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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: 0719)

# 2017 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 2017 (the "**Reporting Period**"). The following financial information has been prepared in accordance with China Accounting Standards for Business Enterprises (the "**CASBE**").

This announcement is published in Chinese and English. In case of 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: Renminbi (“**RMB**”)

| | 2017 | 2016 | Change as compared to that of last year | 2015 |
|---|---|---|---|---|
| Operating income | 4,515,716,784.19 | 4,014,963,065.74 | 12.47% | 3,597,033,209.79 |
| Total profits | 268,173,876.00 | 159,968,492.21 | 67.64% | 117,729,615.03 |
| Income tax expense | 46,925,124.11 | 26,921,218.34 | 74.31% | 23,720,864.46 |
| Net profits | 221,248,751.89 | 133,047,273.87 | 66.29% | 94,008,750.57 |
| Minority interest income | 11,656,844.66 | 10,775,724.19 | 8.18% | 10,946,493.40 |
| Net profit attributable to shareholders of listed company | 209,591,907.23 | 122,271,549.68 | 71.42% | 83,062,257.17 |
| Net profit attributable to shareholders of listed company after deduction of non-recurring profit or loss | 168,348,978.97 | 100,986,664.19 | 66.70% | 40,944,834.40 |
| Net cash flow from operating activities | 389,971,809.35 | 439,348,332.79 | (11.24%) | 348,636,176.12 |
| Basic earnings per share | 0.45 | 0.27 | 66.67% | 0.18 |
| Diluted earnings per share | 0.45 | 0.27 | 66.67% | 0.18 |
| Ratio of weighted average return on net assets% | 9.70% | 6.31% | Increased 3.39 percentage points | 4.44% |

| | As at 31 December 2017 | As at 31 December 2016 | Change as compared to that of last year | As at 31 December 2015 |
|---|---|---|---|---|
| Total assets | 5,273,647,124.63 | 4,722,785,963.84 | 11.66% | 4,492,122,436.63 |
| Total liabilities | 2,694,193,743.82 | 2,643,478,538.19 | 1.92% | 2,508,040,118.23 |
| Minority shareholders’ equity | 99,429,604.22 | 90,887,601.32 | 9.40% | 99,825,757.46 |
| Total of equity assigned to the shareholders of listed company | 2,480,023,776.59 | 1,988,419,824.33 | 24.72% | 1,884,256,560.94 |

Note: Reconciliation of accounts prepared in accordance with CASBE and Hong Kong Generally Accepted Accounting Principles (“**HK GAAP**”) is as follows:

Unit: RMB

| **Item** | **Net profit** | | **Net assets** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Attributable to the Company under HK GAAP | 208,413,675.62 | 121,396,175.54 | 2,481,902,386.05 | 1,991,476,665.40 |
| Adjustment： | | | | |
| 1. Education Reserve Fund | 1,386,154.83 | 1,029,851.93 | (2,210,128.78) | (3,596,283.61) |
| 2. Impact of Deferred Income Tax | (207,923.22) | (154,477.79) | 331,519.32 | 539,442.54 |
| Subtotal of Adjustment | 1,178,231.61 | 875,374.14 | (1,878,609.46) | (3,056,841.07) |
| Attributable to the parent company under CASBE | 209,591,907.23 | 122,271,549.68 | 2,480,023,776.59 | 1,988,419,824.33 |

## III. CHANGES IN SHARE CAPITAL STRUCTURE AND SHAREHOLDERS' INFORMATION

### 1. Table of changes in share capital structure

Unit: share

| Class of shares | 31 December 2017 Number of shares | 31 December 2017 % of the total share capital | 31 December 2016 Number of shares | 31 December 2016 % of the total share capital |
|---|---|---|---|---|
| 1. Total number of conditional tradable shares | 21,049,516 | 4.400 | 8,925 | 0.002 |
| State-owned shares | - | - | - | - |
| Shares owned by domestic legal persons | 21,040,591 | 4.398 | - | - |
| Conditional tradable shares owned by senior management (A shares) | 8,925 | 0.002 | 8,925 | 0.002 |
| Others | - | - | - | - |
| 2. Total number of unconditional tradable shares | 457,303,905 | 95.600 | 457,303,905 | 99.998 |
| RMB-denominated ordinary shares (A shares) | 307,303,905 | 64.242 | 307,303,905 | 67.198 |
| Non-RMB-denominated foreign listed shares (H shares) | 150,000,000 | 31.358 | 150,000,000 | 32.800 |
| 3. Total number of shares | 478,353,421 | 100.00 | 457,312,830 | 100.00 |

### 2. Shareholders' information

(1) As at 31 December 2017, the Company had a total of 23,313 shareholders, including 44 holders of H Shares and 23,269 holders of A Shares. As at 28 February 2018, the Company had a total of 28,835 shareholders, including 42 holders of H Shares and 28,793 holders of A Shares.

(2) As at 31 December 2017, 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 at the end of the Reporting Period | Change over the Reporting Period | 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 | State-owned; A shares | 32.94 % (Note 1) | 157,587,763 | - | - | 157,587,763 |

| | | | | | | |
|---|---|---|---|---|---|---|
| ("**SXPGC**") | | | | | | |
| 香港中央結算（代理人）有限公司<br>HKSCC (Nominees) Limited | H shares | 31.14% | 148,945,598 | 61,900 | - | 148,945,598 |
| 巨能資本管理有限公司－山東聚贏產業基金合夥企業（有限合夥）<br>(Ju Neng Capital Management Company Limited — Shandong Ju Ying Industrial Fund Partnership (Limited Partnership)*) | Fund | 3.75% | 17,930,905 | 17,930,905 | 17,930,905 | - |
| 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<br>(China Merchants Bank Co., Ltd. — Hui Tian Fu Medical Services Flexible Configuration Hybrid Securities Investment Fund*) | Fund | 2.31% | 11,065,642 | 5,165,830 | - | 11,065,642 |
| 全國社保基金一零七組合<br>(National Social Security Fund 107 Portfolio*) | Fund | 0.69% | 3,309,367 | 3,309,367 | - | 3,309,367 |
| 山東新華制藥股份有限公司－第一期員工持股計劃<br>(Shandong Xinhua Pharmaceutical Company Limited — Phase I Employee Share Ownership Scheme*) | Share Ownership Scheme | 0.65% | 3,109,686 | 3,109,686 | 3,109,686 | - |
| 全國社保基金四一二組合<br>(National Social Security Fund 412 Portfolio*) | Fund | 0.62% | 2,942,900 | 2,942,900 | - | 2,942,900 |
| 中國工商銀行股份有限公司－易方達新興成長靈活配置混合型證券投資基金)<br>(Industrial and Commercial Bank of China Limited — E Fund Emerging Growth Flexible Configuration Hybrid Securities Investment Fund *) | Fund | 0.60% | 2,861,397 | 2,861,397 | - | 2,861,397 |
| 香港中央結算有限公司<br>Hong Kong Securities Clearing Company Limited | Overseas Legal Person | 0.41% | 1,981,088 | 1,981,088 | - | 1,981,088 |
| 廈門國際信託有限公司－廈門信託－鯤淩 17 號集合資金信託計劃<br>(Xiamen International Trust Co., Ltd. — Xiamen Trust — Kun Ling No. 17 Collective Fund Trust Plan*) | Trust Fund | 0.40% | 1,922,381 | 1,922,381 | - | 1,922,381 |

(3) As at 31 December 2017, the ten largest shareholders of unconditional tradable shares of the Company were as follows:

Unit: share

| Name of shareholders | Number of unconditional tradable shares at the end of the Reporting Period | Nature of shares |
|---|---|---|
| 山東新華醫藥集團有限責任公司<br>SXPGC | 157,587,763 | RMB ordinary share |
| 香港中央結算（代理人）有限公司<br>HKSCC (Nominees) Limited | 148,945,598 | Overseas listed foreign share |
| 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<br>(China Merchants Bank Co., Ltd.—Hui Tian Fu Medical Services Flexible Configuration Hybrid Securities Investment Fund*) | 11,065,642 | RMB ordinary share |
| 全國社保基金一零七組合<br>(National Social Security Fund 107 Portfolio*) | 3,309,367 | RMB ordinary share |
| 全國社保基金四一二組合<br>(National Social Security Fund 412 Portfolio*) | 2,942,900 | RMB ordinary share |
| 中國工商銀行股份有限公司－易方達新興成長靈活配置混合型證券投資基金<br>(Industrial and Commercial Bank of China Limited — E Fund Emerging Growth Flexible Configuration Hybrid Securities Investment Fund *) | 2,861,397 | RMB ordinary share |
| 香港中央結算有限公司<br>Hong Kong Securities Clearing Company Limited | 1,981,088 | RMB ordinary share |
| 廈門國際信託有限公司－廈門信託－鯤淩 17 號集合資金信託計劃<br>(Xiamen International Trust Co., Ltd. — Xiamen Trust — Kun Ling No. 17 Collective Fund Trust Plan*) | 1,922,381 | RMB ordinary share |
| 易方達基金－建設銀行－易方達研究精選 1 號股票型資產管理計劃<br>(E Fund - CCB - E Fund Research Selection No. 1 Equity Asset Management Plan*) | 1,887,588 | RMB ordinary share |
| 建信基金－招商銀行－建信乾元安享特定多個客戶資產管理計劃<br>(CCB Principal Asset Management — CMB — CCB Trust Qian Yuan An Xiang Specific Multiple Clients Asset Management Plan*) | 1,885,344 | RMB ordinary share |

Notes:

(1) As of 31 December 2017, 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. SXPGC and Well Bring hold 157,587,763 A shares and 13,686,000 H shares (overseas listed foreign shares) of the Company respectively or approximately 32.94% and 2.86% of the issued share capital of the Company respectively. As such, Hualu Holdings is deemed to be interested in the abovementioned shares.

(2) Description of the relationships between the abovementioned shareholders 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 are not aware as to whether there is any Association Relationship 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 are not aware as to whether there is any Association Relationship amongst the abovementioned shareholders of unconditional tradable shares or between the abovementioned shareholders of unconditional tradable shares and the ten largest shareholders, or if any of them are persons acting in concert as defined in the Administration Measures for Takeover.

(3) Save as disclosed, as far as the Company is aware the only domestic shareholder directly holding more than 5% of the total issued shares of the Company is SXPGC.

(4) Save as disclosed above and so far as the Directors are aware, as at 31 December 2017, 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 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. As far as the Company is aware, there had been no change of controlling shareholder (as defined under the Listing Rules) of the Company during the Reporting Period.**

## IV. DIVIDENDS AND THE CONVERSION OF CAPITAL RESERVE TO SHARE CAPITAL

The Board proposes the profit distribution plan for year 2017 as follows: based on the total issued shares of the Company of 478,353,421 shares (of which 328,353,421 shares were A shares and 150,000,000 shares were H shares) as at 31 December 2017, it is proposed (i) a dividend of RMB0.05 (tax inclusive) for every share of the Company be paid to shareholders and (ii) 3 new shares for every 10 existing shares of the Company be issued out of capital reserve to all shareholders. The abovementioned proposed dividends distribution and conversion of capital reserve to share capital for year 2017 is subject to, amongst others, approval by shareholders of the Company, application be made to and approved by the SEHK for the listing of and permission to deal in the new H shares (in respect of the capitalisation issue) and the proposed amendments to the articles of association of the Company for enabling the changes in capital structure and the registered capital of the Company resulting from the capitalisation issue; shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

A circular containing further details as to, amongst others, the payment currency and applicable foreign exchange rate for the proposed cash dividend, the conversion of capital reserve to share capital, the relevant record date and book closure period, and the proposed amendments to the articles of association of the Company will be despatched to shareholders of the Company in due course.

## V. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

**Changes of Directors, Supervisors and senior management and their respective interests in the securities of the Company were as follows:**

| Name | Position | as at 31 December 2017 | Change in shareholding | as at 31 December 2016 |
|---|---|---|---|---|
| **Directors** | | | | |
| Mr. Zhang Daiming | Chairman | 146,429 | 134,529 | 11,900 |

| | | | | |
|---|---|---|---|---|
| | | | (note 3) | (note 2) |
| Mr. Ren Fulong | Non-executive Director | 116,591 | 116,591 (note 3) | Nil |
| Mr. Du Deping | Executive Director, General Manager | 44,843 | 44,843 (note 3) | Nil |
| Mr. Xu Lie | Non-executive Director | 62,780 | 62,780 (note 3) | 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 | 71,748 | 71,748 (note 3) | Nil |
| Mr. Tao Zhichao | Independent Supervisor | Nil | Nil | Nil |
| Mr.Xiao Fangyu | Independent Supervisor | Nil | Nil | Nil |
| Ms. Hu Yanhua | Employee Supervisor | 26,905 | 26,905 (note 3) | Nil |
| Mr. Wang Jianping | Employee Supervisor | Nil | Nil | Nil |
| **Other senior management** | | | | |
| Mr. Wang Xiaolong | Deputy General Manager | 62,780 | 62,780 (note 3) | Nil |
| Mr. Dou Xuejie | Deputy General Manager | 26,905 | 26,905 (note 3) | Nil |
| Mr. Du Deqing | Deputy General Manager | 62,780 | 62,780 (note 3) | Nil |
| Mr. He Tongqing | Deputy General Manager | 89,686 | 89,686 (note 3) | Nil |
| Mr. Hou Ning | Financial Controller | 89,686 | 89,686 (note 3) | Nil |
| Mr. Zheng Zhonghui | Deputy General Manager | 17,937 | 17,937 (note 3) | Nil |
| Mr. Cao Changqiu | Secretary to the Board | 1,793 | 1,793 (note 3) | Nil |
| **Total** | | **820,863** | **808,963** | **11,900** |

Note:

*(1) All interests in the securities of the Company owned by the Directors, Supervisors and senior management of the Company are long position in A Shares.*

*(2) Mr. Zhang Daiming personally holds 11,900 A Shares.*

*(3) The relevant shares held by the Employee Share Ownership Scheme of the Company of which the relevant person is a participant.*

*(4) So far as the Directors, the senior management and Supervisors are aware, as at 31 December 2017, 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.

**Analysis of operating results and financial situation in accordance with CABSE**

As at 31 December 2017, the total assets of the Group was RMB5,273,647,000, representing an increase of 11.66% compared with the beginning of the year. The increase in total assets was mainly due to the increase in currency funds which was attributable to the completion of non-public issuance of A shares and the operating profits generated this year.

As at 31 December 2017, the currency funds of the Group was RMB731,126,000, representing an increase of 30.25% compared with the beginning of the year. The increase was mainly attributable to the completion of non-public issuance of A shares and the operating profits generated this year.

As at 31 December 2017, the inventories of the Group was RMB713,211,000, representing an increase of 27.48% compared with the beginning of the year. The increase was mainly attributable to stocking of goods in response to the uncertainties over the staggering-paced production in the winter this year, resulting in an increase in part of the finished products and raw materials.

As at 31 December 2017, the financial assets available for sale of the Group was RMB258,141,000, representing an increase of 36.24% compared with the beginning of the year. Other comprehensive incomes was RMB199,385,000, representing an increase of 43.01% compared with the beginning of the year. Such increases were mainly due to increase in the fair value of the financial assets available for sale this year.

As at 31 December 2017, the constructions in process of the Group was RMB434,546,000, representing an increase of 58.35% compared with the beginning of the year. The increase was mainly due to the increasing investments in such project as modern medicine international cooperation centre project during the financial year.

As at 31 December 2017, the short-term borrowing of the Group was RMB151,838,000, representing a decrease of RMB758,162,000 compared with the beginning of the year. The non-current liabilities due within one year was RMB89,622,000, representing a decrease of RMB255,232,000 compared with the beginning of the year. The long-term borrowing was RMB931,500,000, representing an increase of RMB831,500,000 compared with the beginning of the year. Such changes in the bank loans structure were mainly due to the active expansion of financing channels and optimisation of financing structure this year.

As at 31 December 2017, the accounts received in advance of the Group was RMB123,295,000, representing an increase of 82.95% compared with the beginning of the year. The increase was mainly because the subsidiaries of the Group received payments in advance for property sale this year.

As at 31 December 2017, the taxes and dues payable of the Group was RMB11,998,000, representing a decrease of 32.20% compared with the beginning of the year. The decrease was mainly due to the decrease in the amount of the value-added and income tax payable at the end of the year.

As at 31 December 2017, the dividends payable of the Group was RMB19,661,000, representing an increase of RMB14,351,000 as compared with the figure of RMB5,311,000 at the beginning of the year. The increase was mainly because the payment of special dividends as approved at the general meeting was not yet completed then.

As at 31 December 2017, the other payables of the Group was RMB280,115,000, representing an increase of 71.48% compared with the beginning of the year. The increase was mainly due to the increase in payables for projects and equipment during the financial year.

As at 31 December 2017, the capital reserves of the Group was RMB728,450,000, representing an increase of 41.97% compared with the beginning of the year. The increase was mainly due to the completion of non-public issuance of A shares during the financial year.

As at 31 December 2017, the total equity attributable to the shareholders of the Company was RMB2,480,024,000, representing an increase of 24.72% compared with the beginning of the year. The increase was mainly due to the completion of non-public issuance of A shares and the operating profits generated during the financial year.

As at 31 December 2017, the total liabilities of the Group were RMB2,694,194,000, representing an increase of 1.92% compared with the beginning of the year.

For the year of 2017, the operating profit of the Group amounted to RMB281,681,000, representing an increase of 84.81% as compared with the same period last year. The gross profit was RMB268,174,000, representing an increase of 67.64% as compared with the same period last year. The net profit attributable to the shareholders of the Company was RMB209,592,000, representing an increase of 71.42% as compared with the same period last year. Such increases were mainly because: (1) the Group actively seized market opportunities and developed its market, consolidated the market position of its products, further expanded the sales volume, and the price of main products increased; and (2) the Group continued to deepen its research on technological breakthrough in order to reduce production costs.

For the year of 2017, the Group's sales expense amounted to RMB509,749,000, representing an increase of 26.08% as compared with the same period last year. The increase was mainly attributable to the increase of terminal sales expenses due to the enhancement of market development.

For the year of 2017, the Group's administration expense amounted to RMB384,708,000, representing an increase of 14.54% as compared with the same period last year. The increase was mainly attributable to the increase of expenses in research and development as a result of more investments in research and development this year.

For the year of 2017, the Group's financial expense amounted to RMB79,745,000, representing an increase of 53.83% as compared with the same period last year. The increase was mainly attributable to in the increase in exchange loss as a result of the exchange rate changes this year.

For the year of 2017, the Group's net increase in cash and cash equivalents was RMB189,770,000. The increase was mainly attributable to the increase in net cash flow from investing activities and financing activities this year.

For the year of 2017, the Group recorded a net cash outflow from investing activities amounting to RMB168,537,000, representing a year-on-year increase of RMB74,757,000. The increase was mainly due to the gains from land resumption this year.

For the year of 2017, the Group recorded a net cash outflow from financing activities amounting to RMB25,232,000, representing a year-on-year increase of RMB49,793,000. The increase was mainly due to the active expansion of financing channels, optimisation of financing structure, lowered lending rates and that the special dividends as approved at the general meeting of the Company was not yet paid during the Reporting Period.

For the year of 2017, the Group recorded a net cash inflow from operating activities amounting to RMB389,972,000, which deviates from the net profit of RMB221,249,000 this year, mainly due to the increase in depreciation of fixed assets this year.

**The Group's operating revenue classified by products and by geographical location in accordance with CABSE** (RMB)

| Item | Operating revenue | Operating cost | Gross profit rate | Operating revenue compared to same period last year | Operating cost compared to same period last year | Gross profit rate compared to same period last year |
|---|---|---|---|---|---|---|
| By product | | | | | | |
| Chemical bulk drugs | 1,964,518,136.35 | 1,396,622,599.41 | 28.91% | 10.97% | 6.68% | Increase by 2.86 percentage points |
| Preparations | 1,982,189,474.18 | 1,381,807,519.70 | 30.29% | 13.42% | 7.88% | Increase by 3.61 percentage points |
| Medical intermediates and other products | 569,009,173.66 | 469,185,719.75 | 17.54% | 14.48% | 10.78% | Increase by 2.57 percentage points |
| Total | 4,515,716,784.19 | 3,247,615,838.86 | 28.08% | 12.47% | 7.77% | Increase by 3.14 percentage points |
| By geographical location | | | | | | |
| PRC (including Hong Kong) | 3,068,776,612.06 | 2,080,289,515.35 | 32.21% | 18.09% | 11.73% | Increase by 3.86 percentage points |
| America | 674,938,080.40 | 552,705,707.00 | 18.11% | （2.36%） | （2.27%） | Decrease by 0.07 percentage point |
| Europe | 331,427,351.78 | 266,937,196.65 | 19.46% | 8.62% | 7.03% | Increase by 1.20 percentage points |
| Others | 440,574,739.95 | 347,683,419.85 | 21.08% | 4.90% | 3.23% | Increase by 1.27 percentage points |
| Total | 4,515,716,784.19 | 3,247,615,838.86 | 28.08% | 12.47% | 7.77% | Increase by 3.14 percentage points |

## Liquidity and analysis of financial resources and capital structure

As at 31 December 2017, the current ratio and the quick ratio of the Group were 134.82% and 82.83% respectively, the accounts receivable turnover rate (accounts receivable turnover rate = revenue/average trade and bill receivables ×100%) and the inventory turnover rate (inventory turnover rate = cost of sales/ average inventories×100%) were 1,376.72% and 510.35% respectively.

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

The Group's main sources of funds were loans and operating profits. As at 31 December 2017, the total amount of outstanding loans was RMB1,220,501,000. As at 31 December 2017, currency funds of the Group amounted to RMB731,126,000 (including RMB48,264,000 as security deposit for bank acceptance bills). The Group has a good credit record with banks and has sufficient credit lines from banks at its disposal.

As at 31 December 2017, the Company and its subsidiary Shandong Zibo Xincat Pharmaceutical Co., Ltd. charged their respective currency funds of RMB33,894,000 and RMB14,370,000 to the bank for arrangement of bank acceptance bills respectively. Shandong Xinhua Pharmaceutical Trade Co., Ltd., a subsidiary of the Company, charged its accounts receivable of RMB1,828,000 for application of accounts receivable factoring. The Company's fixed asset of RMB152,895,000 was charged as security for loans. Save as disclosed, the Group did not have other assets charged.

During the Reporting Period, the Company and Zibo City Urban Construction Key Project Headquarters signed the State-Owned Land Collection Agreement to deal with a parcel of land located at Dongyi Road 14, Zhangdian District, Zibo City, Shandong Province. Through which, the Company received compensation in the amount of RMB37,110,000.

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

For breakdown of the performance results of the Group, please refer to the section headed "Analysis of operating results and financial situation in accordance with CABSE".

As at 31 December 2017, the number of staff employed by the Group was 6,384, and the total amount of salaries and wages for 2017 was RMB435,814,000.

The asset-liability ratio of the Group was 51.09% (asset-liability ratio = total liabilities / total assets ×100%).

The main purposes of the bank deposits of the Company are to be used as working capital for projects, production and operation.

The assets and liabilities of the Group were mainly recorded in RMB. For the year 2017, the revenue from the Group's exports was approximately US$207,846,000, which was subject to risks associated with the fluctuation of exchange rates. 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 of fluctuation of exchange rates; and (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 the parties.

## VII. BUSINESS REVIEW

In 2017, the Group overcame the impact of changing market conditions, increasing pressure on safety and environmental protection, rising costs and other factors. By capturing the opportunities, organising scientifically and stabilising production, the Company witnessed its production and operation indicators reaching record high.

1. Various business segments joining hands to steadily improve quality of operation

By fully taking advantage of its position in bulk drugs and vigorously expanding its market, the Company pushed its sales revenue of bulk drugs for the year to RMB1.96 billion, representing an increase of 10.97% from last year. The sales revenue of bulk drugs such as Ibuprofen and Levodopa recorded an encouraging increase, and sales of new featured bulk drugs including Glimepiride and Meloxicam have achieved relatively high growth rates.

The Company continued to advance its greater preparations strategy, with sales revenue for the year amounting to RMB1.98 billion, representing an increase of 13.42% from last year. Jiening (介寧) (Aspirin Enteric-coated Sustained Release Tablets) and Baochang (保暢) (Calcium Polycarbophil Tablets) were successfully listed on the "New National Drug Reimbursement Catalogue". Revenue from six strategic preparation varieties, including Rabeprazole totalled RMB199 million, increasing by 33.91% from the preceding year. An E-commerce department was established by consolidating our B2B and B2C resources, and the sales revenue from E-commerce business amounted to RMB27.48 million, representing an increase of 266.01% from last year.

Export income of the Company in 2017 reached USD208 million, representing a 4.7% year-on-year growth. Income from supply of internationally processed products amounted to RMB113.64 million, representing a 102.4% year-on-year growth. Further, key international cooperation projects of the Company have gained progress for this period. Xinhua Perrigo, a joint venture, made additional investment and expanded its production scale by 5 billion solid preparations in early 2018.

2. <u>Increasing research and development input to achieve scientific and technological innovation results</u>

During this year, investment in research and development totalled RMB160 million, representing a year-on-year growth of 47.85%. Four products under five approval numbers, including Glimepiride tablets and Captopril tablets, have successfully passed the BE test. Approvals were obtained for the production of two products, namely Levodopa and Vitamin E soft capsules. Febuxostat tablets having gone through clinical trial is due for production approval. The Company started the cooperation in research and development of new anti-senile dementia drugs with Shenyang Pharmaceutical University (瀋陽藥科大學). The Company and its subsidiary Xincat Pharmaceutical have respectively passed the accreditation as national and provincial high-tech enterprises. The Group received 11 patents this year.

Special incentives have been given to employees to further reduce costs and improve effectiveness. During this year, the Group concluded 50 projects in relation to technology and quality, resulting in RMB25.51 million savings as to consumption of raw materials and energy. Currently, 120 automated systems are in operation and 11 automation projects are being conducted. The series of key technological upgrade programs have led to remarkable results, and production technology of main products has improved substantially.

3. <u>Enhancing overall strength to step up fundamental management</u>

During the year, the Company passed revised ISO9001/14001 dual certifications, continued to deepen its 6S management approach to maintain safety, environmental protection and quality control. There has been no accident of a general nature or above during this year. Both manufacturing plants branch No.1 and No.2 have obtained pollutant discharge licenses issued by national environmental protection department on time. The Company maintained normal production for bulk drugs products to satisfy the market during the staggering-paced production period in Beijing–Tianjin–Hebei zone and surrounding areas. The Company has completed DMF registration in relation to 13 products in 32 countries. The Company constantly centralised control of capital, gradually rationalising its liability structure and financial structure, and significantly reduced its financing costs.

4. <u>Achieving new progress regarding project construction and succeeding in targeted additional issuance</u>

Regarding the international cooperation centre for modern pharmacy project, the main equipment was installed successfully, and the Company is actively applying for GMP certification thereof. For the modern pharmacy logistics centre project (phase I of the multi-layer warehouse), shelf and equipment installation have been completed and is presently under testing. All of the hormones pharmaceutical project plants were duly completed.

In October 2017, the Company has completed its non-public issuance and placing of A shares and raised RMB230 million; Phase I Employee Share Ownership Scheme was launched with a view to enhance the staff cohesiveness and vitality of corporate development.

## VIII. PROSPECTS

As the government speeds up the implementation of various reforms, the Company is embracing a good environment for development and reform. The continuous deepening of reform of pharmaceutical and healthcare system provides additional opportunities for accelerated development. Additional issuance of A Shares and the Employee Share Ownership Scheme were completed smoothly. As the Company improved its fundamental management on safety, environmental protection and product quality, and enhanced its comprehensive strengths in bulk drugs, the business of new bulk drugs grew rapidly. In view of the continuous promotion of the greater preparations strategy, the key preparation products continued to maintain rapid growth, and the Company was powered by an increasing inner drive. Through implementation of a series of incentive measures, staff cohesiveness continued to improve and the internal impetus of the Company's development continued to grow.

At the same time, there were many uncertainties and difficulties during the development of the Group. The complicated and changing international environment led to more uncertainties in international trade and cooperation; the increasingly intense competition in domestic market brought potential market pressure on the main products of the Company. The rising cost of procurement, the increasing investment in research and development, and the increment in salaries and related costs have resulted in increasing pressure to improve on the profitability of the Company. The increasingly stringent safety and environmental requirements have led to more investment and higher demand on improving organisation of production activities.

As such, in 2018, the Group will focus on the following aspects:

1. To take full advantage of marketing effect and foster new economic growth points

The Company will accelerate the implementation of its greater preparations strategy. The Company will innovate on preparations marketing and optimise the incentive policies to fully motivate its marketing personnel. The Company will devote greater effort to the cultivation of its strategic preparations products, with particular focus on capturing the opportunity offered by the inclusion of Jiening (介寧) and Baochang (保暢) tablets onto the national list of medicines covered by medical insurance. With a well-established production network, the Company will follow the strategy of “branded generics” with the objective of creating a reputable brand for its antipyretic and analgesic drugs and preparations. The Company will actively participate in bidding on essential drugs and speed up follow-up business and coverage of products in areas where it has won the bid. Also, the Company will make greater effort in terminal development, build a new E-commerce platform, accelerate the “Healthy Zibo Project” and the deployment of E-commerce innovation park, and setting the Company for new breakthroughs in, among others, business incubation, electronic prescription transmission, long-distance diagnosis and treatment and cross-border businesses.

The Company will put greater effort in development of bulk drugs market in order to expand its sales. The Company will seize the opportunities and adopt differentiated marketing tactics to establish synergy between different marketing segments to maximise return. The Company will further optimise the sales incentive policies of new bulk drugs and pay attention to promotion of featured bulk drugs market with a view to foster new growth points.

2. Focusing on technological innovation to further strengthen development momentum of the Company

The Company will further accelerate its research and development process and consistency evaluation of new drugs, optimise the research and development layout for new products, strive to obtain 2 approvals in 2018 and to pass consistency evaluation of 8 products under clinical research (BE), and to achieve substantial progress in the research and development of major innovative drugs such as antibody conjugate drugs. The Company will further increase its cooperation with external parties and speed up the introduction of new products and technologies, so as to achieve substantive results in respect of production, education and research cooperation in 2018.

In 2018, the Company will strive to achieve the industrial transformation of four new products including Edaravone, and carry out stricter assessment on the commercialisation of existing new products in order to accelerate the transformation of new research achievements into productivity.

The Company will further increase rewards for technological advancement, innovation and efficiency, and vigorously carry out technical and quality research activities among its staff members. The Company will take advantage of its reputation as a "technological centre for advanced production engineering of antipyretic and analgesic drugs" and speed up the application of new engineering technologies.

3. Constantly promoting international business strategy to blaze a trail for development

The Company will take advantage of existing internationally commissioned processing orders to improve its overall level of preparation development. For instance, the Company will make great effort to ensure the quality and timely supply of internationally commissioned products.

The Company will accelerate the equipment installation and commissioning of the international cooperation centre for modern pharmacy project and the construction of newly added production lines, striving to pass GMP certification and MHRA inspection as soon as practicable, and on basis of the aforesaid, accelerate cooperation based on international projects. The Company will prepare for the design and construction of phase II of the aforesaid centre in due course.

Through continuing effort in DMF registration of bulk drugs and making full use of various international registration resources to speed up the ANDA and NDA registration of existing products, and strive to commence the ANDA registration of 2 to 3 products in 2018.

4. Optimising incentive system to fully motivate its staff

The Company will further optimise the appraisal and incentive measures at all levels, set up an incentive and reward system linked to contribution directly, and give full play to the role of remuneration incentives. The Company will proactively explore and establish a sophisticated long-term incentive mechanism.

The Company will revise the existing incentives for the scientific research personnel and organically combine various incentive measures. The Company will further improve the results-oriented assessment method for marketing personnel, taking into account new product assessment and market share improvement among other medium to long-term objectives, and continue to explore multiple incentive measures.

5. Solidifying the management foundation and building garden-style intelligent factories

The Company will develop the "three lifeline engineering project" vigorously. The Company will improve the work environment and the general safety standard by further increasing investment, implementing automation and related customisation of safety devices and carrying out risk assessment of response to hazardous processes. The Company will make sure the investment in environmental protection is in place to tackle pollution at its sources with an aim to achieve "zero emission", and spearhead the improvement of process and technology as well as the comprehensive usage of resources. Also, the Company will continue to carry out technology and quality related activities for all staff members, implement key projects, and solve quality problems via technical measures.

The Company will speed up the construction of the garden-style factories. The professional management requirements regarding fire control, quality and equipment will be incorporated into the 6S management assessment standards to promote the continuous deepening of the 6S consciousness. The Company will construct its industrial park with a unified plan and meticulous organisation and implementation, as well as, landscaping and beautification programs.

The Company will accelerate the construction of the intelligent factories. The Company will further accelerate the promotion and application of new technologies and new equipment, upgrade the automated and continuous production line of key raw pharmaceutical ingredients, and advance the implementation of automation projects.

## IX. IMPORTANT ISSUES

### Staff and Remuneration

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

As at 31 December 2017, the number of staff employed by the Group was 6,384, and the total amount of their salaries and wages for the year 2017 was RMB435,814,000.

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

Save for the non-public issuance and placing of A shares of the Company as disclosed in the announcements of the Company dated 11 and 16 October 2017, during the year ended 31 December 2017 neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### 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 re-appointment of ShineWing Certified Public Accountants as the Company's auditors and the adaptation of the CASBE to prepare its financial statements as of 31 December 2017 and thereafter at the 2016 annual general meeting on 16 June 2017. The Company intends to re-appoint ShineWing Certified Public Accountants as auditors of the Company for the year 2018 at the 2017 annual general meeting to be held in 2018.

### Corporate Governance Code

The Directors (including the independent non-executive Directors) confirm that for the year ended 31 December 2017, the Company complied with all 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 conducted by the Directors. Having made specific enquiry to all Directors of the Company, they confirmed that they have complied with the prescribed standard set out in the Model Code throughout the year ended 31 December 2017.

### Sale and Purchase of Assets

Save as disclosed under the "Liquidity and analysis of financial resources and capital structure" section, 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 considered and approved by the first 2017 extraordinary general meeting on 22 December 2017. The amendments to the articles of association of the Company conform to the articles of association of the Company, the provisions of the laws, rules and regulations of the PRC and the Listing Rules.

For further enhancement of the corporate governance of the Company, the Board proposed amendments be made to articles 121(a) and (c) to the effect that shareholders' nomination threshold in respect of director candidates (other than candidates for independent directorships) be lowered from individually or jointly holding 5% or more of the Company's voting shares to 3% thereof.

The abovementioned proposed amendments to the articles of association of the Company are subject to, amongst other things, the approvals of shareholders of the Company and of the relevant authorities. The Company expects that the full terms of the proposed amendments to the articles of association of the Company will be set out in tandem with the proposed amendments required by the conversion of the capital reserve into share capital and a circular containing the details thereof will be despatched to shareholders of the Company in due course.

## Audit Committee

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

The Audit Committee has, in tandem with the management of the Company, reviewed the accounting principles, accounting standards and methods adopted by the Group and the auditing, internal control and financial reporting matters of the Group. The Audit Committee has convened four meetings to review the audited financial statements for 2016, the unaudited first quarter financial statements for 2017, the unaudited interim statements for 2017 and the unaudited third quarter financial statements for 2017 respectively.

The Audit Committee convened a meeting on 23 March 2018 to review the audited accounts for the financial year 2017 and this announcement.

### Changes in Accounting Policies

As of the date of this announcement, the Board reviewed and approved changes to the applicable accounting policies as follows:

(1) The PRC Ministry of Finance issued the Accounting Standards for Business Enterprises No. 42 - Non-current Assets Held for Sale, Disposal Groups and Discontinued Operations, requiring that prospective application method shall be adopted for the non-current assets held for sale, disposal groups and discontinued operation.

(2) The PRC Ministry of Finance revised the Accounting Standards for Business Enterprises No. 16 - Government Subsidies in 2017, requiring that prospective application method shall be adopted for the government subsidies.

(3) The PRC Ministry of Finance issued the Notice on Revision and Issuance of General Format of Financial Statements of Enterprises and made revisions to the format of general financial statements of enterprises, which is applicable to financial statements for the year 2017 and subsequent periods.

In response to the requirements of the PRC Ministry of Finance, the Company carried out corresponding changes to its accounting policies according to the above stipulations. These changes of the accounting policies of the Company fall within the scope of changes of accounting policies as required by the national standard accounting system, and are duly reflected in the annual results contained in this announcement.

Details of the changes in accounting policies and impact on the Company are as follows:

(1) Adding an item "gains from disposal of assets" in the income statement and reclassifying the profit or loss from disposal of assets originally stated as "non-operating income" and "non-operating expenditure" to the item "gains from disposal of assets". The comparative data are adjusted accordingly. The amount of gains from disposal of assets for the previous year increased by RMB5,250,916.35, while non-operating income decreased by RMB5,836,722.36 and non-operating expenditure decreased by RMB585,806.01 accordingly; the amount of gains from disposal of assets for the current year increased by RMB46,047,264.22, while non-operating income decreased by RMB46,461,596.34 and non-operating expenditure decreased by RMB414,332.12 accordingly.

(2) The asset-related government subsidies would be recognised in deferred income, which would be recognised in other income in instalments within the service life of the asset; government subsidies relating to daily operations of the Company would be recognised in other income and were no longer recognised in non-operating income. The amount of other income for the current year increased by RMB12,508,306.00, while non-operating income decreased by RMB12,508,306.00 accordingly.

(3) Continuing operating profit and discontinued operating profit were stated separately in the income statement, and the comparative data would be adjusted accordingly. The amount of continuing operating profit for the previous year and for the current year were RMB133,047,273.87 and RMB221,248,751.89 respectively; there was no impact on the discontinued operating profit for the previous year and the current year.

The changes in accounting policies did not have material impact on the financial position, operating results and cash flows of the Company.

## X. FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH CABSE

### Consolidated Balance Sheet (audited)

Unit: RMB Yuan

| Assets | Notes | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Current assets: | | | |
| Monetary funds | | 731,126,274.34 | 561,331,585.33 |
| Notes receivable | | 123,254,824.94 | 107,005,175.90 |
| Accounts receivable | 3 | 312,616,985.27 | 343,392,085.04 |
| Prepayments | | 22,806,947.53 | 29,151,280.72 |
| Other receivable | 4 | 45,017,383.05 | 46,590,419.30 |
| Inventories | | 713,210,692.52 | 559,487,133.74 |
| Other current assets | | 61,956,321.18 | 63,631,331.50 |
| **Total current assets** | | **2,009,989,428.83** | **1,710,589,011.53** |

| | | |
|---|---|---|
| Non-current assets: | | |
| Financial assets available for sale | 258,141,232.00 | 189,474,784.00 |
| Investment real estate | 73,441,754.87 | 75,635,320.09 |
| Fixed assets | 2,152,905,567.58 | 2,120,995,100.52 |
| Projects under construction | 434,545,877.52 | 274,420,412.04 |
| Intangible assets | 323,563,478.78 | 283,274,940.35 |
| Deferred income tax assets | 21,059,785.05 | 25,630,317.07 |
| Other non-current assets | - | 42,766,078.24 |
| **Total non-current assets** | **3,263,657,695.80** | **3,012,196,952.31** |
| **Total assets** | **5,273,647,124.63** | **4,722,785,963.84** |

## Consolidated Balance Sheet (audited) (continued)

Unit: RMB Yuan

| Liabilities and Shareholders' Equity | Notes | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Current liabilities: | | | |
| Short-term borrowing | | 151,837,507.11 | 910,000,000.00 |
| Notes payable | | 208,227,829.37 | 254,077,627.50 |
| Accounts payable | 5 | 530,065,197.24 | 433,116,202.88 |
| Accounts received in advance | | 123,295,214.99 | 67,393,449.91 |
| Payroll payable | 6 | 68,460,743.73 | 66,078,587.82 |
| Taxes and dues payable | | 11,997,561.61 | 17,694,627.36 |
| Interest payable | | 2,238,698.12 | 3,902,110.16 |
| Dividends payable | | 19,661,202.16 | 5,310,599.55 |
| Other payable | | 280,114,731.95 | 163,347,304.20 |
| Non-current liabilities due within one year | | 89,621,673.88 | 344,854,126.83 |
| Other current liabilities | | 5,319,000.00 | 4,732,000.00 |
| **Total current liabilities** | | **1,490,839,360.16** | **2,270,506,636.21** |
| Non-current liabilities: | | | - |
| Long-term loans | | 931,500,000.00 | 100,000,000.00 |
| Long-term payables | | 47,541,721.66 | 64,938,492.33 |
| Special payables | | 71,960,000.00 | 84,960,000.00 |
| Estimated liabilities | | - | - |
| Deferred income | | 131,701,917.02 | 118,317,680.77 |
| Deferred income tax liabilities | | 17,089,244.98 | 1,194,228.88 |
| Other non-current liabilities | | 3,561,500.00 | 3,561,500.00 |
| **Total non-current liabilities** | | **1,203,354,383.66** | **372,971,901.98** |
| **Total liabilities** | | **2,694,193,743.82** | **2,643,478,538.19** |

| | | | |
|---|---|---|---|
| Owners' equity (or Shareholders' equity): | | | |
| Capital stock | | 478,353,421.00 | 457,312,830.00 |
| Capital surplus | 7 | 728,450,324.94 | 513,092,452.66 |
| Less: Treasury stock | | - | - |
| Other comprehensive income | 8 | 199,385,406.07 | 139,421,221.69 |
| Surplus reserve | | 235,509,229.07 | 221,217,539.36 |
| Undistributed profits | 9 | 838,325,395.51 | 657,375,780.62 |
| **Total of equity assigned to the shareholders of the Company** | | **2,480,023,776.59** | **1,988,419,824.33** |
| Minority shareholders' equity | | 99,429,604.22 | 90,887,601.32 |
| **Total of shareholders' equity** | | **2,579,453,380.81** | **2,079,307,425.65** |
| **Total of liabilities and shareholder's equity** | | **5,273,647,124.63** | **4,722,785,963.84** |

## Consolidated Income Statement (audited)

Unit: RMB Yuan

| Item | Notes | 2017 | 2016 |
|---|---|---|---|
| **I. Gross revenue** | | 4,515,716,784.19 | 4,014,963,065.74 |
| Including: operating revenue | 10 | 4,515,716,784.19 | 4,014,963,065.74 |
| **II. Total operating cost** | | 4,298,618,395.23 | 3,875,649,239.61 |
| Including: Operating cost | 10 | 3,247,615,838.86 | 3,013,584,624.39 |
| Taxes and surcharges | 11 | 60,664,577.84 | 50,356,102.80 |
| Selling expenses | | 509,748,602.14 | 404,317,945.51 |
| Administration expenses | | 384,708,247.89 | 335,871,419.21 |
| Financial expenses | | 79,745,027.94 | 51,838,422.75 |
| Assets impairment loss | 12 | 16,136,100.56 | 19,680,724.95 |
| Add: incomes from changes in fair value | | - | - |
| Investment incomes | | 6,026,908.54 | 7,852,686.97 |
| Including: income from investment into affiliates and joint ventures | | - | - |
| Gains from asset disposal | | 46,047,264.22 | 5,250,916.35 |
| Other incomes | | 12,508,306.00 | - |
| **III. Operating profits** | | 281,680,867.72 | 152,417,429.45 |
| Add: non-operating income | | 10,920.615.95 | 21,527,324.94 |
| Less: non-operating expenditure | | 24,427,607.67 | 13,976,262.18 |
| **IV. Total profits** | | 268,173,876.00 | 159,968,492.21 |
| Less: income tax expense | 13 | 46,925,124.11 | 26,921,218.34 |
| **V. Net profits** | | 221,248,751.89 | 133,047,273.87 |
| **(I) According to operation** (losses to be listed with brackets) | | | |
| (1) Net profit from continued operations | | 221,248,751.89 | 133,047,273.87 |
| (2) Net profit from discontinued operations | | - | - |
| **(II) According to ownership** (losses to be listed with brackets) | | | |
| (1) Net profit attributable to shareholders of the Company | | 209,591,907.23 | 122,271,549.68 |

| | | | |
|---|---|---|---|
| (2)Minority shareholders' profit or loss | | 11,656,844.66 | 10,775,724.19 |
| **VI Net of tax of other comprehensive income** | | 59,794,367.70 | (9,157,878.63) |
| Oher comprehensive income net of tax that belongs to the owners of the Company | | 59,964,184.38 | (8,962,029.69) |
| (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. Share in other comprehensive income not subject to reclassification to profit or loss in investment-receiving company under equity law | | - | - |
| (II) Other comprehensive income to be reclassified to profit or loss in future | | 59,964,184.38 | (8,962,029.69) |
| 1. Share in other comprehensive income to be reclassified to loss or profit in investment-receiving company under equity law | | - | - |
| 2. Profit or loss of change in fair value of financial assets available for sale | | 61,086,480.80 | (9,313,334.40) |
| 3.Profit or loss of held-to-maturity investment reclassified to available-for-sale financial assets | | - | - |
| 4. Effective part of cash flow hedging profit or loss | | - | - |
| 5. Conversion difference of foreign currency statement | | (1,122,296.42) | 351,304.71 |
| 6. Others | | - | - |
| Other consolidated income net of tax that belongs to the minority shareholders | | (169,816.68) | (195,848.94) |
| **VII. Total comprehensive income** | | 281,043,119.59 | 123,889,395.24 |
| Total comprehensive income attributable to the shareholders of parent company | | 269,556,091.61 | 113,309,519.99 |
| Total comprehensive income attributable to the minority shareholders | | 11,487,027.98 | 10,579,875.25 |
| **VIII. Earnings per share:** | | | |
| (I) Basic earnings per share | 14 | 0.45 | 0.27 |
| (II) Diluted earnings per share | | 0.45 | 0.27 |

## SUMMARY NOTES TO THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CASBE

**NOTES:**

## 1. Preparation basis of the financial statements

**Preparation basis**

On a going concern basis, the financial statements of the Group have been prepared based on transactions and items that have actually occurred, in accordance with the China Accounting Standards issued by the Ministry of Finance of the PRC and other relevant regulations and the disclosure requirements under the Companies Ordinance of Hong Kong and the Listing Rules by the SEHK.

**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 item or situation raising significant doubts of its ability to operate as a 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 segments on the basis of internal organisation structure, management requirements and internal reporting system and adopts different business units as business segments for disclosure purposes. Business segment refers to each different business unit within the Group which satisfies the following conditions: (1) the business segment is able to generate income and incur expenses in its daily operation; (2) the management of the Group is able to evaluate the operating results of such business segments 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 segment, such as financial position, operating results and cash flow, etc. If two or more business segments share similar economic characteristics and meet certain conditions, those business segments would be merged into one business segment.

The Group's business segments are as follows:

| | |
|---|---|
| Chemical bulk drugs : | Development, production and sales of chemical bulk drugs |
| 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 follows:

### (b) Segment information for the year ended 31 December 2017 and the year ended 31 December 2016 (audited):

Year ended 31 December 2017 (audited)

Unit: RMB

| Item | Chemical bulk drugs | Preparations | Medical intermediate and other products | Others | Offset amount | Total |
|---|---|---|---|---|---|---|
| Operating revenue | 1,969,877,819.55 | 2,343,280,366.61 | 1,151,933,206.76 | - | (949,374,608.73) | 4,515,716,784.19 |
| Comprising: Revenue from external customers | 1,964,518,136.35 | 1,982,189,474.18 | 569,009,173.66 | - | | 4,515,716,784.19 |
| Inter-segment transaction income | 5,359,683.20 | 361,090,892.43 | 582,924,033.10 | - | (949,374,608.73) | - |
| Operating cost | 1,441,359,036.62 | 1,744,748,645.80 | 1,022,520,815.49 | - | (961,012,659.05) | 3,247,615,838.86 |
| Cost offsetting amount | 44,736,437.21 | 362,941,126.10 | 553,335,095.74 | - | (961,012,659.05) | - |
| Expenses for the period | 303,335,936.60 | 612,070,821.73 | 58,795,119.64 | - | - | 974,201,877.97 |
| Total profit（loss） | - | - | - | 274,280,037.36 | 7,400,830.36 | 281,680,867.72 |
| Total assets | 2,616,440,054.82 | 1,458,152,818.13 | 1,063,400,196.07 | 1,335,578,854.38 | （1,199,924,798.77） | 5,273,647,124.63 |
| Total liability | 922,370,357.92 | 716,136,253.74 | 514,040,053.38 | 1,265,087,374.98 | （723,440,296.20） | 2,694,193,743.82 |

Year 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 |
| Comprising: 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) | - | - | - | 168,137,629.73 | (15,720,200.28) | 152,417,429.45 |
| 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 |

## 3. Accounts receivable

| | 31 December 2017<br>RMB | 31 December 2016<br>RMB |
|---|---|---|
| Accounts receivable | 370,143,508.49 | 400,769,602.29 |
| *Less: provision for bad debts* | 57,526,523.22 | 57,377,517.25 |
| | **312,616,985.27** | **343,392,085.04** |

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

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

| | 31 December 2017<br>RMB | 31 December 2016<br>RMB |
|---|---|---|
| Less than one year | 311,448,492.42 | 342,764,839.78 |
| One to two years | 1,102,467.60 | 479,299.12 |
| Two to three years | 66,025.25 | 147,946.14 |
| **Total** | **312,616,985.27** | **343,392,085.04** |

**The aging of accounts receivable that have been overdue without accruing any bad debt provision is analysed below:**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| | RMB | RMB |
| Less than one year | 5,986,979.13 | 3,092,633.86 |
| One to two years | 79,392.38 | 507,150.99 |
| Two to three years | 66,025.25 | 102,060.44 |
| **Total** | **6,132,396.75** | **3,701,845.29** |

As of 31 December 2017, accounts receivable which was overdue without any provision for bad debts amounted to RMB6,132,396.75 (the amount at the beginning of the year was RMB3,701,845.29). In the future, the Company will proactively seek to recover those accounts receivable from its customers, but judging from those customers' financial situation, the Group is of the view that these accounts can be recovered in whole or in part, and therefore made no provision for bad debts individually or in full.

**4. Other accounts receivable**

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| | RMB | RMB |
| Other accounts receivable | 64,931,292.56 | 71,075,858.34 |
| Less: provision for bad debts of other accounts receivable | 19,913,909.51 | 24,485,439.04 |
| | **45,017,383.05** | **46,590,419.30** |

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

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| | RMB | RMB |
| Less than one year | 26,252,675.63 | 28,438,033.63 |
| One to two years | 10,654,600.02 | 10,230,658.71 |
| Two to three years | 8,110,107.40 | 2,221,726.96 |
| Over three years | - | 5,700,000.00 |
| **Total** | **45,017,383.05** | **46,590,419.30** |

The Group did not stipulate credit periods for other receivable. As a result, as at 31 December 2017 and 31 December 2016, the Group had no other receivable that were overdue but without individual provision for bad debts.

## 5. Accounts payable

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

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| | RMB | RMB |
| Less than one year | 507,439,905.53 | 414,778,212.02 |
| One to two years | 15,463,021.70 | 11,147,066.41 |
| Two to three years | 2,206,933.89 | 1,924,616.11 |
| Over three years | 4,955,336.12 | 5,266,308.34 |
| **Total** | **530,065,197.24** | **433,116,202.88** |

## 6. Payroll payable

(1) Classification of payroll payable

| | 31 December 2016 | Increase during the year | Decrease during the year | 31 December 2017 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| Short-term wages | 66,078,587.82 | 546,892,597.37 | 544,510,441.46 | 68,460,743.73 |
| Post-employment welfare - defined contribution plan | - | 58,517,532.60 | 58,517,532.60 | - |
| Dismissal welfare | - | 122,192.00 | 122,192.00 | - |
| **Total** | **66,078,587.82** | **605,532,321.97** | **603,150,166.06** | **68,460,743.73** |

(2) Short-term wages

| | 31 December 2016 | Increase during the year | Decrease during the year | 31 December 2017 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| Salary, bonus, allowance and subsidy | 59,086,436.13 | 440,583,328.90 | 435,813,668.16 | 63,856,096.87 |
| Employee welfare expenses | 781,215.37 | 25,865,821.11 | 26,647,036.48 | - |
| Social insurance charges | - | 27,004,101.04 | 27,004,101.04 | - |
| Comprising: Medical insurance premiums | | 21,345,292.53 | 21,345,292.53 | - |

| | | | | |
|---|---|---|---|---|
| Work injury insurance premiums | - | 2,709,771,12 | 2,709,771,12 | - |
| Maternity insurance premium | - | 2,949,037.39 | 2,949,037.39 | - |
| Housing provident fund | - | 16,275,870.24 | 16,275,870.24 | - |
| Labour union expenditure & personnel education fund | 6,210,936.32 | 7,198,616.52 | 8,804,905.98 | 4,604,646.86 |
| Labour costs | - | 29,964,859.56 | 29,964,859.56 | - |
| **Total** | **66,078,587.82** | **546,892,597.37** | **544,510,441.46** | **68,460,743.73** |

(3) Defined contribution plan

| | 31 December 2016 | Increase during the year | Decrease during the year | 31 December 2017 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| Basic retirement insurance | - | 56,408,572.00 | 56,408,572.00 | - |
| Unemployment insurance premium | - | 2,108,960.60 | 2,108,960.60 | - |
| **Total** | **-** | **58,517,532.60** | **58,517,532.60** | **-** |

## 7. Capital surplus

| | 31 December 2016 | Increase during the year | Decrease during the year | 31 December 2017 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| Capital stock premium | 424,084,320.48 | 202,357,872.28 | - | 626,442,192.76 |
| Other capital reserves | 89,008,132.18 | 13,000,000.00 | - | 102,008,132.18 |
| **Total** | **513,092,452.66** | **215,357,872.28** | **-** | **728,450,324.94** |

## 8. Other comprehensive income

31 December Amount incurred this year

| | 2016 | Income tax incurred this year | Less: Amount recorded into other comprehensive income in previous year transferred to profit or loss this year | Less: income tax expense | Attributable to the parent company after tax | Attributable to minority shareholders after tax | 31 December 2017 |
|---|---|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| I. Other comprehensive income not to be reclassified into profit or loss in future | - | - | - | - | - | - | - |
| II. Other comprehensive income to be reclassified into profit or loss in future | 139,421,221.69 | 70,574,334.90 | - | 10,779,967.20 | 59,964,184.38 | (169,816.68) | 199,385,406.07 |
| Profit or loss from fair value fluctuation of financial assets available for sale | 140,292,046.10 | 71,866,448.00 | - | 10,779,967.20 | 61,086,480.80 | - | 201,378,526.90 |
| Conversion difference of financial statement in foreign currency | （870,824.41） | （1,292,113.10） | - | - | （1,122,296.42） | （169,816.68） | （1,993,120.83） |
| **Total** | **139,421,221.69** | **70,574,334.90** | - | **10,779,967.20** | **59,964,184.38** | **（169,816.68）** | **199,385,406.07** |

## 9. Undistributed profits

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| | RMB | RMB |
| **Amount at the end of last year** | 657,375,780.62 | 552,002,849.22 |
| Add: Adjustment for undistributed profit at the beginning of this year | - | - |
| **Amount at the beginning of this year** | 657,375,780.62 | 552,002,849.22 |
| Add: Net profits attributable to the parent company's | 209,591,907.23 | 122,271,549.68 |

| | | |
|---|---|---|
| shareholders in the current year | | |
| Less: Appropriation of statutory surplus reserve | 14,291,689.71 | 7,752,361.68 |
| Appropriation of discretionary surplus reserves | - | - |
| Withdrawal of provision for general risk | - | - |
| Common stock dividends provision | 14,350,602.63 | 9,146,256.60 |
| Common stock dividends for conversion into share capital | - | - |
| **Total** | **838,325,395.51** | **657,375,780.62** |

**10. Operating revenue and cost**

| | 2017<br>RMB | 2016<br>RMB |
|---|---|---|
| Revenue of main operations | 4,462,383,633.71 | 3,977,831,210.76 |
| Other operating revenue | 53,333,150.48 | 37,131,854.98 |
| **Total** | **4,515,716,784.19** | **4,014,963,065.74** |

| | 2017<br>RMB | 2016<br>RMB |
|---|---|---|
| Cost of main operations | 3,172,291,355.66 | 2,957,890,806.22 |
| Other operating costs | 75,324,483.20 | 55,693,818.17 |
| **Total** | **3,247,615,838.86** | **3,013,584,624.39** |

**11. taxes and surcharges**

| | 2017<br>RMB | 2016<br>RMB |
|---|---|---|
| Business tax | - | 56,995.62 |
| City maintenance and construction tax | 16,276,618.60 | 16,478,006.94 |
| Educational surcharge | 11,626,155.82 | 11,769,840.24 |
| Local Water Conservancy Fund | 1,735,819.84 | 2,352,716.07 |
| House Property Tax | 12,276,639.19 | 6,856,614.53 |
| Tenure Tax | 16,361,907.64 | 11,456,641.88 |
| Vehicle and Vessel Use Tax | 58,202.91 | 26,476.41 |
| Stamp tax | 2,329,233.84 | 1,358,811.11 |
| Total | 60,664,577.84 | 50,356,102.80 |

**12. Assets impairment loss**

| | 2017 | 2016 |
|---|---|---|
| | RMB | RMB |
| Bad debt losses | (4,480,944.31) | (1,138,315.23) |
| Inventory valuation loss | 18,008,351.05 | 20,819,040.18 |
| Fixed assets impairment loss | 2,608,693.82 | - |
| **Total** | **16,136,100.56** | **19,680,724.95** |

## 13. Income tax expense

(1) Income tax expense

| | 2017 | 2016 |
|---|---|---|
| | RMB | RMB |
| Current income tax expense | 32,077,945.65 | 32,893,908.20 |
| Comprising: China corporate income tax | 31,403,119.36 | 32,707,867.53 |
| Hong Kong income tax | | - |
| Macao income tax | | - |
| USA income tax | 674,826.29 | 186,040.67 |
| Deferred income tax expenses | 9,685,580.92 | (7,237,936.15) |
| Overstatement (understatement) from previous year | 5,161,597.54 | 1,265,246.29 |
| **Total** | **46,925,124.11** | **26,921,218.34** |

(2) Adjustment process of accounting profits and income tax

| | 2017 | 2016 |
|---|---|---|
| | RMB | RMB |
| Total profits of this year | 268,173,876.00 | 159,968,492.21 |
| Income tax expense calculated pursuant to legal/applicable tax rate(s) | 40,226,081.40 | 23,995,273.83 |
| Effect of different tax rate applicable to subsidiaries | 5,975,952.69 | 6,078,879.14 |
| Overstatement (understatement) from previous year | 5,161,597.54 | 1,265,246.29 |
| Effect of non-assessable income | （896,528.06） | （1,164,840.23） |
| Effect of non-deductible cost, expense and loss | 1,286,097.00 | 1,006,828.19 |
| Effect of utilising unrecognised deferred income tax assets from previous year | （136,015.18） | - |
| Effect of deductible temporary difference or deductible profit or loss from unrecognised deferred income tax assets from this year | 791,593.78 | 1,235,302.88 |
| Additional deductions | （5,483,655.06） | (5,495,471.76) |
| **Income tax expenses** | **46,925,124.11** | **26,921,218.34** |

## 14. 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 RMB209,591,907.23 (2016: RMB122,271,549.68) and based on the weighted average number of 460,819,595 shares (2016: 457,312,830 shares) in issue during the period.

| | 31 December 2017<br>RMB | 31 December 2016<br>RMB |
|---|---|---|
| Consolidated net profit attributable to ordinary shares of the listed company | 209,591,907.23 | 122,271,549.68 |
| Weighted average number of ordinary shares issued by the Company | 460,819,595 | 457,312,830 |
| Basic earnings per share | 0.45 | 0.27 |

Basic earnings per share and diluted earnings per share for the year ended 31 December 2017 and 31 December 2016 are the same as there were no dilutive events during both periods.

### 15. Dividends and the conversion of capital reserve to share capital

| | 2017<br>RMB | 2016<br>RMB |
|---|---|---|
| Dividends recognised as distribution in the financial statements of the relevant the year: | | |
| - 2015 final dividend: RMB0.02 per share | - | 9,146,256.60 |
| - 2016 final dividend: nil | - | - |
| - 2017 special dividend: RMB0.03 per share | 14,350,602.63 | - |
| | **14,350,602.63** | **9,146,256.60** |

The Board proposes the profit distribution plan for year 2017 as follows: based on the total issued shares of the Company of 478,353,421 shares (of which 328,353,421 shares were A shares and 150,000,000 shares were H shares) as at 31 December 2017, it is proposed (i) a dividend of RMB0.05 (tax inclusive) for every share of the Company be paid to shareholders and (ii) 3 new shares for every 10 existing shares of the Company be issued out of capital reserve to all shareholders. The aforementioned amounts are not included in the 2017 annual financial statement. Please refer to the section "IV. DIVIDENDS AND THE CONVERSION OF CAPITAL RESERVE TO SHARE CAPITAL" of this announcement.

## XI. DOCUMENTS FOR INSPECTION AND PLACE OF INSPECTION

(1) Documents for inspection

1. The original copy of the Company's 2017 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*

23 March 2018, 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