魯中醫藥電商產業園(Central Shandong Pharmaceutical E-commerce Industrial Park*) (Phase 1) was completed to provide hardware support for the rapid growth of the Group's e-commerce.

6. Full tilt at the Group's capital operation and the attainment of initial achievements

   The Company was informed that 發行審核委員會(Issuance Examination Committee*) of the CSRC has reviewed and passed the Company's application for non-public issuance of A shares in early December 2016. The written approval document(s) from the CSRC is pending and the relevant follow-up work has been underway. Where the proposed non-public issuance is approved, it is estimated that around RMB600 million can be raised. The Employee Stock Ownership Scheme has proceeded in the meantime and is expected to enhance staff solidarity and spur the Group's expansion momentum.

Ⅷ PROSPECTS

The Group will vigorously seize present and future expansion opportunities. As the country's environmental policies become more stringent and safety circumstances tightened, enterprises with an established track-record in environmental work will be presented with expansion opportunities. Since Renminbi devaluation is underway as expected, this will provide favourable conditions for export. It is also anticipated that the completion of the Group's issuance of additional A shares will help facilitate and complete the company's reforms, fund raising and internal cohesiveness aspects. Subcontract processing for preparations will be conducive to the commercialization of those products and the expansion trend of key preparations products will continue to be favorable. With the second block of the Medicine Industrialization Centre of Modern Chemistry, the International Cooperation Centre for Modern Pharmacy, and Hormones Pharmaceutical Project scheduled for completion and put into operations, the Group's expansion momentum will be greatly invigorated.

Simultaneously, the Group's future expansion will be subjected to the various constraints and external factors impacts. In the short term, the contributions from its new growth drivers will not be evident. Further, the macro market's general dependence on bulk active pharmaceutical ingredients and generic drugs is unlikely to change too. The business expansion of preparations products will be bound by the influences and constraints of national policies, combined with the Group's existing varieties structure. Production organizations are significantly affected by increasing state supervision in product quality, safety and compliance with environmental regulations.

In view of the situation, the Group plans to focus on the following tasks in 2017:

1. Fully capitalizing on the Group's market advantages to achieve exceptional sales results

   The Company will strive capture the opportunity of the listing Aspirin Enteric-coated Sustained Release Tablets and other products onto the supplementary section of the State Medical Insurance

Catalogue in order to increase its market expansion efforts. Active efforts will be taken to address the tendering, the influences of the "two tickets system" and other state policies for essential drugs, in order to ensure more preparations will successfully clear the tendering process to become blockbuster drugs. The Group's primary focus will be placed on developing the Group's preparations varieties, the development of strategic preparations varieties, enriching its marketing techniques, and expanding its marketing channels. Relying on the E-commerce Industrial Park, the Group will ensure rapid sales growth on the Xinhua Drug Store's online platform and that the "Healthy Zibo" project will be actively promote in order to create a cloud-based pharmacy business covering Zibo. Medical traded companies of the Group will leverage on the business-to-business pharmaceutical e-commerce platforms to accelerate the development of the wholesale business of hospitals and chain stores. The Group will also capitalize on its competitive advantages, including self-produced and exclusive active pharmaceutical ingredients, product quality, to continue building up its brand reputation for generics, to realize the rapid and healthy developments of its key generic drugs. The Group will promote the large preparations expansion strategy.

The Group will also focus on the steady growth of its key active pharmaceutical ingredients business. The Group plans to optimize its overall active pharmaceutical ingredients market advantages by offering the completeness of its products range, offering unique products, offering exclusivity of the products sold, capturing the sales of unique active pharmaceutical ingredients, capturing the opportunities in special features and differentiated management. The Group plans to enhance its procurement strategy, strengthen its procurement risk control, improving the standards of its suppliers and continue to strive to strength its procurement cost control.

2. Vigorously enhancing technological advancement to increase the discovery of new innovations

The Group will continue to bolster its Research and Development effort, accelerate clinical research of its new products, proactively seek international product registrations, carry out consistency test evaluation work and ensure the tasks are completed on schedule, in order to accomplish the anticipated goals.

The Group will accelerate the application of new technologies and new techniques and to continue its effort to enhance the technical ability of its entire staff to further enhance products quality and to reduce costs.

The Group will formulate the implementation of new product production transformation management approach and new product industrialization incentives, with a view to accelerate the industrialization and commercialization of its new products.

3. Resolutely pushing ahead the Group's internationalization strategy and embarking on international collaborative projects

The Group will fully draw on its international customer resources as a competitive advantage and capitalizing on its subsidiaries in Europe and the United States as bridgeheads to progressively facilitate the international registration for its products and proactively pursue more extensive collaboration with other parties internationally.

It will continue production pertaining to the existing international preparations value-processing projects on hand to pave the foundation for further and deeper collaboration with its business partners. Leveraging the dual platforms of the International Cooperation Centre for Modern Pharmacy and the Medicine Industrialization Center of Modern Chemistry, the Group will further step up its role in international projects, accelerate improvements of its product mix and nurture new growth drivers.

4. Undertaking rational planning to ensure smooth project implementation and progress

The Group has completed construction of the International Cooperation Centre for Modern

Pharmacy (phase 1) project within schedule. Intensive action has been taken to complete the construction works for its hormones pharmaceutical project in the first half of the year and to pass the state-administered GMP audit and kick-start preparations for the accreditation exercises in Europe and the United States through the coming four quarters. Xinhua Pharmaceutical (Shougang) Company Limited's key conversion project and Shandong Zibo Xincat's Quality Inspection Multipurpose Complex project are also scheduled for completion.

5. Undertaking intensive policy study to propel enterprise reforms and innovations

The Group will attempt its utmost to complete issuance of additional A shares as early as possible in order to improve its asset structure. In respect of new product development, it will explore and implement a new operational model, introduce new technology and boost its existing strengths and vitality. Intensive studies will be undertaken to formulate a stock-option incentive plan for talent recruitment and retention and to strengthen the morale of its core staff. Based on the company's strategic positioning, the Group will embark intensively on preliminary studies on its merger and acquisition plans.

6. Strengthening the "Three Lifeline Engineering" project and driving internal management to a new level of excellence

The Group will boost product quality awareness and quality assurance training internally while committing to raise its GMP management level with plans to speed up the international registration of its products. Sufficient preparatory tasks for various audit exercises will be executed competently to prevent major quality shortcomings.

We will continuously enhance our environmental management; step up efforts targeting the source of environmental problems; duly implement our key environmental projects; ensure effective operation of green facilities and raise our waste management standards.

The Group will fully adopt advanced production techniques to strengthen control over its production process along with initiatives to achieve coordination between production and sales; organize its product resources scientifically; ensure that market needs are addressed and reduce manufacturing costs. It will continue to push for the application of the "Four new technologies", renewal of facilities to reduce energy consumption and boosting of employee's energy-efficiency awareness to achieve new breakthroughs in energy conservation.

Ⅸ IMPORTANT ISSUES

Staff and Remuneration

The Group's staff remuneration was formulated in accordance with state policies, the Company's financial condition in the corresponding period and with reference to the remuneration level of general society.

As at 31 December 2016, the number of staff employed by the Group was 6,346, and the total amount of their salaries and wages for the year 2016 was approximately RMB371,482,000.

Purchase, Sale and Redemption of the Company's Listed Securities

During the year ended 31 December 2016, the Company did not redeem the Company's listed securities. In such year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Connected Transactions

Connected transactions carried out in the normal business course of the Group are summarized as follows:

Item	2016 *RMB*	2015 *RMB*
With holding company and its subsidiaries		
—Sale of water, electricity, steam and waste materials	9,511,234.83	9,345,428.53
—Sale of bulk pharmaceuticals and chemical raw materials	-	61,431,501.93
— Purchase of raw materials	116,415,971.73	83,557,015.16
— Payment of annual trademark licence fee	9,858,490.50	10,000,000.00
Total	**135,785,697.06**	**164,333,945.62**
—Repair service income	649,183.61	71,801.71
Others total	**649,183.61**	**71,801.71**
With ultimate holding company		
—Interest expenses of loan	40,071,500.00	40,850,000.00
—Underwriting expenses of loan	2,800,000.00	2,100,000.00
Total	**42,871,500.00**	**42,950,000.00**
With minority shareholders		
— Sale of bulk pharmaceuticals and chemical raw materials	127,564,868.35	120,138,203.62
Total	**127,564,868.35**	**120,138,203.62**
Grand total	**306,871,249.02**	**327,493,950.95**

The Directors (including the independent non-executive Directors) confirm that the above transactions were carried out in the ordinary and usual course of the Group's business and on normal commercial terms. The aggregate amount of the above transactions for each of the years 2015 and 2016 did not exceed the annual cap approved in the general meetings of the Company.

Auditors

The accounts of the Company and the Group for this year prepared in accordance with CASBE have been audited by ShineWing Certified Public Accountants (certified public accountants in the PRC).

The Company had approved the appointment of ShineWing Certified Public Accountants (Special General Partnership) as the Company's auditors for the year 2016 at the annual general meeting of 2015 on 29 June 2016. The Company intends to re-appoint ShineWing Certified Public Accountants as auditors of the Company for the year 2017 at the annual general meeting for the year 2016 to be held in 2017.

Corporate Governance Code

The Directors (including the independent non-executive Directors) confirm that for the year ended 31 December 2016, the Company complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 to Listing Rules.

The Company has always strived to comply with the corporate governance practices in the Corporate Governance Code.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all directors of the Company, they confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2016.

Material Litigation and Arbitration

The Group was not involved in any material litigation or arbitration and no material litigation or arbitration is pending or threatened or was made against the Group during the reporting period.

Sale and Purchase of Assets

The Group did not have any material acquisitions or disposal of assets or mergers during the reporting period.

Amendments to the Articles

The resolutions to amend the articles of association was approved by the first extraordinary general meeting for the year 2016 on 26 February 2016.The amendments to the articles of association of the Company conform to the Articles of Association of the Company and the laws, rules and regulations of the PRC and the Listing Rules.

Audit Committee

Pursuant to Rule 3.21 of the Listing Rules, the Company set up an Audit Committee (the "**Audit Committee**").

The Audit Committee has, in tandem with the management of the Company, reviewed the accounting principles, practices and methods adopted by the Group and has reviewed the auditing, internal control and financial reporting of the Group. The Audit Committee has convened four meetings to review the audited financial statements for 2015, the unaudited 1st quarterly financial statements for 2016, the unaudited interim statements for 2016 and the unaudited 3rd quarterly financial statements for 2016 respectively.

The Audit Committee convened a meeting on 14 March 2017 to review the 2016 audited accounts and this announcement.

Ⅹ FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH CABSE

Consolidated Balance Sheet

Unit: RMB Yuan

Assets Item	Notes	31 December 2016	31 December 2015
Current assets:		Audited	Audited
Monetary funds		561,331,585.33	476,288,884.09
Notes receivable		107,005,175.90	225,146,715.24
Accounts receivable	3	343,392,085.04	314,348,372.90
Prepayments		29,151,280.72	23,862,000.43
Interest receivable			1,937,851.12
Other receivable	4	46,590,419.30	42,363,264.11
Inventories		559,487,133.74	546,460,168.40
Other current assets		63,631,331.50	21,072,010.76
Total current assets		**1,710,589,011.53**	**1,651,479,267.05**
Non-current assets:			
Financial assets available for sale		189,474,784.00	200,431,648.00
Investment real estate		75,635,320.09	78,919,116.83
Fixed assets		2,120,995,100.52	2,070,424,188.32
Projects under construction		274,420,412.04	155,326,282.87
Intangible assets		283,274,940.35	294,564,809.70
Deferred income tax assets		25,630,317.07	25,577,123.86
Other non-current assets		42,766,078.24	15,400,000.00
Total non-current assets		**3,012,196,952.31**	**2,840,643,169.58**
Total assets		**4,722,785,963.84**	**4,492,122,436.63**

Consolidated Balance Sheet (Continued)

Unit: RMB Yuan

Liabilities and Shareholders' Equity	Notes	31 December 2016	31 December 2015
Current liabilities:		Audited	Audited
Short-term borrowing		910,000,000.00	530,000,000.00
Notes payable		254,077,627.50	215,648,469.78
Accounts payable	5	433,116,202.88	380,787,628.21
Accounts received in advance		67,393,449.91	40,445,572.01
Payroll payable	6	66,078,587.82	30,882,312.65
Taxes and dues payable		17,694,627.36	16,464,788.72
Interest payable		3,902,110.16	1,206,341.11

Dividends payable		5,310,599.55	5,310,599.53
Other payables		163,347,304.20	140,023,098.13
Non-current liabilities due within one year		344,854,126.83	585,544,786.58
Other current liabilities		4,732,000.00	4,602,000.00
Total current liabilities		**2,270,506,636.21**	**1,950,915,596.72**
Non-current liabilities:			-
Long-term loans		100,000,000.00	378,200,000.00
Long-term payables		64,938,492.33	52,011,490.15
Special payables		84,960,000.00	15,420,000.00
Estimated liabilities			-
Deferred income		118,317,680.77	97,909,029.94
Deferred income tax liabilities		1,194,228.88	10,022,501.42
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		**372,971,901.98**	**557,124,521.51**
Total liabilities		**2,643,478,538.19**	**2,508,040,118.23**
Shareholders' equity:			
Capital Stock		457,312,830.00	457,312,830.00
Other equity instruments			-
Capital surplus	7	513,092,452.66	513,092,452.66
Less: Treasury stock			-
Other comprehensive income	8	139,421,221.69	148,383,251.38
Special reserve			-
Surplus reserve		221,217,539.36	213,465,177.68
Undistributed profits	9	657,375,780.62	552,002,849.22
Total of equity assigned to the shareholders of parent company		**1,988,419,824.33**	**1,884,256,560.94**
Minority shareholders' equities		90,887,601.32	99,825,757.46
Total of shareholders' equity		**2,079,307,425.65**	**1,984,082,318.40**
Total of liabilities and shareholder's equity		**4,722,785,963.84**	**4,492,122,436.63**

Consolidated Income Statement

Unit: RMB Yuan

Item	Notes	2016 Audited	2015 Audited
I. Gross revenue		**4,014,963,065.74**	**3,597,033,209.79**
Including: operating revenue	10	4,014,963,065.74	3,597,033,209.79
II. Total operating cost		**3,875,649,239.61**	**3,510,262,563.27**
Including: operating cost	10	3,013,584,624.39	2,760,385,994.80
Taxes and surcharges	11	50,356,102.80	29,952,900.45
Selling expenses		404,317,945.51	353,774,618.80
Administration expenses		335,871,419.21	303,257,072.10
Financial expenses		51,838,422.75	67,591,007.63
Assets impairment loss		19,680,724.95	(4,699,030.51)
Add: incomes from changes in fair value (losses to be listed with "-")		-	-

Investment incomes (losses to be listed with "-")		7,852,686.97	5,297,149.68
Including: income from investment into affiliates and joint ventures		-	-
Exchange gain（losses to be listed with "-"）		-	-
III. Operating profits (losses to be listed with "-")		**147,166,513.10**	**92,067,796.20**
Add: non-operating income		27,364,047.30	52,812,749.90
Including: gains from disposal of non-current assets		5,836,722.36	23,589,138.12
Less: non-operating expenditure		14,562,068.19	27,150,931.07
Including: losses from disposal of non-current assets		3,746,412.85	5,428,247.19
IV. Total profits (total loss to be listed with "-")		**159,968,492.21**	**117,729,615.03**
Less: income tax expense	12	26,921,218.34	23,720,864.46
V. Net profits (net loss to be listed with "-")		**133,047,273.87**	**94,008,750.57**
Net profit which belongs to shareholders of parent company		**122,271,549.68**	**83,062,257.17**
Minority interest income		10,775,724.19	10,946,493.40
VI Net of tax of other comprehensive income		**(9,157,878.63)**	**(16,054,163.25)**
Net of tax of other comprehensive income that belongs to the owners of parent company		**(8,962,029.69)**	**(16,249,612.07)**
(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		(8,962,029.69)	(16,249,612.07)
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		(9,313,334.40)	(17,135,075.20)
3.Profit and loss of held-to-maturity investment reclassified to available-for-sale financial assets		-	-
4. Effective part of cash flow hedging profit and loss		-	-
5. Conversion difference of foreign currency statement		351,304.71	885,463.13
6. Others		-	-
Net of tax of other consolidated income that belongs to the minority shareholders		(195,848.94)	195,448.82
VII. Total comprehensive income		**123,889,395.24**	**77,954,587.32**
Total comprehensive income attributable to the shareholders of parent company		**113,309,519.99**	**66,812,645.10**
Total comprehensive income attributable to the minority shareholders		10,579,875.25	11,141,942.22
VIII. Earnings per share:			
(I) Basic earnings per share	13	0.27	0.18
(II) Diluted earnings per share		0.27	0.18

SUMMARY NOTES TO THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CASBE

NOTES:

1. Basis of preparation

Preparation basis

On a going-concern basis, the financial statements of the Company have been prepared based on transactions and items that have actually-occurred, and in accordance with *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*, the *Companies Ordinance* of Hong Kong, and " important accounting policies and accounting estimates" of these Notes.

Going concern

The Group has evaluated the continuing of operation for 12 months from the end of the current reporting period and has not found any significant doubts about its going concern. Accordingly, the financial statements are prepared on a going concern basis.

2. Segment information

(a) Description of segments

The Group determines the business unit on the basis of internal organization structure, management requirements and internal reporting system and adopts different business units as reporting segments for disclosure purposes. The operating segment refers to each different 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 twelve months ended 31 December 2016 and twelve months ended 31 December 2015 (audited):

Twelve months ended 31 December 2016 (audited)

Unit: RMB

Item	Chemical bulk drugs	Preparations	Medical intermediate and other products	Others	Offset Amount	Total
Operating revenue	1,776,361,217.08	2,099,238,597.11	1,034,652,771.96	-	(895,289,520.41)	4,014,963,065.74
Include: Revenue from external customers	1,770,296,038.38	1,747,610,869.90	497,056,157.46	-	-	4,014,963,065.74
Inter-segment transaction income	6,065,178.70	351,627,727.21	537,596,614.50	-	(895,289,520.41)	-
Operating cost	1,387,562,562.72	1,638,502,875.07	888,785,941.74	-	(901,266,755.14)	3,013,584,624.39
Cost offsetting amount	78,411,280.96	357,597,834.57	465,257,639.61	-	(901,266,755.14)	
Expenses for the period	296,107,955.45	431,849,608.78	64,070,223.24	-	-	792,027,787.47
Total profit（loss）	-	-	-	162,886,713.38	(15,720,200.28)	147,166,513.10
Total assets	2,607,631,975.84	1,214,770,333.03	967,382,126.46	1,167,544,323.60	(1,234,542,795.09)	4,722,785,963.84
Total liability	829,972,561.96	635,287,773.13	490,101,717.17	1,437,357,321.32	(749,240,835.39)	2,643,478,538.19

Twelve months ended 31 December 2015 (audited)

Unit: RMB

Item	Chemical bulk drugs	Preparations	Medical intermediate and other products	Others	Offset Amount	Total
Operating revenue	1,484,989,808.85	2,022,418,874.06	888,639,990.21	-	(799,015,463.33)	3,597,033,209.79
Include: Revenue from external customers	1,477,861,463.23	1,658,770,753.62	460,400,992.94	-	-	3,597,033,209.79
Inter-segment transaction income	7,128,345.62	363,648,120.44	428,238,997.27	-	(799,015,463.33)	-
Operating cost	1,203,533,238.97	1,587,989,297.37	760,538,440.19	-	(791,674,981.73)	2,760,385,994.80
Cost offsetting amount	67,261,110.85	358,913,567.52	365,500,303.36	-	(791,674,981.73)	-
Expenses for the period	262,414,751.84	396,932,244.71	65,545,701.98	-	(270,000.00)	724,622,698.53
Total profit（loss）	-	-	-	100,538,851.17	(8,471,054.97)	92,067,796.20
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

3. Accounts receivable

	31 December 2016	31 December 2015
	RMB	RMB
Accounts receivable	400,769,602.29	372,999,200.15
Less: provision for bad debts	57,377,517.25	58,650,827.25
	343,392,085.04	**314,348,372.90**

Part of the sales of the Group was made under the form of payment in advance; for the remaining portion, various credit periods were provided.

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

	31 December 2016 RMB	31 December 2015 RMB
Within one year	342,764,839.78	313,548,568.89
More than one year but less than two years	479,299.12	724,878.49
More than two years but less than three years	147,946.14	74,925.52
Total	**343,392,085.04**	**314,348,372.90**

4. Other accounts receivable

	31 December 2016	31 December 2015
	RMB	RMB
Other accounts receivable	71,075,858.34	66,701,547.70
Less: provision for bad debts of other accounts receivable	24,485,439.04	24,338,283.59
	46,590,419.30	**42,363,264.11**

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

	31 December 2016	31 December 2015
	RMB	RMB
Within one year	28,438,033.63	32,691,319.89
More than one year but less than two years	10,230,658.71	2,857,766.27
More than two years but less than three years	2,221,726.96	6,805,884.59
Over three years	5,700,000.00	8,293.36
Total	**46,590,419.30**	**42,363,264.11**

5. Accounts payable

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

	31 December 2016	31 December 2015
	RMB	RMB
Within one year	414,778,212.02	365,380,255.03
More than one year but less than two years	11,147,066.41	9,914,896.72
More than two years but less than three years	1,924,616.11	1,527,982.52
Over three years	5,266,308.34	3,964,493.94

Total	**433,116,202.88**	**380,787,628.21**

6. Payroll payable

(1) Classification of payroll payable

	31 December 2015	Increase during the year	Decrease during the year	31 December 2016
	RMB	RMB	RMB	RMB
Short-term wages	30,882,312.65	522,469,909.94	487,273,634.77	66,078,587.82
Post-employment welfare - Defined contribution plan	-	54,786,629.72	54,786,629.72	-
Dismission welfare	-	659,762.00	659,762.00	-
Total	**30,882,312.65**	**577,916,301.66**	**542,720,026.49**	**66,078,587.82**

(2) Short-term wages

	31 December 2015	Increase during the year	Decrease during the year	31 December 2016
	RMB	RMB	RMB	RMB
Salary, bonus, allowance and subsidy	23,508,100.01	441,891,487.46	406,313,151.34	59,086,436.13
Employee welfare expenses	726,176.62	28,781,372.76	28,726,334.01	781,215.37
Social insurance charges	-	23,622,067.91	23,622,067.91	-
Including: Medical insurance premiums	-	19,265,211.94	19,265,211.94	-
Work-related injury insurance premiums	-	2,421,729.17	2,421,729.17	-
Maternity insurance premium	-	1,935,126.80	1,935,126.80	-
Housing fund	-	15,855,349.15	15,855,349.15	-
Labor union expenditure & personnel education fund	6,648,036.02	6,147,570.05	6,584,669.75	6,210,936.32
Labor costs	-	6,172,062.61	6,172,062.61	-

Total	30,882,312.65	522,469,909.94	487,273,634.77	66,078,587.82

(3) Defined contribution plan

	31 December 2015	Increase during the year	Decrease during the year	31 December 2016
	RMB	RMB	RMB	RMB
Basic endowment insurance	-	52,056,691.60	52,056,691.60	-
Unemployment insurance premium	-	2,729,938.12	2,729,938.12	-

7. Capital surplus

	31 December 2015	Increase during the year	Decrease during the year	31 December 2016
	RMB	RMB	RMB	RMB
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 current year					
	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	31 December 2016
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
I. Other comprehensive income unable to be reclassified into loss and gain in future	-	-	-	-	-	-	-
II. Other comprehensive income to be reclassified into loss and	148,383,251.38	(10,801,408.23)	-	(1,643,529.60)	(8,962,029.69)	(195,848.94)	139,421,221.69

gain in future							
Fair value variation of financial assets available for sale	149,605,380.50	(10,956,864.00)	-	(1,643,529.60)	(9,313,334.40)	-	140,292,046.10
Conversion difference of foreign currency statement	(1,222,129.12)	155,455.77	-	-	351,304.71	(195,848.94)	(870,824.41)
Total	**148,383,251.38**	**(10,801,408.23)**	-	**(1,643,529.60)**	**(8,962,029.69)**	**(195,848.94)**	**139,421,221.69**

9. Undistributed profits

	31 December 2016	**31 December 2015**
	RMB	RMB
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	122,271,549.68	83,062,257.17
Less: appropriation of statutory surplus reserve	7,752,361.68	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
Common stock dividends turned into capital stock	-	-
Total	657,375,780.62	552,002,849.22

10. Operating revenue and cost

	2016	**2015**
	RMB	RMB
Revenue of main operations	3,977,831,210.76	3,554,786,206.09
Other operating revenue	37,131,854.98	42,247,003.70
Total	**4,014,963,065.74**	**3,597,033,209.79**

	2016	**2015**
	RMB	RMB
Cost of main operations	2,957,890,806.22	2,711,152,216.43
Other operating costs	55,693,818.17	49,233,778.37
Total	**3,013,584,624.39**	**2,760,385,994.80**

11. taxes and surcharges

	2016	2015
	RMB	RMB
Business tax	56,995.62	451,084.32
City maintenance and construction tax	16,478,006.94	15,885,593.30
Educational surcharge	11,769,840.24	11,346,852.36
Local Water Conservancy Fund	2,352,716.07	2,269,370.47
House Property Tax	6,856,614.53	-
Tenure Tax	11,456,641.88	-
Vehicle and Vessel Use Tax	26,476.41	-
Stamp tax	1,358,811.11	-
Total	50,356,102.80	29,952,900.45

Note: Taxes and surcharges for year 2016 are substantially higher than 2015 due to the promulgation of the 增值稅會計處理規定 (Provisions for the Accounting Treatment for Value Added Tax*) by the Accounting Department of Ministry of Finance of the PRC on 26 January 2017. The taxes and relevant surcharges recorded in the administrative expenses for the period from May to December 2016 are placed under the tax and surcharges items, whereas the comparative data for the previous reporting period are not adjusted.

12. Income tax expense

（1）Income tax expense

	2016	2015
	RMB	RMB
Current income tax expense	32,893,908.20	23,558,660.61
Including: China	32,707,867.53	23,558,660.61
Hong Kong	-	-
Macao	-	-
USA	186,040.67	-
Overstatements (understatements) from previous years	(7,237,936.15)	1,819,052.20
Deferred income tax expense	1,265,246.29	(1,656,848.35)
Total	**26,921,218.34**	**23,720,864.46**

(2)Adjustment process of accounting profits and income tax

	2016	2015
	RMB	RMB
Annual total profit from amalgamation	159,968,492.21	117,729,615.03
Income tax expense calculated in accordance with legal/applicable tax rate	23,995,273.83	17,659,442.23

Effect of different tax rate applicable to subsidiaries	9,054,029.8	5,899,732.85
Effect of income tax before adjustment	1,265,246.29	1,819,052.20
Effect from non-assessable income	(4,220,997.11)	(1,816,887.50)
Effect of cost, expense and loss nondeductible	(4,453,163.30)	268,551.01
Effect of deductible loss of the unrecognized deferred income tax assets before usage	(63,759.93)	(269,617.64)
Deductible temporary difference or effect of deductible loss of unrecognized deferred income assets in the current year	1,344,588.76	160,591.31
Income tax expense	26,921,218.34	23,720,864.46

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 RMB122,271,549.68 (2015: RMB83,062,257.17) and based on the weighted average of 457,312,830 shares (2015: 457,312,830 shares) in issue during the period.

	31 December 2016 RMB	**31 December 2015** RMB
Consolidated net profit attributable to shareholders of ordinary shares of the parent company	122,271,549.68	83,062,257.17
Weighted average of ordinary shares outstanding of the parent company	457,312,830	457,312,830
Basic earnings per share	0.27	0.18

Basic earnings per share and diluted earnings per share for the twelve months ended 31 December 2016 and that for the twelve months ended 2015 are the same as there were no dilutive events existed during both periods.

14. Dividends

	2016 RMB	**2015** RMB
Dividends recognised as distribution during the year:		
- 2016 final dividend: nil	-	
- 2015 final dividend: RMB0.02 per share	-	9,146,256.60
	-	9,146,256.60

The Board does not recommend distribution of a final dividend for the year 2016 (2015: RMB0.02) (approximately HK$0.025).

XI. DOCUMENTS FOR INSPECTION AND PLACE OF INSPECTION

(1) DOCUMENTS FOR INSPECTION

1. The original copy of the Company's 2016 annual results announcement signed by the Chairman of the Board.

2. Financial statements signed and stamped by the legal representative, the financial controller and the chief of the accounting department of the Company.

(2) PLACE OF INSPECTION

Office of the secretary to the Board of the Company.

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

14 March 2017, 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