

Audit Report

DXSZ [2016] No. 2-00048

To all Shareholders of Hubei Granules Biocause Pharmaceutical Company LTD.,

We have audited the accompanying financial statement of Hubei Granules Biocause Pharmaceutical Company LTD. (the “Company”), including the balance sheet as of December 31, 2015, income statement for 2015, statement of cash flow, Statement of Changes in Equity and the accompanying notes to financial statements.

1. Management’s Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the Financial Statements in accordance with the accounting standards for business enterprise (2) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

2. Auditor’s Responsibility

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

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

WUYIGE Certified Public Accountants LLP.
15/F, Xueyuan International Tower
1 Zhichun Road, Haidian Dist
Beijing, China. 100083

Telephone: +86 (10) 82330558
Fax: +86 (10) 82327668
Internet: www.daxincpa.com.cn

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of December 31, 2015, and of its financial performance and cash flow for the year of 2015 then ended in accordance with the Accounting Standards for Business Enterprises and China Accounting System for Business Enterprises.

WUYIGE Certified Public Accountants LLP.

WUYIGE Certified Public Accountants LLP. 1101080210400 (SEAL)
--

Beijing China

China Certified Public Accountant: Xiang Xin (sig)

China Certified Public Accountant: Xiang Xin (SEAL)

China Certified Public Accountant: Peng Xiang (sig)

China Certified Public Accountant: Peng Xiang (SEAL)
--

January 29th, 2016

Balance Sheet

Hubei Granules Biocause
Pharmaceutical Company LTD.
(SEAL)

Prepared by: Hubei Granules Biocause Pharmaceutical Company LTD. December 31st, 2015 Currency: Yuan

Item	Note	Balance At End of Year	Balance At Beg. Of Year
Current Assets:			
Bank and Cash	5.(1)	17,234,863.98	16,906,304.73
Financial assets measured at fair value and whose movements are included in the profit and loss of the current period			
Derivative financial assets			
Notes Receivable	5.(2)	6,421,698.70	2,483,327.05
Accounts Receivable	5.(3)	46,548,962.96	27,189,036.12
Prepayment	5.(4)	3,040,308.07	683,365.12
Interests Receivable			
Dividend Receivable			
Other Receivables	5.(5)	2,392,871.69	45,825,391.34
Inventories	5.(6)	26,023,545.91	44,524,165.08
Assets classified as available for sale			
Non-current assets matured within one year			
Other current assets			
Total current assets		101,662,251.31	137,611,589.44
Non-current assets			
Available-for-sale financial assets			
Held-to-maturity investment			
Long-term receivables			
Long-term equity investment			
Investment property			
Fixed assets	5.(7)	21,416,853.79	23,910,067.62
Construction in progress	5.(8)	1,213,216.49	
Construction materials			
Disposal of fixed assets			
Bearer biological assets			
Oil and gas assets			
Intangible assets	5.(9)	2,188,333.00	3,501,333.04
Development costs			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets	5.(10)	371,547.34	1,247,650.44
Other non-current assets			
Total of non-current asses		25,189,950.62	28,659,051.10
Total of Assets		126,852,201.93	166,270,640.54

Legal representative:

Financial Manager:

People in Charge of Accounting Agency:

Cheng Zhigang (SEAL)

Yi Yanhao (SEAL)

Yi Yanhao (SEAL)

Balance Sheet

Hubei Granules Biocause
Pharmaceutical Company LTD.
(SEAL)

Prepared by: Hubei Granules Biocause Pharmaceutical Company LTD. December 31st, 2015 Currency: Yuan

Item	Note	Balance At End of Year	Balance At Beg. Of Year
Current Liabilities:			
Short-term loan	5.(11)	20,000,000.00	20,000,000.00
Financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period			
Derivative financial liabilities			
Notes payable			
Accounts payable	5.(12)	8,786,743.13	36,254,393.90
Advance receipts	5.(13)	3,030,758.02	815,848.46
Employee benefits payable	5.(14)	2,027,875.22	1,667,625.03
Taxes payable	5.(15)	558,380.54	-793,445.15
Accrued interest payable			
Dividend payable			
Other payables	5.(16)	4,351,908.62	26,843,198.50
Liabilities classified as available for sale			
Non-current liabilities falling due within one year			
Other current liabilities			
Total current liabilities		38,755,665.53	84,787,620.74
Non-current liabilities:			
Long-term loan			
Payable bonds			
Long-term payables			
Long-term accrued payroll			
Special accounts payable			
Provision for liabilities			
Deferred income			
Deferred income tax liabilities			
Other non-current liabilities			
Total of non-current liabilities			
Total of liabilities		38,755,665.53	84,787,620.74
Owners' equity			
Paid-up capitals	5.(17)	66,000,000.00	66,000,000.00
Other equity instruments			
Capital reserve	5.(18)	45,604.99	45,604.99
Less: treasury stock			
Other comprehensive income			
Special reserves			
Surplus reserve	5.(19)	2,543,054.46	1,881,702.80
Retained profit after appropriation	5.(20)	19,507,876.95	13,555,712.01
Total of owners' equity		88,096,536.40	81,483,019.80
Total of liabilities and owners' equity		126,852,201.93	166,270,640.54

Legal representative:

Cheng Zhigang (SEAL)

Financial Manager:

Yi Yanhao (SEAL)

People in Charge of Accounting

Yi Yanhao (SEAL)

Income Statement

Hubei Granules Biocause
Pharmaceutical Company LTD.
(SEAL)

Prepared by: Hubei Granules Biocause Pharmaceutical Company LTD.

Year 2015

Currency: Yuan

Item	Note	Amount This Year	Amount Last Year
1. Operating income and operating costs	5.(21)	226,942,369.86	225,166,210.97
Less: operating costs	5.(21)	201,341,591.44	206,893,772.41
Operating tax and surtax	5.(22)	1,228,341.89	756,511.93
Selling expenses		6,883,892.86	5,460,199.99
Administration expenses		8,178,041.30	9,391,587.27
Financial expenses	5.(23)	342,551.66	2,362,021.39
Asset impairment	5.(24)	619,099.13	-552,903.23
Add: Profits or losses on the changes in fair value			
Investment income			
Including: Investment income from affiliated business and joint enterprise			
2. Operating profits		8,348,851.58	855,021.21
Add: Non-operating income	5.(25)	798,382.00	453,209.42
Including: Gains from disposal of non-current assets			
Less: Non-operating expenses	5.(26)	227,308.12	445,620.16
Including: Losses from disposal of non-current assets		187,637.89	332,031.92
3. The total of profit		8,919,925.46	862,610.47
Less: Income tax expenses	5.(27)	2,306,408.86	231,380.35
4. Net profit		6,613,516.60	631,230.12
5. Net of tax from other comprehensive income			
1).Other comprehensive incomes that cannot reclassified into profits and losses			
2). Other comprehensive income that will be reclassified into profit and loss			
6. The total of comprehensive income		6,613,516.60	631,230.12
7. Per-share earnings			
(1) Basic per-share earnings (Yuan/share)			
(2) Diluted per-share earnings (Yuan/share)			

Legal representative:

Financial Manager:

People in Charge of Accounting Agency:

Cheng Zhigang (SEAL)

Yi Yanhao (SEAL)

Yi Yanhao (SEAL)

Cash Flow Statement

Hubei Granules Biocause
Pharmaceutical Company LTD.
(SEAL)

Prepared by: Hubei Granules Biocause Pharmaceutical Company LTD.

Year 2015

Currency: Yuan

Item	Note	Amount This Year	Amount Last Year
1. Cash flow from operating activities			
Cash from selling commodities or offering labor		217,197,124.33	252, 477, 626.59
Refund of tax and fee received		3,591,891.82	8,591,233.70
Cash received related to other operating activities		47,472,045.17	49,575,227.10
Sub-total of cash inflows from operating activities		268,261,061.32	310,644,087.39
Cash paid for goods and services		207,057,615.08	227,543,736.98
Cash paid to and on behalf of employees		17,650,885.96	18,492,284.28
Payments of all types of taxes		4,679,098.88	2,203,684.51
Other cash paid relating to operating activities		34,120,202.72	53,048,406.76
Sub-total of cash outflows from operating activities		263,507,802.64	301,288,112.53
Net cash flows from operating activities		4,753,258.68	9,355,974.86
2. Cash flows from investing activities			
Cash received from disposal of investments			
Cash received from returns on investments			
Net cash received from disposal of fixed assets, intangible assets & other long-term assets		31,762.70	58,114.19
Net cash received from disposal of subsidiary and other business units			
Other cash received relating to investing activities			
Sub-total of cash inflow from investment activities		31,762.70	58,114.19
Cash paid to acquire fixed assets, intangible assets & other long term assets		3,166,960.39	1,768,828.78
Cash paid to acquire investments			
Net cash outflows for procurement of subsidiaries and other business units			
Other cash payments relating to investing activities			
Sub-total of cash outflow from investment activities		3,166,960.39	1,768,828.78
Net cash flows from investing activities		-3,135,197.69	-1,710,714.59
3. Cash flows from financing activities			
Cash received from capital contribution			
Cash received from borrowings		20,000,000.00	42,856,572.80
Other cash received relating to financing activities			
Sub-total of cash inflow from investment activities		20,000,000.00	42,856,572.80
Cash repayments of amounts borrowed		20,000,000.00	57,856,572.80
Cash payments for interest expenses and distribution of dividends or profit		1,289,501.74	2,030,467.71
Other cash payments relating to financing activities			
Sub-total of cash inflow from investment activities		21,289,501.74	59,887,040.51
Net cash flows from financing activities		-1,289,501.74	-17,030,467.71
4. Effect of changes in foreign exchange on cash			
5. Net increase in cash and cash equivalents at beg. of year		328,559.25	-9,385,207.44
Add: cash and cash equivalents balance		16,906,304.73	26,291,512.17
6. Net increase in cash and cash equivalents at end of year		17,234,863.98	16,906,304.73

Legal representative:

Cheng Zhigang (SEAL)

Financial Manager:

Yi Yanhao (SEAL)

People in Charge of Accounting Agency:

Yi Yanhao (SEAL)

Hubei Granules Biocause
Pharmaceutical Company LTD.
(SEAL)

Statement of Changes in Owners' Equity

Prepared by: Hubei Granules Biocause Pharmaceutical Company LTD.

Year 2015

Currency: Yuan

Item	Amount This Year								
	Paid-in capital	Other equity instruments	Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profit	Owners' equity
1. Balance at the end of prior year	66,000,000.00		45,604.99				1,881,702.80	13,555,712.01	81,483,019.80
Add: Accounting policy changes									
Corrections of prior period errors									
Others									
2. Balance at the beginning of current year	66,000,000.00		45,604.99				1,881,702.80	13,555,712.01	81,483,019.80
3. Amount of change in current year ("-" means less)							661,351.66	5,952,164.94	6,613,516.60
(1). Total of comprehensive income								6,613,516.60	6,613,516.60
(2) Capital contributed or decreased by owner									
1). Common shares of the owner									
2). Holders of other equity instruments invested capital									
3). The amount of share-based payments recorded in owners' equity									
4). Others									
(3) Profit distribution							661,351.66	-661,351.66	
1). Appropriation of surplus reserve							661,351.66	-661,351.66	661,314.98
2). Distributions to shareholders									
3). Others									
(4) Transfers within the owners' equity									
1). Capital transferred from capital surplus									
2). Capital transferred from surplus reserve									
3). Recovery of losses by surplus reserve									
4). Others									
(5) Special reserves									
1). Extracted in current year									
2). Used in current year									
(6) Others									
4. Balance at the end of current year	66,000,000.00		45,604.99				2,543,054.46	19,507,876.95	88,096,536.40

Legal representative:

Cheng Zhigang (SEAL)

Financial Manager:

Yi Yanhao (SEAL)

People in Charge of Accounting Agency:

Yi Yanhao (SEAL)

Hubei Granules Biocause
Pharmaceutical Company LTD.
(SEAL)

Statement of Changes in Owners' Equity

Prepared by: Hubei Granules Biocause Pharmaceutical Company LTD.

Year 2015

Currency: Yuan

Item	Amount Last Year								
	Paid-in capital	Other equity instruments	Capital surplus	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profit	Owners' equity
1. Balance at the end of prior year	66,000,000.00		45,604.99				1,881,702.80	12,924,481.89	80,851,789.68
Add: Accounting policy changes									
Corrections of prior period errors									
Others									
2. Balance at the beginning of current year	66,000,000.00		45,604.99				1,881,702.80	12,924,481.89	80,851,789.68
3. Amount of change in current year ("-" means less)								631,230.12	631,230.12
(1). Total of comprehensive income								631,230.12	631,230.12
(2) Capital contributed or decreased by owner									
1). Common shares of the owner									
2). Holders of other equity instruments invested capital									
3). The amount of share-based payments recorded in owners' equity									
4). Others									
(7) Profit distribution									
1). Appropriation of surplus reserve									
2). Distributions to shareholders									
3). Others									
(8) Transfers within the owners' equity									
1). Capital transferred from capital surplus									
2). Capital transferred from surplus reserve									
3). Recovery of losses by surplus reserve									
4). Others									
(9) Special reserves									
1). Extracted in current year									
2). Used in current year									
(10) Others									
4. Balance at the end of current year	66,000,000.00		45,604.99				1,881,702.80	13,555,712.01	81,483,019.80

Legal representative:

Financial Manager:

People in Charge of Accounting Agency:

Cheng Zhigang (SEAL)

Yi Yanhao (SEAL)

Yi Yanhao (SEAL)

Hubei Granules Biocause Pharmaceutical Company LTD.

Notes to Financial Statements

(Unless otherwise specified, all currencies herein should be in CYN)

1. Company Introduction

1) Company profile

Hubei Granules Biocause Pharmaceutical Company Ltd. (“the Company”) is a joint venture company established by and between Hubei Biocause Pharmaceutical Co., Ltd. and Granules India Limited with a registered capital of RMB 66,000,000.00, 50% of which is held by Hubei Biocause Pharmaceutical Co., Ltd. and Granules India Limited respectively. The Company was approved by Jingmen Administration Bureau of Industry and Commerce on March 5th, 2007.

Legal representative: Cheng Zhigang

Business license No.: 420800400000266

Registered address: #122 Yangwan Road, Jingmeng, Hubei Province

Company type: Limited Liability Company (Chinese-Foreign Equity Joint Venture)

Business scope: design, development, production and processing of ibuprofen of various levels as API as well other new products; providing technical support and after-sale services; promotion and sales of aforementioned products. (If any approval is needed for any business activities, such business activities shall be carried out after such approval)

2) This financial statement shall be released after being approved by the Board of the Company on January 29th, 2016.

2. The Basis of Financial Statement Preparation

1) Preparation basis: The financial statement shall be based on the continuous operation and dealings and transactions happened or otherwise will happened, it shall be prepared in accordance to the Accounting Standard for Business Enterprises- Basic Standard enacted by the Ministry of Finance, specific accounting standards and regulations (collectively “enterprise accounting standard”), as well as the following significant accounting policies and accounting estimates.

2) Continuous operation: the Company shall have the capacity of continuous operation for 12 months since the end of this current year. There shall be no significant item that can affect the Company’s capacity of continuous operation.

3. Significant Accounting Policies and Accounting Estimates

1) Compliance with enterprise accounting standard

The financial statement prepared by the Company shall meet all requirements of Accounting Standard for Business Enterprises, and it truly reflects the financial situation of the Company as of December 31st, 2015 as well as such information as the performance and cash flow of the company.

2) Fiscal period

The company adopts calendar year as its fiscal period, i.e. from January 1st to December 31st.

3) Operational cycle

The fiscal period of the Company shall be one year (12 months), which shall also be used to measure the fluidity of assets and liabilities.

4) Bookkeeping base currency

RMB is used as the bookkeeping base currency of the Company.

5) The standard for recognizing cash equivalent

In the preparation of the cash flow statement, cash on hand and deposits readily to be paid is recognized as cash, and short-term, highly liquid and readily convertible to know amounts of cash with insignificant risk of changes in value are recognized as cash equivalent.

6) Foreign currency transaction and translation of foreign currency financial statement

(1) Foreign currency transaction translation

The amount in the foreign currency shall be translated into the amount in the functional currency at the spot exchange rate of the transaction date, or at an exchange rate which is determined through a systematic and reasonable method and is approximate to the spot exchange rate of the transaction date. The foreign currency monetary items as of the date of Balance Sheet shall be translated at the spot exchange rate on the balance sheet date. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior to the balance sheet date shall be recorded into the profits and losses at the current period. The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of functional currency shall not be changed. The foreign currency non-monetary items measured at fair value shall be translated at the spot exchange rate on the fair value measurement date, the difference from the bookkeeping currency and such foreign currency after the translation shall be regarded as the fair value change (including exchange rate change), and it shall be recorded into the profits and losses at the current period or recorded as other comprehensive income.

(2) Translation of Foreign Currency Financial Statements

Where the holding subsidiary, joint venture company, and associated company of the Company adopts a bookkeeping base currency which is difference from that of the Company, financial accounting and consolidated financial statements shall be prepared after the translation of foreign currency financial statements. The asset and liability items in the balance sheets shall be translated at a spot exchange rate on the balance sheet date. Among the owner's equity items, except the ones as "undistributed profits", others shall be translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profit statements shall be translated at the spot exchange rate of the transaction date, or at a spot exchange rate which is approximate to the spot exchange rate of the transaction date. The balance arisen from the translation of foreign currency financial statements shall be presented separately under the owner's equity item of the balance sheets. Where foreign currency cash flow is determined through a systematic and reasonable method, exchange rate approximate to the spot exchange rate of the transaction date shall be adopted in the translation. The impact exchange rate change has to cash shall be presented separated in cash flow statement. When disposing an overseas business, an enterprise shall shift the balance, which arises from the translation of foreign currency financial statements related to this oversea business, into the disposal profits and losses of the current period.

7) Financial instruments

(1) Classification and recognition of financial instruments

Financial instruments are classified as financial assets and financial liabilities. When the Company enters into a contract of financial instrument, it should be recognized as financial asset or financial liability.

The company at the time of initial recognition of financial assets divides it into: financial assets measured at fair value with changes included in the profit or loss of this period, held-to-maturity investments, loans and receivables and financial assets available for sale. The classification of all items apart from accounts receivable shall depend on the Company's or its subsidiary's intention as well as ability of holding such financial assets. The company at the time of initial recognition of financial liabilities divides it into: financial liabilities and other financial liabilities measured at fair value with changes included in the profit or loss of this period.

Financial asset measured at fair value with changes included in the profit or loss of this period refer to the short-term sales financial assets, including financial assets held for trading or financial assets measured at fair value with changes included in the profit or loss of this period designated upon initial recognition by the management; the non-derivative financial assets without the price in an active market and with fixed and determinable recovery cost are classified as loans and receivables; financial assets available for sale include non-derivative financial assets available for sale recognized initially and other non-derivative financial assets no classified as other financial assets; held-to-maturity investments: the non-derivative financial assets with clear intention and ability to hold to maturity by the management of the company, a fixed maturity date and fixed or determinable payments are classified as held-to-maturity investments.

(2) Measurement of financial instruments

The initial values of financial assets and financial liabilities shall be measured with their fair values. They should be classified as: financial assets measured at fair value with changes included in the profit or loss of this period, financial liabilities available for sale, and financial assets measured at fair value with changes included in the profit or loss of this period; held-to-maturity investments, loans and accounts receivable; equity instrument investments without the price in an active market and without determinable measures, derivative assets or liabilities connected to and settled by delivery of such equity (accounted for with the cost). The gaining and losses of the Company arising from the fair value change of the Company's financial assets and liabilities shall be handled (except for hedging): ①loses or gaining arising from the change of fair price of the financial assets or liabilities shall be included in fair value change losses or gaining. ②the fair value change of financial assets to be sold shall be included in other comprehensive incomes.

(3) Determination of the fair value of financial instruments

If financial instruments trade in an active market, the quoted price in an active market determines its fair value; if financial instrument trade not in an active market, the valuation techniques determine the fair value. Valuation techniques include recent market transaction price reference to the familiar situation and volunteer transaction, current fair value reference to other substantially similar financial instruments, discounted cash flow method and option pricing model and so on.

(4) Recognition and measurement for transfer of financial assets

If the Company has transferred nearly all of the risks and rewards relating to the ownership of the financial assets to the transferee, they shall be derecognized. If it retains nearly all of the risks and rewards relating to the ownership of the financial assets, they shall not be derecognized and will be recognized as a financial liability. If the Company has not transferred nor retained nearly all of the risks and rewards relating to the ownership of the financial assets: to give up the control of the financial assets to be derecognized; not giving up control of the financial asset to be recognized based on the extent of its continuing involvement in the transferred financial assets and liabilities are recognized accordingly.

Financial liabilities shall be entirely or partially derecognized if the present obligations derived from them are entirely or partially discharged.

(5) Impairment loss on financial assets

If financial asset measured at amortized cost has been impaired, the carrying amount of the financial asset is written down to the present value of estimated future cash flows (excluding future credit losses that have not yet occurred), and the amount of reduction is recognized as impairment loss and is recognized in the profit or loss of this period, and provisions for impairment loss shall be made accordingly. If there is objective evidence that the value of financial asset has been restored and recognized relevant to the objective matters occurring after the impairment, previously recognized impairment loss shall be reversed and charged into the profit or loss of this period.

If financial asset measured at cost has been impaired, the carrying amount of the financial asset is written down to the present value of estimated future cash flows (excluding future credit losses that have not yet occurred), and the amount of reduction is recognized as impairment loss and is recognized in the profit or loss of this period, and provisions for impairment loss shall be made accordingly. All confirmed losses shall not be reversed.

If there is objective evidence that an impairment of available for sale financial assets occurs, even though the financial asset has not been derecognized, the cumulative loss of decrease of the fair value originally recorded in the owner's equity should be transferred out and charged into the current profit and loss. The cumulative loss is the initial acquisition cost of available for sale financial assets, deducting the fair value of the withdrawing principal and amortization amount and impairment loss as well as net impairment amount originally charged into the profit or loss.

For investments in equity instruments, the specific quantitative criteria, cost calculation methods, and fair value determination methods the Company adopts in determining if the decrease is “serious” or “non-temporary” as well as in determining the continuous decrease period shall be:

Specific quantitative criteria for “serious” fair value decrease	Closing fair value relative to cost declines have decreased up to or more than 50%.
Specific quantitative criteria for “non-temporary” fair value decrease	12 consecutive months of decrease
Cost calculation methods	The total of give value (after deduction of cash dividends declared but not yet paid or bond interest to pay the total but not yet received) and the related

	transaction costs shall be investment cost.
The method of determining the fair value of at the end of the year	For financial instruments that have active market, it should be the price in active market; otherwise, the fair value shall be measured by estimation techniques.
The basis for continuous decrease period	Falling or falling trend for the duration of the rate of increase is less than 20% rebound, rebound duration not exceeding six months as the monarch during the decline.

8) Accounts receivable

The accounts receivable of the Company include debt receivable, long-term accounts receivable, and other receivables. If there is objective evidence as of balance sheet date that impairment has occurred, based on the difference of the present value of future cash flows less than the book value, the impairment loss is recognized.

If there is objective evidence that certain accounts receivables can not be recovered, the impairment loss shall be recognized after being approved according to related procedures, and the provision for bad debts shall be made. The company does not account for the bad debts of its subsidiaries. For accounts receivable for which objective evidence indicate obvious change, separate recognition shall be carried out for the provision for bad debts.

(1) Individual items are individually significant and receivables provision for bad debts

Standard for single significant amount or amount	Accounts receivable book balance of more than 10 million yuan (including 10 million)
Significant single amount and single provision for bad debt provision method	Separate impairment test, there is objective evidence that an impairment has occurred based on the difference between the present value of future cash flows is less than its book value, provision for bad debts, have been tested without impairment according to age analysis accrual bad debts

(2) Provision for bad debts in combination

For accounts receivable with insignificant values and those that have not been impaired after individual test, provisions for bad debts shall be made by aging status.

Determined based on a combination of	Aging status
Provisions for impairment provision	Aging analysis

In the combination, age analysis provision shall be per:

Aging	Accounts receivable ratio (%)	Other receivables (%)
Within 1 year (including 1 year)	3	3
1-2 years (including 2 years)	10	10
2-3 years (including 3 years)	20	20
3-4 years (including 4 years)	30	30
4-5 years (including 5 years)	50	50
Over 5 years	100	100

9) Inventory

(1) Classification of inventory

Inventory includes the final products held or stored for the purpose of selling, or the products that are in the process of manufacture for the purpose of selling, or the materials or consumables to be used in production or in the process of providing labors. It includes raw materials, packing material, low-value consumables, half-finished products, finished products (in stock), and etc.

(2) Valuation of inventory dispatched

Weighted average method shall be used for the cost of inventory dispatched.

(3) Provision for inventory price decrease

For those items whose cost can't be recovered due to damages to inventories, part or all of the inventory goes out of season, or whose price is lower than the cost, inventory falling price loss shall be the cost of each item less the net value of the liquidation; for materials used in production, if the final products produced by such materials is higher than the cost, the materials shall be priced as their cost, if the final products produced by such materials is lower than the cost, such materials shall be priced as the net value of the final products produced.

(4) Inventory system

The Company adopts perpetual inventory system.

(5) Amortization of low-value consumables

Direct Write-off Method shall be adopted for amortization of low-value consumables.

10) Long-term equity investments

(1) Initial investment cost measurement

For long-term equity investment through merger, e.g. enterprise (controlled by the same company) merger, the initial cost shall be obtained by the book value of the share being merged; if they are not controlled by the same company, the cost of such merger shall be used as the initial cost; for long-term equity investment obtained by cash, the initial investment cost shall be the actual payment of the purchase price; for long-term equity investment by issuing equity securities, the initial investment cost is the fair value of issued equity securities; for long-term equity investment acquired through debt restructuring, its initial investment cost should be according to the related regulations of "Accounting Standards for Enterprises No. 12 – Debt Restructuring"; for long-term equity investment by non-monetary asset exchange, the initial investment cost is determined based on relevant regulations.

(2) Subsequent measurement and profit and loss confirmation method

Where the investor can essentially control the company it invested, the book value shall be measured as the cost of the long-term equity measurement. Where such equity investment to affiliated company and joint venture company is made through investment institute, mutual fund, trust company or other similar bodies including insurance fund, such indirect investment shall be measured by the fair value with its change recorded in balance sheet, and the remaining part shall be measured by equity method in accordance to Accounting Standards for Enterprises No. 22– Recognition and Measurement of Financial Instruments.

(3) The basis to decide the joint control and significant influence to the invested company

Joint control to the invested company means unanimous decisions have to be made together with the other party of joint control before activities having significant influence to be carried out including the sale or purchase of commodity or labor, financial asset management, asset purchase and disposal, R&D activities and financing activities; significant influence means having 20% to 50% voting equity.

11) Fixed assets

(1) Recognition criteria of fixed assets

Fixed assets refer to tangible assets held for the purpose of producing commodities, providing services, renting or business management with useful lives exceeding one accounting year and high unit value. Classification of fixed assets: buildings and constructions, machinery equipment, transport equipment and office equipment.

(2) Fixed assets classification and depreciation method

The fixed asset of the Company is classified as: buildings and constructions, machinery equipment, special equipment, transportation equipment, other equipment. It is priced based on actual cost and depreciated in a straight-line method. The estimated useful lives, estimated residual rate and annual depreciation rate of various s categories of fixed assets are listed as follows:

Category of fixed assets	Estimated useful lives	Estimated residual rate (%)	Annual depreciation rate
Buildings and constructions	18—38	4	2.53—5.33
Machinery equipment	5—14	4	6.85—19.20
Special equipment	8—10	4	9.60—12.00
Transport equipment	6—8	4	12.00—16.00
Other equipment	5—10	4	9.60—19.20

(3) The recognition of financing lease and its pricing

Financing lease is lease that essentially transferred all risks and rewards related to the ownership of such assets.

12) Construction in progress

The construction in progress of the Company include self-operating and outsourcing. After the completion and handover of the construction, the book value of fixed assets shall be adjusted.

13) Borrowings

(1) Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets for capitalization should be charged into the relevant costs of assets and therefore should be capitalized. Borrowing costs incurred after qualifying assets for capitalization reaches the estimated use state are charged to profit or loss in the current period. Other borrowing costs are recognized as expenses based on the accrual and are charged to profit or loss in the current period.

(2) Capitalization of borrowing

Capitalization period is a period from the beginning of capitalization cost to the end with the period in which capitalization cost is paused being excluded. Where abnormal stoppage longer than 3 months happens in construction in progress, capitalization of borrowing shall be paused.

Where special funds are borrowed, costs eligible for capitalization are the actual interest costs incurred in current period less the interest income of unused borrowing funds deposited in the bank or any income earned on the temporary

investment of such borrowings; Where funds allocated for purchase, construction or manufacturing of assets

Where borrowing eligible for capitalization as part of a general pool, the eligible capitalization interest amounts are determined by multiplying a capitalization rate of general borrowing by the weighted average of accumulated capital expenditures over those on specific borrowings. The capitalization rate will be determined based on the weighted average rate of the borrowing costs applicable to the general pool.

14) Intangible assets

(1) Pricing of the intangible assets

The initial measurement of the intangible assets of the Company shall be as per the cost. The cost of outsourcing intangible assets shall be priced based on the actual expenditure directly attributable to intangible assets for the expected purpose. The intangible asset of investment is in accordance with the agreed value of the investment contract or agreement as costs, excluding not fair agreed value of the contract or agreement. Expenditure on internal research and development projects is charged into the current profit or loss, and expense in the development stage can be recognized as intangible costs if meeting the criteria for capitalization.

The pricing method of intangible assets: as for the intangible assets with limited service life, it is amortized by straight-line method when it is available for use within the service period. As for unforeseeable period of intangible assets bringing future economic benefits to the company, it is regarded as intangible assets with uncertain service life, and intangible assets with uncertain service life can not be amortized.

(2) The recognition of uncertain use life

The Company sees the situation where the period under which such asset may bring economic benefit is not foreseeable or intangible assets with uncertain use life as intangible assets with unforeseeable use life. The recognition criteria is: derived from contractual rights, where there's no specific use life in such contract or laws and regulations; the period under which the intangible asset may bring economical benefits can't be determined in reference with similar cases in the same industry.

(3) Criteria to determine research and development stage of internal R&D project as well as the compliance with capitalization in R&D project.

The expenditure of internal R&D project shall be recorded into current profit & loss; where expenditure in R&D stage meets intangible assets, it should be transferred to intangible assets.

15) Impairment of long-term assets

Where there's impairment for long-term investment such as long-term equity investments, real property investment, fixed assets, construction in progress, production assets recorded at price method, oil & gas assets, intangible assets and goodwill, impairment test shall be carried out.

The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets. 18Where there is any evidence indicating a possible impairment of assets, the enterprise shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the asset belongs.

Impairment test shall be carried out at least annually for goodwill which is presented separately in financial statement, regardless if there's any sign of impairment. When an enterprise makes an impairment test of assets, it shall, as of the purchasing day, apportion the carrying value of the business reputation formed by merger of enterprises to the relevant asset groups by a reasonable method. Where it is difficult to do so, it shall be apportioned to the relevant combinations of asset groups. When apportioning the carrying value of the business reputation to the relevant asset groups or combinations of asset groups, it shall be apportioned on the basis of the proportion of the fair value of each asset group or combination of asset groups to the total fair value of the relevant asset groups or combinations of asset groups.

16) Long-term deferred expenses

The long-term deferred expense refers to all expenses that have been spent but recovery period is longer than 1 year (1 year not included). Long-term deferred expense shall be amortized in recovery period.

17) Salary payable to staff

The staff ' salary means that the enterprise gives various remunerations and other relevant expenses to employees for obtaining services provided by the employees in the accounting period, including staff's salary, bonus, allowance and subsidy, staff's welfare, hospitalization insurance, endowment insurance, unemployment insurance, occupational injury insurance and childbirth insurance and other social insurances as well as housing public reserve and so on.

(1) Short-term salary

Short-term employee benefits are employee" benefits (other than compensation for termination of employment relationship) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits include: employee wages or salaries, bonus allowance subsidies staff welfare insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences, short-term profit-sharing plan, non-monetary benefits and other short-term benefits.

(2) Post employment benefit

Post-employment benefits are any remuneration and benefits (other than short-term employee benefits and termination benefits) in exchange for service rendered by employees that are payable after the retirement of the employees or termination of employment relationship.

(3) Termination benefit

Post-employment benefits are any remuneration and benefits (other than short-term employee benefits and termination benefits) in exchange for service rendered by employees that are payable after the retirement of the employees or termination of employment relationship. Termination benefits are compensation provided when an enterprise decides to terminate the employment relationship with employees before the end of the employment contracts, or compensation provided as an offer.

(4) Other long-term benefit

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits. Other long-term employee benefits include long-term paid absences, long-term disability benefits, and long-term profit-sharing plan.

18) Revenue

(1) Sales of products

The revenue from selling goods shall be recognized when meeting all following conditions: ①the significant risks and rewards of ownership of the goods have been transferred to the buyer by the Company; the Company retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; ③the amount of revenue can be measured in a reliable way; ④it is probable that the economic benefits associated with the transaction will flow to the enterprise; ⑤the relevant costs can be measured reliably.

If the collection of the price as stipulated in the contract or agreement is delayed and if it has the financing nature, the revenue incurred by selling goods shall be ascertained in accordance with the fair value of the receivable price as stipulated in the contract or agreement.

The principle of ascertaining payment receipt per contracts or agreements shall be: the Company dispatches the goods, and the buyer accepts such goods without objection. The payment amount is certain and has been received, and cost is reliably measurable.

(2) Providing labor service

If an enterprise can, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the labor services it provides, it shall recognize the revenue from providing services employing the percentage-of-completion method.

If an enterprise can not, on the date of the balance sheet, measure the result of a transaction concerning the providing of labor services in a reliable way, it shall be conducted in accordance with the following circumstances, respectively: ①If the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount; ②If the cost of labor services incurred is not expected to compensate, the cost incurred should be included in the current profits and losses, and no revenue from the providing of labor services may be recognized.

(3) Revenue from Abalienating the Right to Use Assets

The Company ascertains the amount of revenues from the abalienating of right to use assets when relevant economic benefits are likely to flow into the Company and the amount of revenues can be measured in a reliable way.

19) Government subsidies

(1) Accounting of government subsidies pertinent to assets

Government assets that are obtained by enterprises used for purchase or construction, or forming the long-term assets by other ways, and government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. But the government subsidies measured at their nominal amounts shall be directly included in the current profits and losses.

(2) Accounting of government subsidies pertinent to incomes

All government subsidies except for those pertinent to assets are regarded as government subsidies pertinent to incomes. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: Those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall included in the current profits and losses during the period when the relevant expenses are

recognized; Those subsidies used for compensating the related expenses or losses incurred to the enterprise shall be directly included in the current profits and losses. Criteria for the difference between government subsidies pertinent to assets and government subsidies pertinent to incomes

If government documents do not specify the target company for the subsidy, the criteria in separating government subsidies pertinent to assets and government subsidies pertinent to incomes shall be: ①if the document specifies the project for the subsidy, it should be classified based on the proportion of the expenditures in such project which will form assets against those that will be recorded as cost; ②if general specification has been made in government document without specifying specific project, it should be regarded as government subsidies pertinent to incomes.

20) Deferred income tax liability or deferred income tax asset

- (1) Deferred income tax liability or deferred income tax shall be determined based on the difference between the carrying value of income, liability and the tax base (As for an item that has not been recognized as an asset or liability, if its tax base can be determined in light of the tax law, the difference between the tax base and its carrying amount shall also be a temporary difference.) in accordance with the tax rate in the period in which such asset is recovered or liability is settled.
- (2) The Company recognizes the deferred income tax liabilities arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. On the balance sheet date, where there is any exact evidence showing that it is likely to acquire sufficient amount of taxable income tax in a future period to offset against the deductible temporary difference, the deferred income tax assets unrecognized in prior periods shall be recognized.
- (3) Where the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises can meet the following requirements simultaneously, the enterprise shall recognize the corresponding deferred income tax assets: the investing enterprise can control the time of the reverse of temporary differences; and temporary differences are unlikely to be reversed in the excepted future. For deferred income tax liabilities arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference.

21) Changes in accounting policies and accounting estimates

- (1) Changes in accounting policies
There's no change in accounting policies during the period of the report.
- (2) Changes in accounting estimates
There's no estimate in accounting policies during the period of the report.

4. Tax

1) Main tax types and rates

Taxes	Tax base	Tax rate
VAT	17% or 13% VAT on sales, according to the difference between the output tax deductions deductible input VAT accrual and payment	17%
Sales tax	Taxable income	5%

Urban maintenance and construction tax	VAT payable, business tax	7%
Education surcharge	VAT payable, business tax	3%
Levee fee	VAT payable, business tax	2%
Local education surcharge	VAT payable, business tax	2%
Corporate income tax	Taxable income	25%

- 2) Preferential taxes and approval
No.

5. Important Notes to Financial Statements

1) monetary funds

Item	Balance At End of Year		Balance At Beg. Of Year	
	Amount	Wherein: amount in foreign currency	Amount	Wherein: amount in foreign currency
Cash	769.60			
Bank savings	13,519,032.49	5,007,705.09	12,456,583.30	4,145,291.70
Other monetary fund	3,715,061.89		4,449,721.43	
Total	17,234,863.98	5,007,705.09	16,906,304.73	4,145,291.70

Note: 1. As of December 31, 2015, there's no item associated with pledge, freezing and other restrictions on the use, overseas deposit, and items with recovery risk;

2. Amount in other currency is guarantee.

2) Notes receivable

Item	Balance At End of Year	Balance At Beg. Of Year
Bank acceptance	6,421,698.70	2,483,327.05
Total	6,421,698.70	2,483,327.05

3) Accounts receivable

(1) Accounts receivable by category

Category	Balance At End of Year			
	Book balance		Reserves for bad debts	
	Amounts	Proportion (%)	Amounts	Accrued proportion (%)
Provisions for impairment of receivables	47,990,356.03	100.00	1,441,393.07	3.00
Individually insignificant but subject to separate provision for accounts receivable				
Total	47,990,356.03	100.00	1,441,393.07	3.00

Category	Balance At Beg. Of Year			
	Book balance		Reserves for bad debts	
	Amounts	Proportion (%)	Amounts	Accrued proportion (%)
Significant single amount and				

single provision for accounts receivable				
Provisions for impairment of receivables	28,033,382.62	100.00	844,346.50	3.01
Individually insignificant but subject to separate provision for accounts receivable				
Total	28,033,382.62	100.00	844,346.50	3.01

(2) Provisions for impairment of receivables

In the form, accounts receivable bad debt reserves are analyzed by aging.

Aging	Balance At End of Year			Balance At Beg. Of Year		
	Book balance	Proportion (%)	Bad debts	Book balance	Proportion (%)	Bad debts
In 1 year	47,980,459.63	3.00	1,439,413.79	27,985,596.48	3.00	839,567.89
1-2 years		10.00		47,786.14	10.00	4,778.61
2-3 years	9,896.40	20.00	1,979.28		20.00	
Total	47,990,356.03		1,441,393.07	28,033,382.62		844,346.50

(3) The top five in accounts receivable.

S.N.	Relationship with the Company	Amount	Debt age	Proportion in accounts receivable (%)
1	Non-affiliate	21,037,904.37	Within 1 year	43.84
2	Non-affiliate	3,951,574.87	Within 1 year	8.23
3	Non-affiliate	2,049,066.91	Within 1 year	4.27
4	Non-affiliate	2,009,920.00	Within 1 year	4.19
5	Non-affiliate	1,383,268.72	Within 1 year	2.88
Total		30,431,734.87		63.41

4) Prepayments

(1) The aging analysis of the aging of advance payment

Aging	Balance At End of Year		Balance At Beg. Of Year	
	Amounts	Proportion (%)	Amounts	Proportion (%)
Within 1 year	3,037,248.07	99.90	682,765.12	99.91
1-2 years	2,560.00	0.08	100.00	0.02
2-3 years	500.00	0.02	500.00	0.07
Total	3,040,308.07	100.00	683,365.12	100.00

(2) There's no significant advance payment with aging exceeding 1 year.

(3) Top five prepayments

S.N.	Relationship with the Company	Amounts	Aging	Proportion in total prepayment (%)
1	Non-affiliate	1,320,000.00	Within 1 year	43.42
2	Non-affiliate	455,139.67	Within 1 year	14.97

3	Non-affiliate	284,353.06	Within 1 year	9.35
4	Non-affiliate	253,134.00	Within 1 year	8.33
5	Non-affiliate	212,058.00	Within 1 year	6.97
Total		2,524,684.73		83.04

5) Other receivables

(1) Other receivables by category

Category	Balance At End of Year			
	Book balance		Bad debts	
	Amounts	Proportion (%)	Amounts	Proportion (%)
Significant individual amount and separate impairment of other receivables				
Provisions for impairment of receivables	2,437,667.97	100.00	44,796.28	1.84
Individually insignificant but subject to separate provision for bad debts of other receivables				
Total	2,437,667.97	100.00	44,796.28	1.84

Category	Balance At Beg. Of Year			
	Book balance		Bad debts	
	Amounts	Proportion (%)	Amounts	Proportion (%)
Significant individual amount and separate impairment of other receivables				
Provisions for impairment of receivables	45,848,135.06	100.00	22,743.72	0.05
Individually insignificant but subject to separate provision for bad debts of other receivables				
Total	45,848,135.06	100.00	22,743.72	0.05

(2) Provisions for impairment of other receivables

In the form, accounts receivable bad debt reserves are analyzed by aging.

Aging	Balance At End of Year			Balance At Beg. Of Year		
	Book balance	Proportion (%)	Bad debts	Book balance	Proportion (%)	Bad debts
Within 1 year	2,389,008.47	3.00	35,525.93	45,770,456.55	3.00	9,508.02
1-2 years	7,637.50	10.00	763.75	38,000.00	10.00	3,800.00
2-3 years	38,000.00	20.00	7,600.00	34,678.51	20.00	6,935.70
3-4 years	3,022.00	30.00	906.60			
4-5 years				5,000.00	50.00	2,500.00
Total	2,437,667.97		44,796.28	45,848,135.06		22,743.72

(3) Top five in other accounts receivable

S.N.	Relationship with the Company	Amounts	Aging	Proportion in total prepayment (%)
1	Unrelated parties	1,198,587.17	Within 1 year	49.17

2	Unrelated parties	638,120.86	Within 1 year	26.18
3	Unrelated parties	181,062.23	Within 1 year	7.43
4	Unrelated parties	81,557.88	Within 1 year	3.35
5	Unrelated parties	69,732.00	Within 1 year	2.86
Total		2,169,060.14		88.99

6) Inventory

Inventory items	Balance At End of Year			Balance At Beg. Of Year		
	Book balance	Devaluation	Book value	Book balance	Devaluation	Book value
Raw materials	11,889,447.81		11,889,447.81	13,036,896.16		13,036,896.16
Finished	14,134,098.10		14,134,098.10	31,487,268.92		31,487,268.92
Total	26,023,545.91		26,023,545.91	44,524,165.08		44,524,165.08

7) Fixed Assets

Item	Balance At Beg. Of Year	Increase this year	Decrease this year	Balance At End of Year
1.Total original book value	56,705,445.54	1,953,743.90	608,290.28	58,050,899.16
Wherein: Houses and buildings	16,730,555.86			16,730,555.86
Mechanical equipment	39,974,889.68	1,953,743.90	608,290.28	41,320,343.30
2.Total accumulated depreciation	32,795,377.92	4,230,925.81	392,258.36	36,634,053.37
Wherein: Houses and buildings	5,669,325.02	609,316.92		6,278,641.94
Mechanical equipment	27,126,052.90	3,621,608.89	392,258.36	30,355,403.43
3.Total net book value of fixed assets	23, 910,067.62			21,416,853.79
Wherein: Houses and buildings	11,061,230.84			10,451,913.92
Mechanical equipment	12,848,836.78			10,964,939.87
4. Total impairment				
Wherein: Houses and buildings				
Mechanical equipment				
5.Total book value of fixed assets	23,910,067.62			21,416,853.79
Wherein: Houses and buildings	11,061,230.84			10,451,913.92
Mechanical equipment	12,848,836.78			10,964,939.87

8) Construction in progress

Basic information of construction in progress.

Item	Balance At End of Year			Balance At Beg. Of Year		
	Book balance	Impairment	Book value	Book balance	Impairment	Book value
Environmental	1,213,216.49		1,213,216.49			

project						
Total	1,213,216.49		1,213,216.49			

9) Intangible assets

Item	Balance At Beg. Of Year	Increase this year	Decrease this year	Balance At End of Year
1. Total original price	13,130,000.00			13,130,000.00
Of which: non-patented technology	13,130,000.00			13,130,000.00
2. Total accumulated amortization	9,628,666.96	1,313,000.04		10,941,667.00
Of which: non-patented technology	9,628,666.96	1,313,000.04		10,941,667.00
3. Total of impairment of intangible assets				
Of which: non-patented technology				
4. Total book value of intangible assets	3,501,333.04			2,188,333.00
Of which: non-patented technology	3,501,333.04			2,188,333.00

10) Deferred income tax assets

Item	Balance At End of Year		Balance At Beg. Of Year	
	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences
Deferred tax assets:				
Impairment of assets	371,547.34	1,486,189.35	216,772.56	867,090.22
Deductible losses			1,030,877.88	4,123,511.51
Total	371,547.34	1,486,189.35	1,247,650.44	4,990,601.73

11) Short-term borrowings

Loan Conditions	Balance At End of Year	Balance At Beg. Of Year
Mortgage	20,000,000.00	20,000,000.00
Total	20,000,000.00	20,000,000.00

12) Accounts payable

Item	Balance At End of Year	Balance At Beg. Of Year
Within 1 year	8,215,609.87	35,918,870.56
1-2 years	314,525.75	46,229.33
2-3 years	28,018.50	113,614.71
Over 3 years	228,589.01	175,679.30
Total	8,786,743.13	36,254,393.90

13) Advances

Item	Balance At End of Year	Balance At Beg. Of Year
Within 1 year (including 1 year)	2,991,893.12	753,562.45

More than 1 year	38,864.90	62,286.01
Total	3,030,758.02	815,848.46

14) Employee benefits payable

Item	Balance At Beg. Of Year	Increase this year	Decrease this year	Balance At End of Year
1. Salary, bonuses, allowances and subsidies	1,606,760.00	12,272,999.43	12,093,759.43	1,786,000.00
2. Employee benefits		941,845.00	941,845.00	
3. Social insurance		3,402,613.79	3,402,613.79	
Of which: 1). basic medical insurance		848,923.49	848,923.49	
2). The basic old-age insurance		2,127,339.90	2,127,339.90	
3). Unemployment insurance		239,491.55	239,491.55	
4). Work Injury Insurance		115,617.08	115,617.08	
5). Maternity insurance		71,241.77	71,241.77	
4. housing fund		1,066,652.00	1,066,652.00	
5. Union funds and employee education funds	60,865.03	327,025.93	146,015.74	241,875.22
Total	1,667,625.03	18,011,136.15	17,650,885.96	2,027,875.22

15) Taxes payable

Tax	Balance At End of Year	Balance At Beg. Of Year
VAT	-976,764.71	-1,034,934.75
Urban maintenance and construction tax		24,158.00
Property tax	45,676.68	45,676.68
Corporate income tax	1,397,355.47	-32,950.29
Personal Income Tax	33,645.31	96,364.80
Education surcharge		10,353.47
Other taxes	58,467.79	97,886.94
Total	558,380.54	-793,445.15

16) Other payables

(1) Payables presented by aging as follows

Item	Balance At End of Year		Balance At Beg. Of Year	
	Balance	Proportion (%)	Balance	Proportion (%)
Within 1 year	3,937,837.20	90.49	26,012,610.46	96.90
1-2 years	10,201.42	0.23	379,936.04	1.42
2-3 years			34,388.00	0.13
Over 3 years	403,870.00	9.28	416,264.00	1.55
Total	4,351,908.62	100.00	26,843,198.50	100.00

17) Paid-up capital

Hubei Granules Biocause Pharmaceutical Company LTD

Notes to Financial Statements

January 1st, 2015 --- December 31st, 2015

Investors	Opening balance		Increase this year	Decrease this year	Ending balance	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
Hubei Biocause Pharmaceutical Co., Ltd.	33,000,000.00	50.00			33,000,000.00	50.00
Granules India Limited	33,000,000.00	50.00			33,000,000.00	50.00
Total	66,000,000.00	100.00			66,000,000.00	100.00

18) Capital reserve

Item	Balance At Beg. Of Year	Increase this year	Decrease this year	Balance At End of Year
Capital premium	45,604.99			45,604.99
Current	45,604.99			45,604.99

19) Surplus reserve

Item	Balance At Beg. Of Year	Increase this year	Decrease this year	Balance At End of Year
Statutory surplus reserve	1,881,702.80	661,351.66		2,543,054.46
Current	1,881,702.80	661,351.66		2,543,054.46

20) Retained profit after appropriation

Item	Balance At End of Year	
	Amounts	Extraction and allocation ratio
Before adjustment of undistributed profit last year	13,555,712.01	
Total undistributed profit adjustment (increase +, decrease -)		
Retained earnings at the beginning of the year after adjustment	13,555,712.01	
Plus: Net profit attributable to owners of parent company	6,613,516.60	
Less: Appropriation of statutory surplus reserves	661,351.66	10%
Appropriation of discretionary surplus reserve		
General reserve		
Appropriation of general shares dividend		
Transfer from ordinary shares dividend to paid in capital		
Retained earnings at end of year	19,507,876.95	

21) Operating income and operating costs

Item	Amount occurred this year		Amount occurred last year	
	Income	Cost	Income	Cost
Main business Subtotal	225,726,280.57	200,313,427.30	225,166,210.97	206,893,772.41
Other activities Subtotal	1,216,089.29	1,028,164.14		

Total	226,942,369.86	201,341,591.44	225,166,210.97	206,893,772.41
-------	----------------	----------------	----------------	----------------

22) Operating tax and surtax

Item	Tax rate	Amount occurred this year	Amount occurred last year
Urban construction tax payable	7%	729,501.79	441,298.64
Education surcharge	3%	312,643.58	189,127.97
Local education surcharge	2%	186,196.52	126,085.32
Total		1,228,341.89	756,511.93

23) Financial expenses

Item	Amount occurred this year	Amount occurred last year
Interest expense	1,289,501.74	2,030,467.71
Less: Interest income	1,204,117.16	30,450.44
Handling charges	257,167.08	362,004.12
Total	342,551.66	2,362,021.39

24) Asset impairment

Item	Amount occurred this year	Amount occurred last year
Bed debt	619,099.13	-552,903.23

25) Non-business income

Item	Amount occurred this year	Amount occurred last year
Government subsidy	763,500.00	450,000.00
Other	34,882.00	3,209.42
Total	798,382.00	453,209.42

26) Government subsidy detail

Item	Amount occurred this year	Amount occurred last year	Note
Subsidy to promote the coordinated development of regional foreign trade	260,000.00	230,000.00	Pertinent to income
Subsidy for SME international marketing	30,000.00	120,000.00	Pertinent to income
Hubei Famous Brand Award		50,000.00	Pertinent to income
Post Subsidy	143,500.00	50,000.00	Pertinent to income
Main pollutant emission reduction "Award for Subsidy"	330,000.00		Pertinent to income
Total	763,500.00	450,000.00	Pertinent to income

27) Non-operating expenses

Item	Amount occurred this year	Amount occurred last year
Total loss on disposal of non-current assets	187,637.89	332,031.92
Wherein: loss on disposal of fixed assets	187,637.89	332,031.92
Others	39,670.23	113,588.24
Total	227,308.12	445,620.16

28) Income tax expense

Item	Amount occurred this year	Amount occurred last year
Income tax calculated per related taxation laws and regulations	1,430,305.76	
Deferred tax adjustment	876,103.10	231,380.35
Total	2,306,408.86	231,380.35

29) Cash Flow Notes

Item	Amount This Year	Amount Last Year
1. Adjusting net profit to cash flows from operating activities:		
Net profit	6,613,516.60	631,230.12
Add: Asset impairment	619,099.13	-552,903.23
Depreciation, depletion of oil and gas assets and productive biological assets	4,230,925.81	4,366,508.53
Amortization of intangible assets	1,313,000.04	1,419,666.88
Long expected amortization expense Amortization		
Disposal of fixed assets, intangible assets and other long-term assets (income is "-" for loss)	187,637.89	332,031.92
Loss on retirement of fixed assets (gains "-" for loss)		
Loss from changes in fair value (gains "-" for loss)		
Financial expenses ("-" for loss)	1,289,501.74	2,030,467.71
Investment losses (with "-" for loss)		
Deferred tax assets decreased (with "-" for loss)	876,103.10	231,380.35
Deferred income tax liabilities (with "-" for loss)		
Decrease in inventories (with "-" for loss)	18,500,619.17	-11,191,141.18
Decrease in operating receivables (with "-" for loss)	17,158,179.08	-21,785,773.73
Increase in operating payables (with "-" for loss)	-46,035,323.88	33,874,507.49
Other		
Net cash flow from operating activities	4,753,258.68	9,355,974.86
2. Do not involve cash payments of major investment and financing activities:		

Conversion of debt into capital		
Convertible bonds due within one year		
The leased assets		
3. Net change in cash and cash equivalents:		
Closing balance of cash	17,234,863.98	16,906,304.73
Less: Cash at the beginning of	16,906,304.73	26,291,512.17
Add: Cash equivalents at end of period		
Less: Opening balance of cash equivalents		
Cash and cash equivalents	328,559.25	-9,385,207.44

6. Contingencies

As of December 31, 2015, the Company had no significant matters required to be disclosed.

7. Commitments

As of December 31, 2015, the Company had no significant commitments need to be disclosed.

8. Events after the Balance Sheet Date

As of the reporting date, the Company had no significant need to disclose the balance sheet date.

9. Affiliated parties and transactions

1) Parent company and ultimate controlling party

Company name	Relationships	Registration location	Nature of Business	Registered Capital (million yuan)	Shareholding of the parent companies (%)	The proportion of voting rights of the parent companies (%)
Hubei Biocause Pharmaceutical Co., Ltd.	Parent company	Jingmen Hubei	Medicine	18,000.88	50.00	50.00
Tianmao Industry Group Co., Ltd.	Ultimate controlling party	Jingmen Hubei	Chemical industry	135,358.99	50.00	50.00

2) Other Parties affiliated to the Company

Other affiliated parties	Other Parties affiliated to the Company	Organization Code
Hubei Biocause Saponin Co., Ltd.	Controlled by the same party	78818889-6
Hubei Biocause Pharmaceuticals Trading Co., Ltd.	Controlled by the same party	73913911-5
Hubei Biocause Pharmaceuticals Development Co., Ltd.	Controlled by the same party	73753176-2
Jingmen Hecheng Trading Co, Ltd.	Controlled by the same party	66769752-0
Jingmen Tianrui Investment Co., Ltd.	Controlled by the same party	08092048-X
Hubei Biocause Pharmaceutical	Controlled by the same party	08662939-4

Co.,Ltd.		
Jingmen Tianli Investment Co., Ltd.	Controlled by the same party	09586570-0

3) Transactions with affiliated Parties

Name of affiliated party	Type of affiliate transactions	Content of affiliate transactions	Amount occurred current year		
			Amounts	Proportion in the same sales as%	Pricing policy and decision-making procedures
Hubei Biocause Pharmaceutical Co., Ltd.	Sales	Sales of goods	12,160,839.29	4.12	Market price
	Sales Subtotal		12,160,839.29	4.12	
Tianmao Industry Group Co., Ltd.	Purchase	Procurement of materials	27,614,758.01	17.00	Market price
Hubei Biocause Pharmaceutical Co., Ltd.	Purchase	Procurement of materials	72,669.42	0.04	Market price
	Purchasing Subtotal		27,687,427.43	17.04	

4) Accounts payable & receivable to or from affiliated parties

Name of related party	Balance At End of Year			Balance At Beg. Of Year		
	Amounts	Proportion of this item (%)	Bad debts	Amounts	Proportion of this item (%)	Bad debts
Other receivables:						
Hubei Biocause Pharmaceutical Co., Ltd.	1,198,587.17	49.17				
Hubei Biocause Pharmaceutical Development Co., Ltd.	6,223.55	0.26		45,453,522.58	99.19	
accounts payable:						
Hubei Biocause Chemical Co., Ltd.				29,589,686.99	81.62	
Other payables						
Hubei Biocause Pharmaceutical Co., Ltd.				2,639,482.75	9.83	

10. Other significant matters

As of the report date, the Company has no significant matters that need to be disclosed.

Hubei Granules Biocause Pharmaceutical Company LTD.

January 29th, 2016

Hubei Granules Biocause Pharmaceutical Company LTD. (SEAL)
--

Notes to the financial statement from the page 1 to page 25 are signed by the following persons:

Legal representative: Financial Manager: People in Charge of Accounting Agency:

Signature: _____

Signature: _____

Signature: _____

Date: _____

Date: _____

Date: _____

Cheng Zhigang (SEAL)

Yi Yanhao (SEAL)

Yi Yanhao (SEAL)

Hubei Granules Biocause Pharmaceutical Company LTD.

Audit Report

DXSZ [2016] No. 2-00048

WUYIGE Certified Public Accountants LLP. (Special General Partnership)

Special SEAL for the WUYIGE Certified Public Accountants Audit Report
